



Arlington County, Virginia

**Proposed
Risk-Based Internal Audit Work Plan
Working Draft**

April 1, 2016

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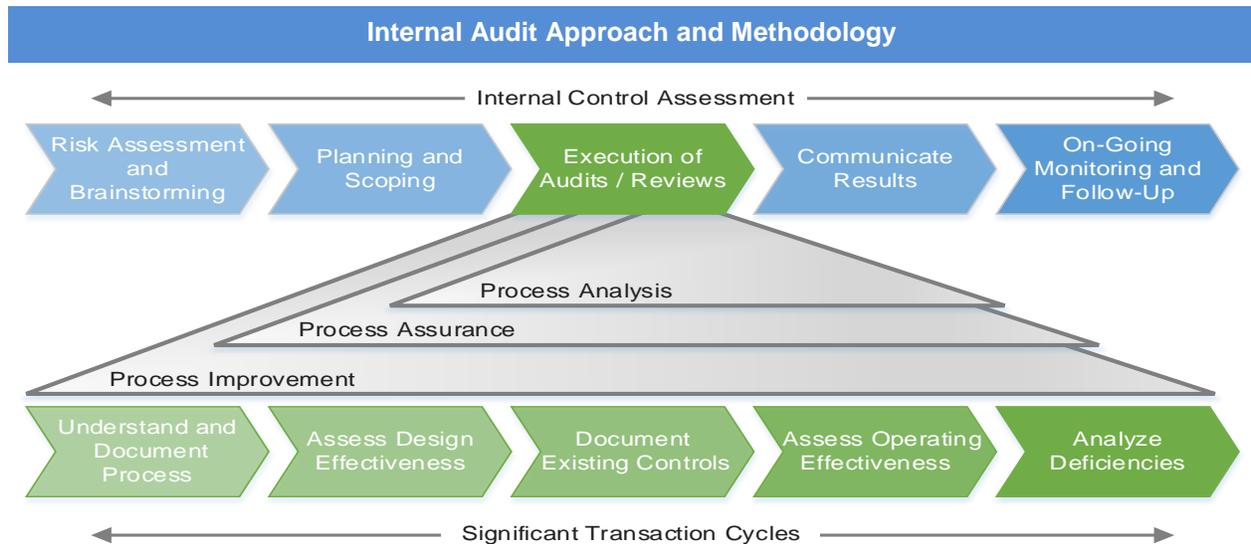
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April 1, 2016

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We hereby submit the proposed risk-based Internal Audit Plan for Arlington County, Virginia (“the County”) pursuant to the contract and related statement of work executed August 11, 2015. Our interviews, information gathered and analyzed, including but not limited to, Board meeting minutes, laws and regulations, Fiscal Year 2016 budget, June 30, 2014 Comprehensive Annual Financial Report, 10-year Capital Improvement Plan etc, and review was completed by September 30, 2015. From the completion of the fieldwork through present (April 1, 2016), we have been working and collaborating with the Department of Management and Finance and modified and/or clarified aspects of the proposed internal audit plan. This plan was derived by performing a risk assessment utilizing a broad-based, business view of risk, linked to the County initiatives, including the County Board priority projects, the three major priorities of the County Manager, interviews with various persons at the County, adopted budget and operations of the County. Our risk assessment considers ‘inherent risk’, which is the risk of a function in a control-free environment. Functions with inherently high risk that are included in the audit plan do not mean ‘issues’ or concerns over controls do exist, rather that the nature of the function which has inherently high risk that issues could exist. This audit plan will be consistently presented in *draft* form because it is a *living document*. As factors change and situations arise, this plan can and will change. Our internal audit approach and methodology is outlined below.



The objective of this risk assessment is to develop a proposed work plan, the purpose of which is to give the County sufficient and continuous internal audit coverage of those areas determined as having a relatively high risk profile or that otherwise require internal audit attention for various reasons. We have included the potential significant risks and internal audit strategy for each of the functions in the proposed internal audit plan in this report. We would like to thank the Board, Management, and the various departments and staff involved in assisting with the risk assessment process.

