



# CYCLED AGENCY PROCUREMENT REVIEW

FISCAL YEAR 2017

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

Procurement is one of the most important accounting cycles for Commonwealth agencies. The Commonwealth's agencies depend on procurement practices to obtain the goods and services necessary to execute their mission. Our audit of procurement practices for the fiscal year ended June 30, 2017, at eleven agencies had the following objectives:

- determine whether the selected agencies maintain adequate controls to ensure compliance with applicable statewide and agency-specific procurement policies and procedures; and
- determine through review of procurement operations whether the selected agencies are processing contractual payments effectively and accurately.

Our audit of the selected agencies found:

- agencies were processing contractual payments effectively and accurately, in all material respects; and
- matters involving internal control and compliance necessary to bring to management's attention.

## - TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTRODUCTION	1-2
PROCUREMENT AUDIT	2-3
AUDIT FINDINGS	4-11
CONCLUSION	11
TRANSMITTAL LETTER	12
AUDIT RESPONSES	13-18
RESPONSIBLE OFFICIALS	19

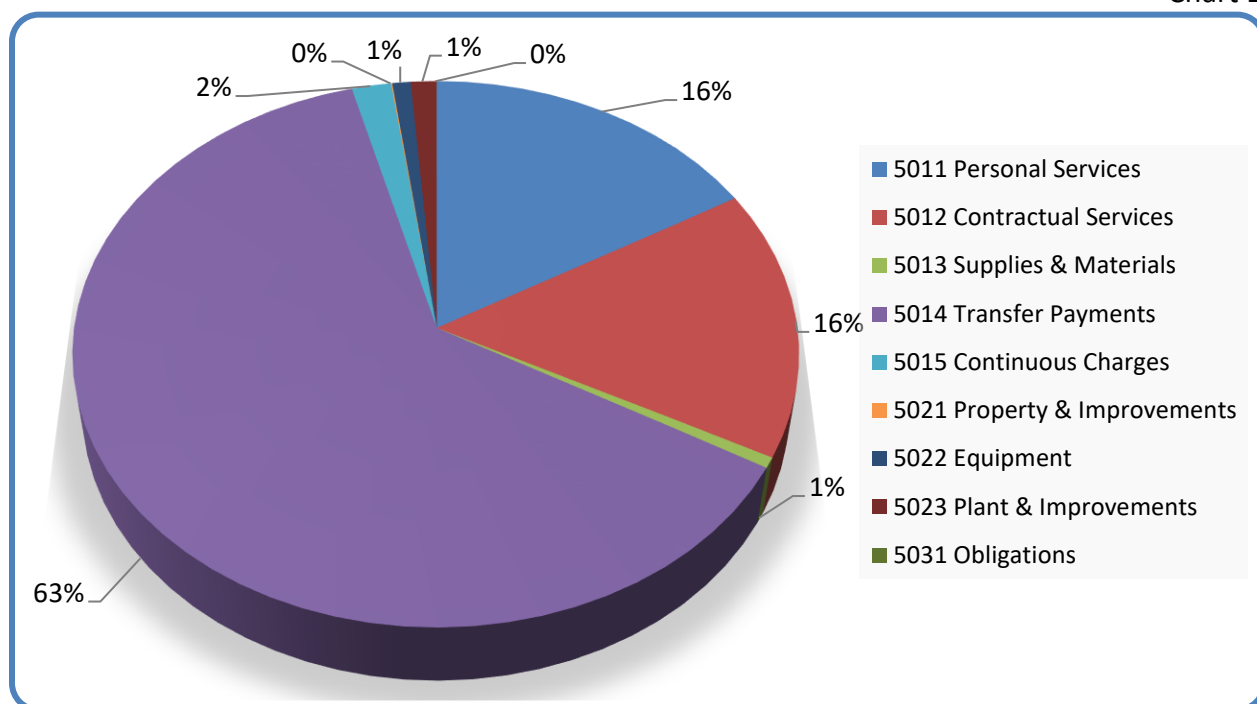
## INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. The APA refers to agencies audited on a periodic basis as cycled agencies. Historically, the APA has audited cycled agencies at least once every three years. Beginning with fiscal year 2016 audits, the APA developed a risk-based approach for auditing cycled agencies. The new audit approach allows the APA flexibility to focus on different areas of significant agency operations every year at any one or several of the pool of cycled agencies based on an assessment of risk factors. For fiscal year 2017, the APA chose the procurement cycle as the area of audit focus. Specifically, this includes analysis of contractual agreements, use of the Commonwealth's purchasing system (purchasing system), purchasing system user access and privileges, and various accounting functions associated with procurement.

