

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**MEMORANDUM**

FOR: Chair Phyllis J. Randall and Members
Northern Virginia Transportation Authority

FROM: Michael Longhi, Chief Financial Officer

DATE: July 1, 2021

SUBJECT: Duplicate Payment Detection Audit

1. **Purpose:** To present the Northern Virginia Transportation Authority (NVTA) an optional audit service for the detection of potential duplicate project reimbursement payments, as recommended by the Finance Committee.
2. **Suggested Motion:** *I move approval of the attached Agreed Upon Procedures Audit Agreement with PBMares, LLP, and budget and appropriate \$18,500 from the Operating Budget Reserve for this purpose.*
3. **Background:** Discussion of known duplicate project reimbursements and requests for reimbursements occurred at the June 17, 2021 Finance Committee meeting. The Finance Committee discussion noted that the responsibility to prevent duplicate requests reside with the project sponsors. However, the Finance Committee concurrently recognized a risk to the Authority exists, the need to assess the risk, provide feedback to project sponsors, and to assist in preventing duplicate reimbursement requests. The Finance Committee directed that a proposal be developed for the Authority's independent external auditor, (PBMares LLP) to conduct a limited agreed upon procedures audit for Authority consideration.
4. **Current Situation:** Reimbursement requests from project sponsors are expected to be screened at the project level to avoid duplicative submissions. Many general ledger accounting systems include functionality which permits users to track reimbursable expenses and record whether the reimbursement request has been filed and paid. Unfortunately, NVTA staff have been made aware or have detected duplicate submissions of project expenses. While understanding these submissions were processing errors on the part of the project sponsors, and not intentional deception, they reflect an internal control weakness and a risk to the Authority.
5. **Discussion:**
 - a. Reimbursement request packages can often include hundreds of pages of documents containing dozens of invoices. The packages are reviewed electronically by NVTA

planning and finance staff members. While the packages are reviewed electronically, this does not mean the content is fully digitized. Prior to COVID remote work, many reimbursements were 100% paper based.

- b. Duplicate payment requests occur when a project sponsor submits a project expense for reimbursement twice. Examples include:
 - i. Expenses being included in two separate reimbursement request packages for one Standard Project Agreement (SPA), a duplication of approximately \$1.1 million.
 - ii. Expenses being included in two reimbursement packages for the same physical project, but under two different SPAs, a duplicate total of approximately \$139,000.
 - iii. Expenses duplicated within the same reimbursement package. Since these are the easiest to detect/correct on the NVTA side and are typically lower dollar value, the total frequency and value has not been tracked.
 - c. The \$1.1 million duplication was caught by the project sponsor's auditor and funds returned. The \$139,000 expense, which went across two SPA's, was detected by NVTA staff and questioned, as have been numerous duplications within the same reimbursement requests.
 - d. It is the responsibility of the project sponsor to have internal controls in place to prevent the submission of duplicate project expense reimbursements.
 - e. For the NVTA to be responsible for detection of duplicate expense reimbursements, data for each reimbursed invoice would need to be entered into the Authority's general ledger accounting system. This would be a costly solution to a problem that is not currently fully quantified.
 - f. NVTA staff consulted with the Authority's external auditors (PBMares, LLP) to develop a data driven approach to examine certain projects, some with multiple SPAs, for duplicate payments.
 - g. This would be an Agreed Upon Procedure Audit in which nine projects, containing 131 reimbursements, each of which may have dozens of individual invoices, with a reimbursed value of \$136 million would be examined. The cost projection for the audit is \$18,500.
 - h. The proposed process was successfully tested with project data known to include duplicate requests.
 - i. If the audit detects duplicated reimbursements, overpayment recovery is assured.
 - j. Any positive detections will provide feedback to the project sponsors as well as NVTA staff on improvements in prevention and detection, as well as the financial recovery.
 - k. If the audit does not detect duplicate payments, this does not provide a 100% guarantee that none have occurred, since not all projects are proposed to be audited. No detections of duplicate payments will however, provide some assurance of the magnitude of the risk.
- 6. Funding Source:** Funding is proposed to be provided from the Operating Budget Reserve, with the reserve replenished in FY2023.

Attachment: Audit Contract Amendment with PBMares, LLP.



July 1, 2021

Northern Virginia Transportation Authority
3040 Williams Drive, Suite 200
Fairfax, Virginia 22031

Attention: Mr. Michael Longhi, Chief Financial Officer

This letter is to explain our understanding of the arrangements for, and the nature and limitations of, the services we are to perform for the Northern Virginia Transportation Authority (the "Authority") with respect to certain project payment requests received from member jurisdictions. The specific procedures to be performed are included as an attachment to this letter. We ask that you confirm our understanding, including the procedures included in the attachment to this letter.