Respectfully Submitted,

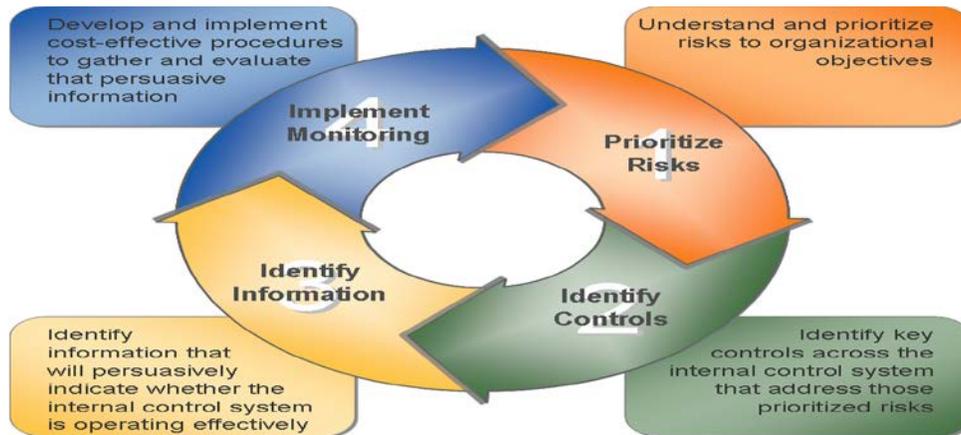
RSM US LLP

RSM US LLP

Overview

As previously mentioned, the objective of this assessment is to provide the County with a proposed internal audit work plan that has sufficient and continuous internal audit coverage of those areas evaluated as having a relatively high risk profile.

Our approach is based on the widely accepted Committee of Sponsoring Organizations (“COSO”) guidance on monitoring Internal Control Systems as shown below:



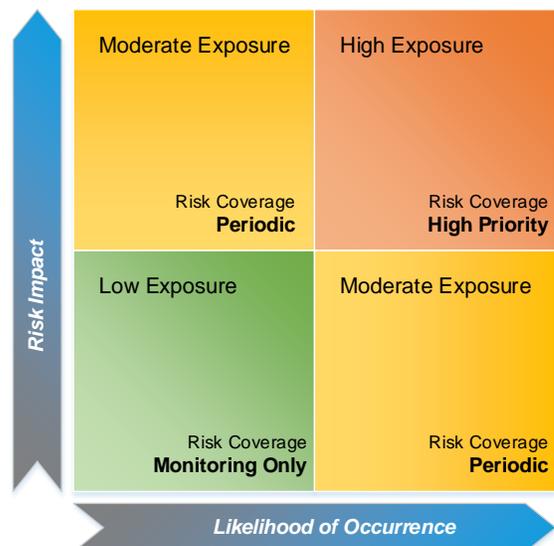
Preparing the Internal Audit Work Plan from the risk assessment will ensure that resources are focused on areas of most concern to the County and areas of greatest risk. Our risk assessment considers ‘inherent risk’, which is the risk of a function in a control free environment. Functions with inherently high risk that are included in the audit plan do not mean ‘issues’ or concerns over controls do exist, rather that the nature of the function which has inherently high risk that issues could exist. This audit plan will be consistently presented in *draft* form because it is a *living document*. As factors change and situations arise, this plan can and will change. The chart below illustrates the exposure environment for positioning the entity’s risks and evaluating the desired response based upon the likelihood of occurrence and priority of risk concerns. The audit plan focuses on areas or functions that are high exposure and high priority (the upper right quadrant).

Inherent Risk

- Risk of an occurrence before the effect of any existing controls.
- If you were building this process, what would you be concerned about?
- What can we not prevent?

Residual Risk

- Risk remaining after the application of controls.
- Potentially reduced impact or likelihood.



Risk Assessment

Our risk assessment was conducted utilizing a broad-based business view of risk. We conducted interviews with each of the County's Board Members to gain a high-level understanding of their perspective of risk at the County, focusing on their objectives in order to identify potential risks. We also conducted interviews with the Acting County Manager, all Deputy County Managers, the Acting Deputy County Manager, the County Attorney, Department Directors and Acting Directors and other personnel within the County to identify risks, vulnerabilities and potential opportunities. We reviewed the adopted budget for Fiscal Year ("FY") 2016, which includes budget data for prior years, the Comprehensive Annual Financial Reports ("CAFR") for fiscal years ended June 30, 2014 and 2015 (limited review), the FY 2015 - 2024 Capital Improvement Plan, the 2015 Management Plan, news articles and County Board meeting minutes. In addition to Department Directors and Acting Directors, we also held interviews with finance/accounting personnel, information technology personnel, and construction personnel within the County to drill down into department and/or functional areas to understand potential risk from the perspective of those individuals.