Procurement is one of the most critical business cycles for Commonwealth agencies, due to its financial impact, and is vital to agency operations. While contractual services makes up 16 percent of all expenses for the cycled agency population, totaling \$544 million for fiscal year 2017, procured goods and services are also included in other categories shown below, except personal services.

**Expenses by Type for Cycled Agencies  
Fiscal Year 2017**

Chart 1



Source: Commonwealth's accounting and financial reporting system

The Commonwealth's agencies use several methods to procure goods and services from private vendors. The Department of General Services (General Services) maintains the Commonwealth's procurement system, which is Virginia's online electronic procurement system. The Commonwealth's procurement system is used by agencies to purchase specific goods and services through an approved set of vendors. For smaller purchases, or purchases less than \$5,000, agencies generally use a small purchase charge card to pay for the purchases. These small purchases do not require agencies to procure a contract to obtain a good or service since the contractual requirements are generally embedded within the Commonwealth's procurement system. For larger purchases, General Services has outlined specific requirements for agencies to follow depending upon the type of procurement used. For example, if an agency uses a sole source procurement, General Services has outlined several parameters that must be attained prior to engaging in the procurement of a good or service.

While nearly every agency uses small purchase charge cards for smaller procurements, agencies use a variety of methods for larger purchases obtained through the procurement process. Some cycled agencies use General Services to procure goods and services for them, while other cycled agencies perform their contract procurement with their own resources. This review includes both types of agencies.

## **PROCUREMENT AUDIT**

### **Objectives, Scope, and Methodology**

The overall objective for this audit is to gain an understanding of procurement internal controls and operations within the cycled agency population and to identify areas of concern for improvement. This includes analysis of the procurement and management of contractual agreements, use of the purchasing system, purchasing system user access and privileges, use of small purchase charge cards, and various accounting functions associated with procurement. Our audit covers activity occurring in the fiscal year ended June 30, 2017. The specific objectives of this review are to:

- Determine whether cycled agencies maintain adequate controls to ensure compliance with applicable statewide and agency-specific procurement policies and procedures; and
- Determine through review of procurement operations whether cycled agencies are processing contractual payments effectively and accurately.

### **Test Work over the Pool of Cycled Agencies**

We contacted staff at General Services to better understand the procurement policies and procedures that would impact agencies included within the cycled agency population. We reviewed statewide procurement policies in the Agency Procurement and Surplus Property Manual (APSPM), the Virginia Public Procurement Act (VPPA), the Construction and Professional Services Manual (CPSM), and the Commonwealth Accounting Policies and Procedures (CAPP) Manual to gain an understanding of the

requirements surrounding procurement. We performed a risk-based analysis over the pool of cycled agencies and then performed detailed test work at eleven agencies.

### **Agencies Selected for Detailed Review**

A total of 42 agencies were included in our risk-based analysis to determine which agencies would be included in our sample for the procurement review. We created a matrix of the agencies and documented the factors we used to determine the agencies selected. We also considered the size of the agency so that both smaller and larger cycled agencies would be included. Factors we considered included:

- Whether the agencies received an Internal Control Questionnaire (ICQ) in the prior fiscal year and whether the ICQ identified procurement issues;
- Amount of contractual service expenses in fiscal year 2017;
- Whether agencies had significant expenses with a single vendor; and
- Number of sole source contracts in fiscal year 2017.

We analyzed the matrix of information and determined that we would perform test work at eleven agencies. Table 1 below lists the agencies and provides the agencies' abbreviated names used in this report.

**Agencies Selected for Detailed Test Work**

Table 1

Agency Name	Abbreviated Name
Compensation Board	Compensation Board
Department of Environmental Quality	Environmental Quality
Department of Forensic Science	Forensic Science
Department of Human Resource Management	Human Resource Management
Department of Juvenile Justice	Juvenile Justice
Department of Professional and Occupational Regulation	Professional and Occupational Regulation
Department of Rail and Public Transportation	Rail and Public Transportation
Department of Small Business and Supplier Diversity	Small Business and Supplier Diversity
Office of Children's Services	Children's Services
The Science Museum of Virginia	Science Museum
Virginia Museum of Fine Arts	Fine Arts

## AUDIT FINDINGS

The conclusions this audit draws, based on the detailed test work over fiscal year 2017 procurement operations and documented through the audit findings to follow, only apply to the eleven agencies selected for detailed test work, and cannot be extrapolated to agencies statewide or to the entire pool of forty-two cycled agencies. Table 2 shows the management recommendations, number of agencies receiving the finding, and the agencies receiving the recommendations. Compensation Board, Children’s Services, Environmental Quality, Forensic Science, Human Resource Management, Professional and Occupational Regulation, Rail and Public Transportation, and Small Business and Supplier Diversity received no written management recommendations as a result of the audit.