Engagement Services

Our engagement will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Because the procedures included in the attachment to this letter do not constitute an audit, the objective of which is the expression of an opinion or conclusion, respectively, we will not express an opinion or any other form of assurance thereon and if additional procedures were to be performed, other matters might have come to our attention.

At the conclusion of our engagement, we will submit a report in letter form outlining the procedures performed and our findings resulting from the procedures performed.

Our report will contain a statement that it is intended solely for use of the Authority and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Should you desire that others be added to our report as specified parties, please contact us, as it will be necessary to obtain their agreement with respect to the sufficiency of the procedures for their purposes.

The procedures we will perform are not designed and cannot be relied upon to disclose errors, fraud or illegal acts, should any exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

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Furthermore, the procedures are not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. However, we will communicate to management and the Board of Supervisors any significant deficiencies or material weaknesses that become known to us during the course of the engagement.

Authority's Responsibilities

The sufficiency of the procedures included in the attachment is solely the responsibility of the Authority. We make no representation regarding the sufficiency of the procedures described in the attachment either for the purpose for which these services have been requested or for any other purpose.

In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Authority involving management, employees who have significant roles in internal control, and others. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, analysts, regulators, or others.

Records and Assistance

If circumstances arise relating to the condition of the Authority's records and the availability of appropriate evidence because of error or fraud that, in our professional judgement, prevent us from completing the engagement or issuing our report, we retain the unilateral right to take any course of action permitted by professional standards, including declining to issue a report or withdrawing from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Authority's books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Authority personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Michael Longhi, Chief Financial Officer. The timely and accurate completion of this work is an essential condition to our completion of our services and issuance of our report.

Parties' Understandings Concerning Situation Around COVID-19

PBMares, LLP and the Authority acknowledge that, at the time of the execution of this arrangement letter, federal, state and local governments, both domestic and foreign, have restricted travel and/or the movement of their citizens due to the ongoing and evolving situation around COVID-19. In addition, like many organizations and companies in the United States and around the globe, PBMares, LLP has restricted its employees from travel and onsite work, whether at a client facility or PBMares, LLP facility, to protect the health of both PBMares, LLP's and its clients' employees. Accordingly, to the extent that any of the services described in this arrangement letter requires or relies on PBMares, LLP or Authority personnel to travel and/or perform work onsite, either at the Authority's or PBMares, LLP's facilities, including, but not limited to, maintaining business operations and/or IT infrastructure, PBMares, LLP and the Authority acknowledge and agree that the performance of such work may be delayed, significantly or indefinitely, and thus certain services described herein may need to be rescheduled and/or suspended at either PBMares, LLP's or the Authority's sole discretion.

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PBMares, LLP and the Authority agree to provide the other with prompt written notice (email will be sufficient) in the event any of the services described herein will need to be rescheduled and/or suspended. PBMares, LLP and the Authority also acknowledge and agree that any delays or workarounds due to the situation surrounding COVID-19 may increase the cost of the services described herein. PBMares, LLP will obtain the Authority's prior written approval (email will be sufficient) for any increase in the cost of PBMares, LLP services that may result from the situation surrounding COVID-19.

Fees

Our fee is not expected to exceed \$18,500. Our fee estimate and completion of our work is based upon criteria included in the attachment to this letter.

Termination

In the event you or PBMares, LLP terminate this engagement, you will pay us for all services rendered (including deliverables and products delivered), expenses incurred, and noncancelable commitments made by us on your behalf through the effective date of termination. We will not be responsible for any delay or failure in our performance resulting from acts beyond our reasonable control or unforeseen or unexpected circumstances, such as, but not limited to, acts of God, government or war, riots or strikes, disasters, fires, floods, epidemics, pandemics or outbreaks of communicable disease, cyberattacks, and internet or other system or network outages. At your option, you may terminate this arrangement letter where our services are delayed more than 120 days; however, you are not excused from paying us for all amounts owed for services rendered and deliverables provided prior to the termination of this arrangement letter.

We may terminate this arrangement letter upon written notice if: (i) we determine that our continued performance would result in a violation of law, regulatory requirements, applicable professional or ethical standards, or our client acceptance or retention standards; or (ii) you are placed on a verified sanctioned entity list or if any director or executive of, or other person closely associated with, you or any of your affiliates is placed on a verified sanctioned person list, in each case, including, but not limited to, lists promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. State Department, the United Nations Security Council, the European Union, or any other relevant sanctioning authority.