The risk assessment process drives the planned scope of the internal audit function and forms the basis of the proposed internal audit work plan. Our approach primarily defines 'Risk' in a government entity as Financial and Compliance-related risk, as well as Public Perception risk. Strategic and Performance/Operational risks are also considered. We evaluated the level of potential risk present in each area/function, across a standard spectrum of industry-accepted risk categories as follows:

| | |
|-------------------------------------|--|
| Control Environment | Describes the overall tone and control consciousness of the process/function. It involves the integrity, ethical values and competence of personnel as well as management philosophy and operating style. |
| Change | Addresses the extent to which change has impacted or is expected (in the near term) to impact the process/function, including changes in key personnel, statutes, the organization, its products, services, systems, or processes. |
| Process Risk | Addresses the inherent risk of the activities performed by the process/function, including the assets managed or in the custody of the process/function. Process risk addresses the extent of support the process/function provides to vital business functions, including any threats to the continuity of the business caused by failures or errors; the probability of failure due to the amount of judgment, academic, or technical skill required to manage the unit or perform key activities. |
| External Factors | Describes the environment in which the process/function operates, and the type and amount of external interaction in which the process/function engages. Factors to consider include the overall County and regulatory environment, the level of interaction with users and success in satisfying user requirements, the financial reporting environment, and results of regulatory compliance audits. |
| Revenue Source / Materiality | Describes resources available to the process/function. Factors to consider include maximizing revenues, obtaining additional revenue sources, and producing revenues outside the standardized tax base. |

We have completed the initial risk assessment and brainstorming phase. From that we have derived a risk-based Proposed remaining FY 2016 and FY 2017 Internal Audit Work Plan aligned with the budgeted resources allocated to the function. The plan is and will continue to be marked 'Working Draft' as it is risk-based and can change over time.

Proposed Internal Audit Work Plan – Working Draft

Arlington County, Virginia

Proposed Internal Audit Work Plan 2016 and 2017 - Working Draft



Key -

| | |
|---|---------------------------------------|
| X | Proposed Audit Plan |
| X | In-House Resource |
| X | Audit In Progress |
| X | Audit complete, Follow-Up in Progress |
| X | Audit Issued |
| X | Audit Closed / Complete |

| | FY 2015 | Proposed FY 2016 | Proposed FY 2017 |
|---|---------|------------------|------------------|
| Overall Audit Functions | | | |
| Risk Assessment | | X | |
| Follow-up Procedures | | | X |
| Quality Control | X | X | X |
| Cycle Audits | | | |
| Funds Handling | | X | X |
| Central Library | X | | |
| Department of Parks & Recreation - 3700 Four Mile Run Drive | X | | |
| Contract Compliance | | X | |
| Department of Environmental Services (DES) | X | X | |
| Department of Technology Services | | | X |
| Grant Compliance | | X | X |
| Purchase Card | | | X |
| Equipment Bureau (DES) | X | | |
| Facilities Management Bureau (DES) | X | | |
| Department of Community Planning, Housing & Development | | X | |
| Department of Parks & Recreation | | X | |
| Human Resources Department | | X | |
| Office of Emergency Management | | X | |
| Police Department | | X | |
| County-Wide Audits | | | |
| Department of Management and Finance | | | |
| Inventory and Asset Management | | | X |
| Purchase Card | X | | |
| Real Estate Assessment | | X | |
| Department of Technology Services | | | |
| Non-centrally Managed Systems Governance Review | | | X |
| Human Resources Department | | | |
| Payroll and Timekeeping | | | X |
| Individual Function Audits | | | |
| Department of Environmental Services | | | |
| Purchasing Compliance, Vendor Management & Administration | | X | |

Proposed Internal Audit Work Plan

A strong, high-functioning internal audit process has a balance of all types of internal audits and reviews. These should include systematic audits selected through the risk assessment, ad hoc audits as new facts emerge, or requests by the County Board or Management. As such, the Audit Plan includes Overall Audit Functions as required by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, which are described below.

Overall Audit Functions

As required by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Performance Standard #2010), the internal auditor uses risk assessment techniques in developing the internal audit activity's plan and in determining priorities for allocating internal audit resources. The Risk Assessment is used to examine auditable units and select areas for review to include in the internal audit activity's plan that have the greatest risk exposure.

Update Risk Assessment and Audit Plan Development

Risk is not stagnant. It is constantly evolving. As factors change and situations arise, this plan can and will change. As required by the Institute for Internal Auditors and Government Auditing Standards, the risk assessment and proposed audit plan is required to be updated. Based on the timing of the current risk assessment, we recommend the risk assessment update be conducted in 2018.

Follow-up Procedures

As required by the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* (Performance Standard #2500), internal auditors "should establish a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."