### Management Recommendations

Table 2

Management Recommendations	Number of Agencies
<b>Ensure Compliance with the Prompt Pay Act</b>	<b>2</b>
Fine Arts	
Science Museum	
<b>Improve Accuracy of Goods and Service Receipt Date</b>	<b>1</b>
Juvenile Justice	
<b>Improve Contract Procurement and Management Process</b>	<b>2</b>
Juvenile Justice	
Fine Arts	
<b>Comply with Competitive Procurement Requirements</b>	<b>1</b>
Science Museum	
<b>Establish Clear Contractual Scope of Work</b>	<b>1</b>
Science Museum	
<b>Discontinue Disallowed Charge Card Program</b>	<b>1</b>
Fine Arts	
<b>Strengthen Controls over Small Purchase Charge Card Operations</b>	<b>2</b>
Fine Arts	
Science Museum	
<b>Evaluate Third-Party Service Provider Controls</b>	<b>1</b>
Juvenile Justice	

### Prompt Pay Statute

The Commonwealth’s Prompt Payment Statute promotes sound cash management and improved vendor relationships by ensuring timely payments for goods and services. The required due date is either established by contract or 30 calendar days after the receipt of a proper invoice. Agencies should follow this standard to maintain vendor relationships and prevent additional expenses as a result of late payments.

### *Multiple Agency Finding: Ensure Compliance with the Prompt Pay Act*

Fine Arts and the Science Museum made payments that were not timely in accordance with the Prompt Pay Act. As noted above, the Prompt Pay Act, as described in the Code of Virginia §2.2-4347, states that payments should be made thirty days after the later of the receipt of invoice or the receipt of an item purchased, or as established by contract.

Failure to comply with the Prompt Pay Act can damage the Commonwealth's relationships with vendors and could result in unnecessary penalties or interest being charged for the purchase of goods and services. The Science Museum experienced vacancies within its accounts payable department during the period of review, which contributed to the issues referenced. Due to the decentralized nature of the purchasing, receiving, and payment processes, Fine Arts did not consistently use date fields in the Commonwealth's accounting and reporting system or document the invoice receipt date, which contributed to the issues referenced.

Fine Arts and the Science Museum should develop a consistent method to ensure that the payment for all goods and services is compliant with the Prompt Pay Act, as required by the Code of Virginia.

#### **Goods and Service Receipt Date**

To properly record amounts owed at the end of a fiscal year, the "Goods and Service Receipt Date" field in the Commonwealth's accounting and reporting system must be accurate. The date in this field determines the proper fiscal year in which expenses should be recorded. Therefore, for financial reporting purposes, agencies must use this field consistently and accurately.

### *Juvenile Justice Finding: Improve Accuracy of Goods and Service Receipt Date*

Juvenile Justice did not consistently use the "goods/service receipt date" field in the Commonwealth's accounting and reporting system.

The Comptroller's 2017 Fiscal Year-End Closing Procedures Memorandum states that agencies should have internal processes in place to appropriately identify amounts owed at June 30 that are paid on or after July 1 to ensure proper accounting within the proper fiscal year. Agencies must enter the correct goods or service receipt date in the Commonwealth's accounting and reporting system to ensure accurate information is used to compile the Commonwealth's Comprehensive Annual Financial Report (CAFR). Juvenile Justice did not apply a consistent methodology to identify the appropriate date to use in the "goods/service receipt date" field in the Commonwealth's accounting and reporting system.

As the Commonwealth continues to adjust to the use of its recently implemented accounting system, agencies are continuing to learn how to use the various date fields within the system. Juvenile Justice should ensure staff obtain an accurate understanding of the "goods/service receipt date" field within the Commonwealth's accounting and reporting system, to ensure the accounting information is recorded properly.