Other Terms

While there is an attorney-client privilege, there is no accountant-client privilege. Accordingly, any information that you provide to us is subject to discovery. Unless prohibited by law, we will notify you if we receive any subpoena, or other third-party request for our information and/or records concerning you. If you direct us to disclose the requested information, we will comply with the subpoena and, in the case of a third-party request, we will need you to sign a form authorizing the disclosure. If you do not direct us to disclose the requested information, we will engage counsel to protect your interest in non-disclosure. In either event, we will bill you for all of our costs associated with complying with your directions. Our bill will include, in addition to our then standard fees and charges and, by way of illustration only, our attorney's fees, court costs, outside advisor's costs, penalties, and fines imposed because of our non-disclosure.

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We reserve the right to withdraw from this engagement without completing our services for any reason, including, but not limited to, your failure to comply with the terms of this arrangement letter, or as we determine professional standards require.

If any portion of this engagement letter is deemed invalid or unenforceable, such a finding shall not invalidate the remainder of the terms set forth in this engagement letter.

Dispute Resolution

If any dispute other than fees arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties. You and we consent to personal jurisdiction, both for mediation and/or litigation, of the Rockingham County Circuit Court. Participation in such mediation shall be a condition to either of us initiating litigation. In order to allow time for the mediation, any applicable statute of limitations shall be tolled for a period not to exceed 120 days from the date either of us first requests in writing to mediate the dispute. The mediation shall be confidential in all respects, as allowed or required by law, except our final settlement positions at mediation shall be admissible in litigation solely to determine the prevailing party's identity for purposes of the award of attorneys' fees.

The parties hereto both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. The arbitration shall take place in Rockingham County, Virginia. Any award rendered by the Arbitrator pursuant to this Agreement may be filed and entered and shall be enforceable in the Superior Court of the County in which the arbitration proceeds. In agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury, and instead we are accepting the use of arbitration for resolution.

Information Security – Miscellaneous Terms

PBMares, LLP is committed to the safe and confidential treatment of the Authority's proprietary information. PBMares, LLP is required to maintain the confidential treatment of client information in accordance with relevant industry professional standards which govern the provision of services described herein. The Authority agrees that it will not provide PBMares, LLP with any unencrypted electronic confidential or proprietary information, and the parties agree to utilize commercially reasonable measures to maintain the confidentiality of Authority information, including the use of collaborate sites to ensure the safe transfer of data between the parties.

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Electronic Signatures and Counterparts

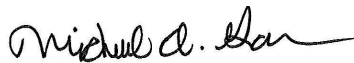
Each party hereto agrees that any electronic signature of a party to this agreement or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature. Any such electronically signed document shall be deemed (i) to be "written" or "in writing," (ii) to have been signed, and (iii) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Each party hereto also agrees that electronic delivery of a signature to any such document (via email or otherwise) shall be as effective as manual delivery of a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to, (i) a scanned copy (as a "pdf" (portable document format) or other replicating image) of a manual ink signature, (ii) an electronic copy of a traditional signature affixed to a document, (iii) a signature incorporated into a document utilizing touchscreen capabilities, or (iv) a digital signature. This agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. Paper copies or "printouts" of such documents if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule.

This letter constitutes the complete and exclusive statement of agreement between PBMares, LLP and the Authority, superseding all proposals, oral or written, and all other communications, with respect to the terms of the engagement between the parties for services within the scope of this letter.

If this letter defines the arrangements as the Authority understands them, please sign and date a copy and return it to us. We appreciate your business.

Sincerely,

PBMares, LLP



Michael A. Garber, Partner

Confirmed and accepted on behalf of the Northern Virginia Transportation Authority:

Signature

Date

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY
AGREED-UPON PROCEDURES ATTACHMENT

For the following projects,

Project	# of payment requests
13-14-016-09	7
13-90421	8
153-14-012-2-03	24
153-30481	20
153-80401	23
153-80781	4
600-60411 UPC 16632	18
2018-027-1	19
059-90691	8

We will perform the following agreed-upon procedures:

- A. Extract, transform, and load all data from the C2-2 tables from the Detail Requisition Forms, including all scanned and native copies.
- B. Search for duplicate payments within projects and related continuation projects, including the application of “fuzzy matching” and other techniques.
- C. Perform inspection of details for any suspected potential duplicate payments, including examination of supporting invoices.