Included within Management Responses in the previously issued internal audit reports is the targeted implementation date for remediation. Follow-up procedures are performed on those issues where the target dates have been reached, and ample time has passed under the new control (generally six months) to verify and report the implementation status of the recommendations to the previously reported findings. As of April 1, 2016, the following previously issued internal audit reports have open items:

- Formal Purchase Card ("PCard") Review of the Department of Environmental Services ("DES") – Facilities Management and Equipment Bureaus
- Internal Audit of Funds Handling (formerly known as Cash Collection and Handling) of the Department of Libraries – Central Library
- Internal Audit of Funds Handling (formerly known as Cash Collection and Handling) of the Department of Parks and Recreation – 3700 Four Mile Run Drive
- Internal Audit of the Real Estate Assessment Appeals Process

As of April 1, 2016, the following reports have not been finalized, but will have open items requiring follow-up:

- Contract Compliance Review from the DES – Arthur Construction, Co.
- Contract Compliance Review from the DES – Miller Brothers, Inc.
- Purchase Card Cycle Audit: Department of Community Planning, Housing and Development
- Purchase Card Cycle Audit: Department of Parks and Recreation
- Purchase Card Cycle Audit: Human Resources Department
- Purchase Card Cycle Audit: Office of Emergency Management
- Purchase Card Cycle Audit: Police Department

Objectives of the overall follow-up procedures will be to determine if open issues from previous audit reports have been properly remediated. Follow-up is meant to validate, on a sample basis, the effectiveness of the remediated controls of the previously reported open issues.

Quality Control

As required by the Institute of Internal Auditors' *International Standards for the Practice of Internal Auditing* (Performance Standard #1300), the internal auditors "must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity," including appropriate supervision, periodic internal assessments, and ongoing monitoring of quality assurance.

Proposed Internal Audit Work Plan - continued

Cycle Audits

Cycle Audits are relatively narrow in scope. The scope is very specific to inherently high risk decentralized functions and processes. Generally, the cycle audits provide testing and reassurance that policies and procedures are being followed within different departments, or that controls continue to be effective once it has been determined that they have been appropriately designed and implemented. Cycle audits will be repeated in subsequent years, as this is an area that deserves ongoing attention.

Funds Handling

There are multiple collection points across the County that entails high value and volume of transactions, making the process decentralized and more challenging to control. This cycle audit will focus on the decentralized components of this function.

Potential Risks

- Approach to safeguarding of assets could be inadequate
- Possible inadequate segregation of duties
- Compliance with the County's funds handling process could be compromised
- Possible documentation and audit trail of cash collections, deposits and reconciliations could be inadequate

Internal Audit Strategy

The primary objective of this cycle audit will be to assess whether the system of internal controls over funds handling, at a selected Department, is adequate and appropriate for promoting and encouraging the achievement of management's objectives for effective cash management and safeguarding.

Contract Compliance

Contract compliance encompasses all contractual agreements including, but not limited to, vendor agreements. Although certain aspects of the Purchasing Function are centralized within Finance, many of the high risk areas like contract administration and monitoring are decentralized to the individual departments. This cycle audit will focus on the decentralized components of this function.

Potential Risks

- Transparency and accountability could be compromised
- Possible inappropriate spending due to non-compliance with contract
- Public perception of the County and vendors could be damaged
- Potential conflicts of interest
- Select contract provisions may not be met
- Possible documentation and audit trail of projects, vendor history could be inadequate

Internal Audit Strategy

This cycle audit will include the selection of a high risk contract to test compliance with the provisions of the contract. Based on the inherent risk, this cycle audit should be repeated in future years and include either the same or a different department based on our ongoing results.

Proposed Internal Audit Work Plan - continued

Cycle Audits - continued

Grant Compliance

According to the audited financial statements as of June 30, 2015, the County received \$130 million in federal and state operating grants and other contributions. Grants typically have stringent (sometimes onerous) compliance requirements to determine proper use of federal and state funds. Additionally, new federal legislation and regulations can have a “cascade” effect on long established grants (e.g. impact of the Affordable Care Act on certain programs administered by local governments).