## **Contract Procurement and Management Process**

From procuring contracts to maintaining contracts, it is critical that agencies comply with procedures outlined in the APSPM. Procurement practices that are aligned with the APSPM ensure contract requirements are clear, the scope of work is well-defined, contract length and value are certain, vendor selection is thorough, and vendor choice is transparent publicly. Non-compliance with the APSPM risks poor contract performance, inefficient spending, exposure to liabilities, and damaged reputation.

### *Juvenile Justice Finding: Improve Contract Procurement and Management Process*

Juvenile Justice should improve various aspects of its contract procurement and administration processes. We reviewed three contracts procured and three contracts administered during fiscal year 2017. We found the following instances of non-compliance with the APSPM or instances inconsistent with best practices:

- One service contract consisted of two separate, concurrent agreements. Juvenile Justice entered into a three-year, single term service contract without any price documented in the agreement. Prior to the start of the contract term, Juvenile Justice negotiated and signed a second vendor-prepared agreement for a term of a single year. Multiple agreements with differing terms creates unnecessary confusion to ensure clarity, Juvenile Justice should document changes to price, services, or terms as contract modifications.
- Juvenile Justice did not clearly incorporate a specific scope of work within formal contract documents for two service contracts. One contract does not have a Scope of Work Section in the body of the contract document, even though the contract table of contents indicates one is included. The other contract's scope of work consists only of the vendor's general summary of the services they provide. The APSPM Chapter 4.12 requires that contract award documents include or incorporate the specifications, descriptions, or scope of work to be required.
- Two service contracts did not have a formally designated contract administrator. Per APSPM Chapter 10.2, a contract administrator must be delegated in writing, with corresponding responsibilities defined. This ensures that responsibilities between the purchasing department and the end user are clearly defined, and enables the agency to actively monitor vendor performance.
- Juvenile Justice does not have a formal vendor performance review process for term contracts. Contractor performance should be reviewed on a regular basis and prior to closeout to ensure Juvenile Justice is obtaining satisfactory services.

Juvenile Justice should work to address the deficiencies noted by ensuring it maintains compliance with the Commonwealth's procurement regulations.

#### *Fine Arts Finding: Improve Contract Procurement Process*

Fine Arts should improve the emergency procurement aspect of its contract procurement processes. We reviewed five contracts that were procured during fiscal year 2017 and found that in the case of an emergency procurement for marketing consulting services, the contractor began work with Fine Arts more than two months before the actual contract was initiated. The contractor worked without pay and without a formally defined contractual arrangement during this period. Per APSPM Chapter 9.2, agencies must prepare a confirming contract as soon as practicable after initiating an emergency procurement.

Fine Arts' procurement manager was on extended leave during a portion of the fiscal year, which contributed to the issue reflected above. Fine Arts should continue to refine and improve its procurement processes to ensure a similar issue does not occur in the future and should ensure it remains compliant with the APSPM for all contracting issues.

#### **Competitive Procurement**

The Commonwealth has standard procedures in place to ensure agencies competitively procure goods and services. The CPSM establishes the procedures agencies must follow in obtaining construction, repair, remodeling, and renovation work.

#### *Science Museum: Comply with Competitive Procurement Requirements*

The Science Museum did not comply with competitive procurement regulations during fiscal year 2017. The Science Museum awarded significant additional construction and maintenance repairs to an existing vendor without properly soliciting additional sources. During fiscal year 2017, the Science Museum spent more than \$500,000 on additional repairs done by the existing vendor.

The CPSM establishes the procedures Commonwealth agencies must follow in obtaining construction, repair, remodeling, and renovation work. For projects exceeding \$100,000, an agency must obtain competitive sealed bids.

Science Museum properly solicited and appropriately contracted the existing vendor to complete a particular capital project. However, the Science Museum used the existing vendor to provide additional maintenance services beyond the original scope of the properly approved and solicited construction project. Because these additional services performed were outside of the original scope of the contract, the Science Museum should have appropriately solicited the requisite bids for the services performed.

Soliciting multiple sources for the work to be performed could have allowed the Science Museum to obtain a more competitive price for the services needed and could have offered an opportunity for

the Science Museum to enhance the Commonwealth's efforts to support small businesses through open procurement. Additionally, staying within the scope of a solicited contract helps ensure that vendors do not perform and charge for additional unsolicited work.

The Science Museum should ensure compliance with the relevant requirements of the Commonwealth's procurement regulations, and ensure that future similar projects undergo the proper solicitation efforts.