Potential Risks

- Possible improper use of Federal and State funds for unallowable costs
- Documentation and audit trails could be insufficient
- Non-compliance with grant requirements could lead to loss of Federal and/or State funding
- Potential for inappropriate spending and possible inadequate monitoring of the grant
- Public perception of the County could be impacted
- Reporting or performance of unallowable services could be reported untimely

Internal Audit Strategy

While the County’s external auditors perform a Single Audit each year as required under the Single Audit Act, and are required to report certain findings as part of their audit, their audit is focused on select requirements and typically restricted to major awards. Grant compliance cycle audits will include a deeper dive to understand and test from a process and control viewpoint, address efficiency and effectiveness opportunities where possible and appropriate, and make recommendations to potentially improve the monitoring process in an effort to prevent, or detect and correct matters that could become reportable findings.

Purchase Card

The County established a Purchase Card (“PCard”) program over twenty years ago to provide a more efficient method of purchasing and payment. A PCard is a form of a charge card that allows goods and services to be procured without using a traditional purchasing process. They are typically issued to employees who make low dollar, high volume transactions. The use of the PCard is not intended to avoid or bypass appropriate procurement or payment policies.

Potential Risks

- Possible undocumented or outdated policies and procedures
- Potential for lack of transparency and accountability
- Compliance with and documentation of the purchasing process could be compromised
- Inappropriate spending due to inadequate monitoring of card usage could occur
- Public perception of the County and vendors could be negatively impacted
- Possible lack of documentation and audit trails of purchases

Internal Audit Strategy

The primary objective of this cycle audit will be to assess whether the system of internal controls over the PCard process is adequate and appropriate for promoting and encouraging the achievement of management’s objectives for an effective process. This will involve the evaluation of the appropriateness of PCard purchases and the adequacy of program administration and oversight, including internal controls, to safeguard the County from errors, fraud, waste, and abuse.

During FY 2015, RSM performed a PCard review for two bureaus within DES. This audit included benchmarking the County’s existing and revised draft PCard policies and procedures to industry best practices, providing recommendations where appropriate. This also included the development of a proposed three year rotating scope. Based on the inherent risk and the sampling of departments, this cycle audit should be repeated in future years and include the same or different departments based on our ongoing results. The level of effort needed for this cycle audit will change each year, due to the unknown transaction population and fluctuation in the number of departments to be selected.

Proposed Internal Audit Work Plan - continued

County-Wide Audits

County-Wide Audits address processes and/or functions that touch all or most departments within the County, such as Human Resources, Management and Finance, Budgeting, Procurement, and Information Technology. These audits are designed to gain economies of scale by taking an entity-wide view and evaluating best practices and standards across the entity as a whole, rather than making department or function-specific recommendations that may not be consistently interpreted or applied. Our risk assessment considers 'inherent risk' which is the risk of a function in a control-free environment. Functions with inherently high risk that are included in the audit plan do not mean 'issues' or concerns over controls do exist, rather that the nature of the function which has inherently high risk that issues could exist.

Inventory and Asset Management

The process for conducting asset inventories at the County is decentralized, with each department responsible for controlling their own inventory in accordance with policies and procedures. Asset management and overall property control at any entity has risks inherent to the *process*. Because the process at the County is decentralized, it elevates the possibility that each area conducting the inventories and tracking the assets has a different *control environment*. This elevates the potential for inconsistent or undocumented policies, procedures and controls.

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| Potential Financial Risk | According to the audited financial statements for the fiscal year ending June 30, 2015, the County has accumulated \$268 million (at cost) of furniture, fixtures and equipment and \$1.4 million in inventory that are movable and should be subject to inventory controls. The level of cost is <i>material</i> and the volume of items is high. The reconciliation <i>process</i> is complex and there is potential for inventory records to be inaccurate or incomplete. These factors create a high level of potential financial risks to the County. |
| Potential Compliance Risk | The very nature of the inventory and asset management function is compliance. There are many requirements and processes as it relates to purchasing and recording assets including tagging and recording as well as disposing of assets including assets that are obsolete, stolen, lost or otherwise need to be removed from the books and records. These factors create a high risk of potential compliance risks to the County. |
| Potential Public Perception Risk | As with all public sector entities, there are potential risks of poor public perception as it relates to assets purchased with tax payer dollars. The lack of segregation of duties and appropriate processes for adequately tracking and safeguarding assets has put numerous entities on the front page of the paper. |

Internal Audit Strategy

Objectives of the audit of Inventory and Asset Management will be to determine compliance, existence, completeness and consistency with respect to tangible personal property inventories conducted at the County through representative audits. This will include a review of the inventory results for various departments and identification of potential control deficiencies and improvement opportunities based on observations and testing performed during a sample of site visits. Audit scope will also include a review of the controls over the process as it relates to ensuring the general ledger and financial reporting are accurate based on the results of the inventories. We will evaluate the design and control structure including adherence to applicable policies and procedures for operating effectiveness, as well as identification of process improvement opportunities and recommendations. The results of this audit will be considered when evaluating the scope and sample size of future potential cycle audits.

Proposed Internal Audit Work Plan - continued

County-Wide Audits - Continued

Non-centrally Managed Systems Governance Review

The County has critical Information Technology ("IT") projects, infrastructure and applications initiated and managed outside of the County's Department of Technology Services. An exhaustive inventory detailing the criticality of those systems and efforts, as well as the presence of any sensitive data maintained within them, does not exist. While external management of multiple systems is not necessarily a control weakness, a greater likelihood exists that different IT standards (*process risk*) may be used and applied in an inconsistent manner to govern the control of each system.

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| Potential Financial Risk | Failure to maintain minimum baseline control practices on non-IT department managed systems could have a material financial impact on the County. Systems could fail to meet the expectations or needs of the County, exceed time and cost estimates, and may not be cost effective to maintain leading to potential unplanned <i>material</i> expenditures. |
| Potential Compliance Risk | The IT goals and initiatives of the non-centrally managed systems may not be aligned with and may not meet the overall objectives of the County. For example the baseline control thresholds established by the Department of Technology Services may not be met in terms of system security, system development/ <i>change</i> management, and computer operations including disaster recovery planning and testing. An effective internal <i>control environment</i> and system may not be in place and the Department of Technology Services may not be prepared to respond adequately to events that could impact the overall achievement of the County's business objectives. |
| Potential Public Perception Risk | The current information technology climate has elevated the concern for both public and private entities securing information. Unauthorized access to systems could lead to errors, fraud, misuse, or alteration of data leading to a decline of public trust. |

Internal Audit Strategy

The objectives of the Non-centrally Managed Systems Governance Review are to:

- Gain an understanding of the critical systems managed outside of the Department of Technology Services including the purpose of the system, owners, number of transactions, and data types processed.
- Perform a gap assessment between the IT governance standards used to manage the systems compared to the Department of Technology Services defined policies and standards.

Proposed Internal Audit Work Plan - continued

County-Wide Audits- continued

Payroll and Timekeeping

As of June 30, 2015, there are over 3,800 full-time equivalent positions at Arlington County. Multiple County departments have employees covered under a variety of different compensation structures, such as salary, hourly, seasonal, and various other payment agreements. Pay types include work time, sick leave, annual leave, holidays and the like. Timekeeping is the process of recording time for employees. As with many entities, public and private, the timekeeping process is decentralized by Department at the County and has manual components. There are inherent risks for potential inefficiencies in the timekeeping process, inconsistent or inadequate policies and procedures, potential for human errors, possible record retention issues, and the potential for fraud that is undetected. Payroll includes the process of converting an employee's time worked into a pay check, and including proper payment of paid time off and holiday pay. Further, it incorporates receiving proper approval as well as entering employee information into the computer system correctly. Tracking and paying the County's workforce encompasses voluminous data creating inherently high *process risk*. There are numerous high risk *external factors* within this function including complex and *changing* regulations including the Fair Labor Standards Act and IRS code and enforcement. This is true for many entities as large as the County. The County has the payroll and timekeeping function under Human Resources which is not typical. This reporting structure could create segregation of duties issues with employee set up and pay. Thus, the *control environment* could be compromised.

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| Potential Financial Risk | 30% – 35% of the County Budget is salaries and benefits. The process and controls surrounding payroll and timekeeping are significantly <i>material</i> to the County. |
| Potential Compliance Risk | As noted above, payroll and timekeeping have significant compliance components and, thus, inherently high compliance risk. |
| Potential Public Perception Risk | There are many public sector entities that have dealt with incorrect pay to employees. The coverage is typically in the media and it has a negative impact on public perception as well as employee morale. |

Internal Audit Strategy

Our approach will focus on determining whether the proper controls exist, whether existing controls are appropriate for mitigating the risks to the process, and whether users are in compliance with the existing controls. We will evaluate the design and control structure including adherence to applicable regulations, policies and procedures for operating effectiveness, as well as identification of process improvement opportunities and recommendations. The payroll and timekeeping audit is intended to verify policies and procedures are documented, up-to-date and standard operating procedures are functioning as designed. Procedures will include, but not be limited to, the following:

- Identify and assess the effectiveness of accounting, administrative, and user access controls over payroll processing and reporting
- Validate that controls over timekeeping include procedures and documents for compliance with Fair Labor Standards Act
- Validate that controls over timekeeping are adequate and include procedures and documents to determine that the data used to generate payroll disbursements is accurate
- Evaluate controls to determine that employees' time is properly approved prior to payment
- Determine that the records and documentation for timekeeping are sufficient to establish an audit trail for all transactions involving employees' time
- Evaluate controls to determine pay is accurately calculated, overpayment or underpayment situations are identified and corrected, and payroll data is accurately recorded in the general ledger
- Identify differing practices for timekeeping at individual departments and identify best practices for the timekeeping and reporting process

Proposed Internal Audit Work Plan - continued

Individual Function Audits focus on unique scenarios or processes within specific departments or a more narrowly defined portion of a larger process. These audits will focus specifically on the risks and controls of a function or process within an individual department or area.

Individual Function Audits

Purchasing Compliance, Vendor Management & Administration

Through its numerous lines of business, the Department of Environmental Services contracts with a multitude of external parties for a variety of specialized services needed throughout the County. Use of contractors for these functions helps afford the County access to specializations on a project by project basis. Establishing appropriate monitoring controls over outsourced functions, including regular review and remediation (if applicable) of contractor performance, is critical to the successful use of outside parties in this high risk environment.

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| <i>Potential Financial Risk</i> | The FY 2016 adopted expenditure budget for DES is ~\$85 million, and the County's 10-year Capital Improvement Plan is \$2.7 billion, both of which require significant management and administration of contracts for specialized services. Documented and well-designed processes for purchasing and vendor management are necessary to prevent a <i>material</i> financial impact to the County. |
| <i>Potential Compliance Risk</i> | As noted above, the volume of contracts and resources in the Department of Environmental Services is significant and complex. The high volume leads to increased risks of inconsistent documentation, lack of or insufficient monitoring and evaluation of vendors, and possible underperformance of the contractors. |
| <i>Potential Public Perception Risk</i> | Lack of adequate oversight of contractors with these high risk processes could produce poor public perception and reduced trust with citizens if irregularities arise. |

Internal Audit Strategy

This audit will be designed to assess whether the system of internal controls is adequate and appropriate, at the department (or division) level, for promoting and encouraging the achievement of management's objectives in the categories of compliance with applicable laws, administrative rules, and other guidelines. It will focus on the compliance with certain purchasing aspects, management and administration of vendors and contracts, including monitoring. It will include the selection of certain high risk vendors and/or contracts. Objectives will include:

- Determine that policies and procedures are adequate, in place, and operating effectively.
- Obtain and review a sample of key contracts.
- Identify the monitoring controls in place over the vendor and accountability for goods and services provided.
- Test purchasing compliance and documentation of the selection process.
- Assess that monitoring controls are designed and operating effectively.
- Identify control gaps, opportunities for process improvement, and efficiency gains.

Appendix

Appendix

The below represents the current high risk audit universe and proposed internal audit work plan, as a whole, as identified during the risk assessment and internal audit work plan development process. The proposed internal plan on page 4, was finalized based on priority and budget. The other proposed areas noted below are anticipated to be performed within the next 3 – 5 years. These areas are described within the following pages.

| Arlington County, Virginia | | Proposed Internal Audit Work Plan 2016 and 2017 - Working Draft | | |
|---|---|--|---------------------|---------------------|
|  ARLINGTON VIRGINIA | | | | |
| Key - | | | | |
| X | Proposed Audit Plan | | | |
| X | In-House Resource | | | |
| X | Audit In Progress | | | |
| X | Audit complete, Follow-Up in Progress | | | |
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| | | FY 2015 | Proposed FY 2016 | Proposed FY 2017 |
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| | Follow-up Procedures | | | X |
| | Quality Control | X | X | X |
| Cycle Audits | | | | |
| | Funds Handling | | X | X |
| | Central Library | X | | |
| | Department of Parks & Recreation - 3700 Four Mile Run Drive | X | | |
| | Contract Compliance | | X | |
| | Department of Environmental Services (DES) | X | X | |
| | Department of Technology Services | | | X |
| | Grant Compliance | | X | X |
| | Purchase Card | | | X |
| | Equipment Bureau (DES) | X | | |
| | Facilities Management Bureau (DES) | X | | |
| | Department of Community Planning, Housing & Development | | X | |
| | Department of Parks & Recreation | | X | |
| | Human Resources Department | | X | |
| | Office of Emergency Management | | X | |
| | Police Department | | X | |
| County-Wide Audits | | | | |
| Department of Management and Finance | | | | |
| | Debt Management | | | |
| | Inventory and Asset Management | | | X |
| | Purchase Card | X | | |
| | Purchasing | | | |
| | Real Estate Assessment | | X | |
| Department of Technology Services | | | | |
| | Cyber Security Governance Review | | | |
| | Information Technology General Controls | | | |
| | Non-centrally Managed Systems Governance Review | | | X |
| | Purchasing Compliance, Vendor Management & Administration | | | |
| Human Resources Department | | | | |
| | New Hire / On-boarding | | | |
| | Payroll and Timekeeping | | | X |
| | Performance Management | | | |
| Individual Function Audits | | | | |
| Community Planning Housing & Development | | | | |
| | One Stop Arlington | | | |
| Department of Environmental Services | | | | |
| | Capital Planning and Budgeting | | | |
| | Facilities Management Services | | | |
| | Purchasing Compliance, Vendor Management & Administration | | X | |
| | Transportation Capital Program Management | | | |
| Department of Human Services | | | | |
| | Grant Administration and Monitoring | | | |
| | Purchasing Compliance, Vendor Management & Administration | | | |
| Police Department | | | | |
| | Information Technology: Public Safety | | | |