### **Scope of Work**

When establishing a scope of work, it is important to be clear and specific. Further, the APSPM requires contract award documents to contain specifications and descriptions for the scope of work. A clearly written scope of work will help ensure that services rendered meet agency expectations.

#### *Science Museum: Establish Clear Contractual Scope of Work*

The Science Museum did not establish a clear scope of work for a personal services contract. While the contract reviewed indicated the contractor would perform "creative services to develop branding elements," no further details regarding the work to be performed were established in the signed contract.

The APSPM Chapter 4.12 requires that contract award documents include or incorporate the specifications, descriptions, or scope of work to be required. Vaguely written requirements increase the risk that the Commonwealth will not receive satisfactory services. The contractual requirements should be detailed to support the consideration of the services being provided and the amount to be paid. In the case of vendor default, the Science Museum should be able to cite contractual requirements to show whether a vendor has performed the agreed-upon duties.

To ensure the Commonwealth receives satisfactory services for its payments, the Science Museum should improve the language in its personal service contracts to include the necessary elements of the services being provided.

### **Disallowed Charge Card Program**

The Commonwealth of Virginia uses Bank of America to administer its purchase card program. The Bank of America charge card program includes a system of internal controls that an alternate program does not, which increases the risk of inappropriate card usage. Using an alternate charge card program is not compliant with Department of Accounts (Accounts) standards.

#### *Fine Arts: Discontinue Disallowed Purchase Card Program*

Fine Arts continues to use a purchase card program from a vendor other than the Commonwealth's designated service provider for purchase cards. This has been reported two times previously; however, Fine Arts has not corrected the issue. The Commonwealth maintains a contract

with Bank of America to administer its purchase card program, and this is the only service provider currently approved by Accounts for the Commonwealth's agencies. While Fine Arts uses the Bank of America purchase cards for purchases by its employees, the Director's office and Fine Arts' enterprise operations use separate American Express purchase cards for specific purchases within these areas.

Fine Arts' use of a purchase card program outside of the designated purchase card program approved by Accounts presents a risk of noncompliance with state procurement guidelines. Because the system of internal controls governing Bank of America purchase cards is absent, the American Express purchase cards can be used for items for which state funds cannot legally be used. Additionally, the American Express purchase cards lack traditional purchase limit restrictions. Absent these controls, Fine Arts is subject to a greater risk of purchase card misuse as well as an increased risk of fraudulent purchases.

Fine Arts should work with Accounts or its private Foundation to create a solution to the issues identified. An adequate solution for this additional purchase card program will reduce the risk of misuse and fraud and will help to ensure that Fine Arts is abiding by the established contractual requirements for the Commonwealth's agencies regarding its purchase card program.

### **Small Purchase Charge Card Controls**

The small purchase charge card program relies on internal controls, such as maintaining documentation for purchases and reviewing charge card reconciliations on a timely basis. By following the relevant standards in the CAPP Manual, there is less risk of errors and inappropriate usage of charge cards.

#### *Fine Arts: Strengthen Controls over Small Purchase Charge Card Operations*

In several instances, Fine Arts did not retain adequate supporting documentation for small purchase charge card purchases and properly complete small purchase charge card reconciliations. Based on a review of 22 reconciliations, we noted that four reconciliations (18%) were missing required supporting documentation, and two of the reconciliations (9%) were turned into the fiscal services office after the date the payment was due. These issues resulted primarily from the abrupt resignation of an employee prior to the completion of the required reconciliation.

CAPP Manual Topic 20355 indicates that small purchase charge card reconciliations should include all documentation, including receipts or packing slips, for all purchases made for a respective month. In certain instances, this information was not provided in a timely manner to fiscal services, which limited the time for a sufficient review of purchases. By including all necessary documentation and doing so timely, Fine Arts will ensure employees properly use small purchase charge cards, and that vendors are charging the appropriate amount for purchases made.

Fine Arts should ensure that the required supporting documentation related to small purchase charge card purchases is maintained and should ensure that all small purchase charge card users provide

completed and approved reconciliations to the fiscal services department timely to ensure the required reconciliation process is done in the established timeframe.

### *Science Museum: Strengthen Controls over Small Purchase Charge Card Operations*

The Science Museum did not retain purchase card documentation in accordance with the CAPP Manual. During our review, we found the following issues:

- Three of the 13 (23%) reconciliation packages tested were missing original supporting documentation. CAPP Manual Topic 20355 requires that purchase cardholders reconcile their card statements to supporting documentation to ensure purchases on the statement are accurate. To do this, cardholders must retain documentation of the purchase.
- Of the 13 monthly card reconciliations sampled, the Science Museum could not provide the employee's prepared reconciliation sheet for three cardholder months (23%). The Library of Virginia's Record Retention and Disposition Schedule (GS-102) requires accounts payable documentation to be retained for 3 years after the end of a state fiscal year.

Prior to our review, the Science Museum repurposed a storage room used by fiscal services, and as a result, the three missing reconciliation cover sheets were lost. Failure to comply fully with the CAPP Manual and the Commonwealth's retention requirements and to properly maintain adequate supporting documentation for purchases made with purchase cards increases the risk that improper purchases are made or errors are not corrected and does not provide a sufficient audit trail to ensure that purchases are made and reviewed appropriately.

The Science Museum should take steps to ensure adequate documentation is retained to provide assurance that the charges made were appropriate and are supported properly.

### **Third-Party Service Controls**

For certain outsourced business services, agencies must obtain a Service Organizational Control (SOC) report to ensure the service provider has adequate internal controls. Additionally, the Commonwealth's Information Security Standard, SEC 501, (Security Standard) requires review of SOC reports, and the CAPP Manual requires agencies to understand providers' internal controls. Review of SOC reports not only satisfies compliance requirements, but it also gives agencies assurance that outsourced provider controls are designed, implemented, and operating effectively.

### *Juvenile Justice: Evaluate Third-Party Service Provider Controls*

Juvenile Justice did not review SOC reports on third-party service providers (providers) for some outsourced services. Juvenile Justice outsources various business tasks and functions, including third-party administration of healthcare benefits for direct-care youth.

The Security Standard states that management remains accountable for maintaining compliance with the Security Standard for information technology equipment, systems, and services procured from providers, and agencies must enforce the compliance requirements through documented agreements and oversight of the services provided. Additionally, CAPP Manual Topic 10305 requires agencies to have adequate interaction with the provider to understand the provider's internal control environment. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations.

Without performing a review of SOC reports, Juvenile Justice cannot ensure that third-party service providers' controls are designed, implemented, and operating effectively. This increases the Commonwealth's risk that it will not detect a weakness in a provider's environment, thereby exposing the Commonwealth to potential vulnerabilities created by third-party service providers.

A SOC report provides an independent description and evaluation of the provider's internal controls. Juvenile Justice should consider which of its outsourced services merit a review of SOC reports and should then document the results of its reviews in order to ensure the effectiveness of the third-party service providers' controls. If weaknesses are identified in the SOC reports, Juvenile Justice should implement complementary controls to mitigate the risk to the Commonwealth until the provider corrects the deficiency.

## CONCLUSION

Except for the specific instances outlined in the "Audit Findings" section above, the eleven agencies audited are maintaining adequate internal controls and ensuring compliance with applicable statewide and agency-specific procurement policies and procedures. For fiscal year 2017, we found that the eleven audited agencies were processing contractual payments effectively and accurately, in all material respects.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 10, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the procurement operations of eleven Commonwealth agencies for fiscal year 2017, performed limited audit procedures on the remaining cycled agencies, and are pleased to submit our report entitled **Cycled Agency Procurement Review**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population for each of the nine individual cycled agencies as detailed in the report.

## **Exit Conference and Report Distribution**

We provided an initial copy of the report to management of the eleven agencies cited in this report on January 10, 2019. We met with management of the following agencies: Juvenile Justice on February 8, 2019, the Science Museum on February 6, 2019, and Fine Arts on January 25, 2019. For those agencies that elected to prepare responses to the recommendations of our review, we included the responses in the section titled "Audit Responses." We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

DEPUTY AUDITOR OF PUBLIC ACCOUNTS

KJS/clj



Andrew K. Block, Jr.  
Director

**COMMONWEALTH OF VIRGINIA**  
*Department of Juvenile Justice*

P.O. Box 1110  
Richmond, VA 23218  
(804) 371.0700  
Fax: (804) 371.6497

March 22, 2019

Ms. Martha Mavredes  
Auditor of Public Accounts  
Post Office Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for the opportunity to review the Auditor of Public Accounts audit report for the period, July 1, 2016 through June 30, 2017, for the Department of Juvenile Justice. We are in agreement with the findings and recommendations identified in your report and are prioritizing our corrective action plan. While we are proud of our work and take seriously our obligations and commitment to Virginia taxpayers, we will also do all we can to learn from the audit and improve our practices and procedures.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew K. Block".

Andrew K Block  
Director





February 26th, 2019

Ms. Martha Mavredes  
Auditor of Public Accounts  
James Monroe Building  
101 N. 14th Street  
Richmond, VA 23219

The Science Museum of Virginia appreciates the opportunity to respond to the Audit Findings and management recommendations contained in the "Audit of procurement practices for the fiscal year ended June 30, 2017". We thank you for acknowledging that we are processing contractual payments effectively and accurately, in all material respects.

The following is our response to your findings and recommendations.

- **Ensure Compliance with the Prompt Pay Act**

- **Auditor Recommendation:** *Develop a consistent method to ensure that the payment for all goods and services is compliant with the Prompt Pay Act*

- **Response:** As noted in the audit report, the Science Museum (the Museum) experienced vacancies in a key position within its accounts payable section during the period of review, which contributed to the issue referenced. However, to mitigate the impact of future vacancies in key positions, the Museum is reviewing and strengthening its accounts payable procedures to ensure timely and consistent payments of all vendor invoices in accordance with the Prompt Pay Act. The enhanced accounts payable procedures will help to ensure that all invoices are routed to the appropriate personnel immediately upon receipt within the Museum. As a supportive measure, the Museum has established and implemented a central email box specifically for the receipt of vendor invoices which are received electronically at the agency. Formal workflows for this email box will be established for the processing of invoices received electronically in the invoices email box.

2500 West Broad Street, Richmond, Virginia 23220 804.864.1400 [www.smv.org](http://www.smv.org)

- **Competitive Procurement**

- **Auditor Recommendation:** *Ensure compliance with the relevant requirements of the Commonwealth's procurement regulations and ensure that future similar projects undergo the proper solicitation efforts.*

- **Response:** We understand and appreciate the importance of compliance with relevant requirements of the procurement regulations and its impact on accounting. We also appreciate the significant role that proper solicitation efforts play in ensuring compliance with state procurement policies. As you noted, "the existing vendor was properly solicited and was appropriately contracted to complete a particular capital project". We also used the existing vendor to provide additional maintenance services beyond the original scope. Although the additional services performed were outside of the original scope of the contract, at the time, we assessed this additional maintenance service to be critical to the overall success of the entire project and the safety of our guests. Since the Museum campus and galleries remained open to the public during this large-scale construction project, there was a limited footprint available to safely mobilize and stage contractors. Upon advice from our contracted DGS procurement officer, we thought we were able to engage the services of the properly solicited and contracted company to perform these additional projects. The majority of these additional projects were directly related to this particular capital project. With the adapted reuse of a historic structure such as ours, we often encounter additional issues once maintenance or construction work begins on our 100-year old building. Such was the case during this particular project. For example, we intended as part of the capital project to replace the historic windows of the grand concourse of Broad Street Station with more energy efficient ones, however, once work began, it was discovered that this was not only cost prohibitive but would greatly extend the construction timeline. It was determined that the windows should remain in situ and repaired in a different manner than originally planned. Another factor in this decision was that we had private funds available to offset some of the

cost provided by our private Foundation. We now know this additional work should have been administratively processed as a change order versus a new contract. For future construction projects, we will ensure that we utilize the correct administrative tool for such needed work. In addition to this, the Museum will engage the services of a DGS procurement officer for future large-scale capital projects to ensure that we are compliant with all Commonwealth procurement regulations for projects exceeding \$100,000

- **Establish Clear Contractual Scope of Work**

- **Auditor Recommendation:** *Improve the language in its personal service contracts to include the necessary elements of the services being provided.*

- **Response:**

We will strive to provide more detailed scopes of works for any future personal services contracts.

- **Strengthen Controls over Small Purchase Charge Card Operations**

- **Auditor Recommendation:** *Take steps to ensure adequate documentation is retained to provide assurance that the charges made were appropriate and are supported properly*

**Response:** As noted by the auditors, the Science Museum repurposed a storage room used by fiscal services. As a result of the moving of our stored Purchase Card records, we were unable to provide three reconciliation cover sheets to the auditors. In addition, during the period audited, the Museum experienced a vacancy in the position responsible for maintaining the Purchase Charge Card reconciliation records. This vacancy, along with the moving of stored records to a new location, were contributing factors to the misplacement of the reconciliation cover sheets. However, we understand that compliance with records retention requirements and properly maintaining adequate supporting documentation for purchases made with Purchase Cards are vital controls to mitigate the risk of improper purchases. Therefore, to reduce the risk

of reconciliation cover sheets being misplaced, we will implement an additional level of review specifically geared towards ensuring that all reconciliation documentation includes a properly signed cover sheet. We will also implement electronic storage of these records to ensure that complete documentation is maintained in a secured network location. We also now have a dedicated file room adjacent to a new procurement officer office to ensure that this individual has quick, ready and organized access to all procurement records.

In addition to the above corrective measures already taken, as part of an agency reorganization, the procurement function has been integrated into our operations department.

Thank you for the opportunity to provide responses to your findings. The Museum understands that Procurement is one of our most important responsibilities. We intend to continue to work towards improving our procurement processes. Your recommendations are appreciated and will be given the highest level of consideration and effort by the Museum.

Best regards,

A handwritten signature in black ink that reads "Richard Conti". The signature is written in a cursive, slightly slanted style.

Richard Conti  
Director

cc: The Honorable Atif Qarni, Secretary of Education





Ms. Martha S. Mavredes, CPA  
Auditor of Public Accounts for the Commonwealth of Virginia

Date: January 25, 2019  
Subject: VMFA Response to Cycled Agency Procurement Review for FY 2017

Dear Ms. Mavredes:

Thank you for the opportunity to respond to the draft of the Audit Summary report for the Virginia Museum of Fine Arts Procurement Review, as included in the Cycled Agency Procurement Review, for the fiscal year ended June 30, 2017.

The VMFA responses follow the audit results in the same order as they appear in the report.

**Prompt Pay Statute-** The decentralized nature of our purchasing, receiving and payment functions primarily contributed to the reported issue. The VMFA has taken the appropriate steps to be in full compliance with the Prompt Pay Act since the audit finding was reported.

**Contract Procurement and Management Process-** The VMFA has been implementing process improvements since 2016 to strengthen our procurement processes. The Procurement team was new to the museum during the year under audit, and the Manager went on extended leave for a portion of that year, which contributed to the noted deficiency. This finding has been addressed and corrected as of the date of the Audit Summary report.

**Disallowed Charge Card Program-** Although the American Express card used in these limited circumstances was not the currently authorized card, the process followed complies with the same requirements for the Bank of America card. Nevertheless, we are working with the Department of General Services and Department of Accounts to establish exemptions to facilitate the remaining and final conversion to the Bank of America card before June 30, 2019.

**Small Purchase Charge Card Controls-** We revised our SPCC reconciliation log effective July 1, 2018. The new log provides cardholders with a more effective process and improved audit trail. The rollout of the log included mandatory training for all SPCC holders. The revised SPCC policies and procedures are included in the scope of the formal museum-wide project to review and update policies and procedures, scheduled to be completed by June 30, 2019.

We appreciate the APA audit team's work to review the museum's procurement process and provide us with valuable recommendations for improving the processes and controls.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Hossein Sadid', is written over the word 'Sincerely,'.

Hossein Sadid, Deputy Director for Finance and Administration

## **CYCLED AGENCY PROCUREMENT REVIEW**

as of July 2018

### **Compensation Board**

Tyrone Nelson, Chairman of the Board  
Kimberly Jezek, Fiscal Officer

### **Department of Environmental Quality**

David Paylor, Director  
Valerie Thomson, Director of Administration

### **Department of Forensic Science**

Linda Jackson, Director  
Katya Herndon, Chief Deputy Director

### **Department of Human Resource Management**

Rue White, Interim Director  
Richard Whitfield, Contracts and Finance Director

### **Department of Juvenile Justice**

Andrew Block, Jr., Director  
Jamie Patten, Deputy Director of Administration and Finance

### **Department of Professional and Occupational Regulation**

Jay DeBoer, Director  
Sandi Lewis, Director of Administrative and Financial Services

### **Department of Rail and Public Transportation**

Jennifer Mitchell, Director  
Steve Pittard, Chief Financial Officer

### **Department of Small Business and Supplier Diversity**

Tracey Wiley, Director  
Jennifer Mayton, Chief of Staff

### **Office of Children's Services**

Scott Reiner, Executive Director  
Maris Adcock, Finance & Business Operations Manager

### **Science Museum of Virginia**

Richard Conti, Chief Wonder Officer  
Saa'dia Walker, Director of Finance and Administration

### **Virginia Museum of Fine Arts**

Alex Nyerges, Director  
Hossein Sadid, Chief Financial Officer