County-Wide Audits

DMF - Debt Management

Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of the County, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. The County's debt management policy should improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. Objectives of an audit of the County's debt management process would include adequacy of the policy, debt structuring and issuance, derivatives, transparency and implementation of the policies.

DMF - Purchasing

The purchasing function involves the procurement of materials, supplies, equipment and/or services, with the appropriate quality and availability at the appropriate time to meet the required standards established and approved by the County. The centralized purchasing process begins when they receive a request from an individual department. The process ends once the purchase order has been filled and vendor approval and setup is complete. There have been significant changes within the centralized purchasing function over the past few years. The primary objective of an audit of the County's purchasing process would be to evaluate the effectiveness of the internal control framework.

DTS - Cyber Security Governance Review

Cyber Security programs focus on protecting the organization's systems, networks, programs and data from unintended or unauthorized access, change or destruction. With the growing volume and sophistication of cyber-attacks, ongoing attention is required to protect sensitive data. The objectives of the cyber security governance review would be to determine the quality and effectiveness of the County's cyber security procedures and protocols, and determine whether the business continuity testing program is sufficient to demonstrate the County's ability to meet its continuity objectives and integrity of services.

DTS - Information Technology General Controls

IT is an essential partner with each County department to meet the strategic goals and priorities of the organization. As technology continues to become more critical each year in how the County conducts business, it is imperative all financial and operational systems are managed using consistent standards to help determine that data is available, reliable and secure. Objectives of an audit of the County's IT General Controls would include a review and assessment of access to programs and data, including configuration of access rules, access administration, monitoring, super users, policies and procedures, physical and environmental security; change management; program development; and computer operations, including job processing, backup and recovery procedures.

DTS - Purchasing Compliance, Vendor Management & Administration

Through its numerous roles and responsibilities within and throughout the County, DTS contracts with a multitude of external parties for significant technology services and other related services. Use of contractors for these functions helps afford the County access to specializations on a project by project basis. Establishing appropriate monitoring controls over outsourced functions, including regular review and remediation (if applicable) of contractor performance, is critical to the successful use of outside parties in this high risk environment. Objectives of an audit of DTS's purchasing compliance, vendor management, and administration would focus on the compliance with certain purchasing aspects, management and administration of vendors and contracts, including monitoring.

County-Wide Audits - continued

HRD - New Hire / On-Boarding

The process for hiring / on-boarding includes working collaboratively with the different departments. Phases of the process are owned by different parties and decentralized; thus, bringing the process together within an acceptable time period and in compliance with rules, laws and County policies is challenging. Objectives of an audit of the new hire / on-boarding process would cover job posting, recruiting, making the offer, and on-boarding.

HRD - Performance Management

A Performance Management Program (“PMP”) is designed to promote an ongoing process of communication between supervisory personnel and employees. It focuses on issues of performance, development and achieving workplace results. An effective PMP contains qualitative and quantitative markers, and is measurable, documented, efficient, and has set timelines. The primary objective of an audit of the PMP process would be to review the PMP standard operating procedures, verify the program is operating as designed, and is aligned to the County’s strategic initiatives.

Individual Function Audits

CPHD - One Stop Arlington

County staff and leadership have an ambitious initiative to make it easier to do business with Arlington County Government, which includes One Stop Arlington. The initiative grew from the combined efforts of multiple departments and divisions within the County, including leadership support from the County Manager’s Office, to address a growing commitment to ‘do better for our staff and customers’. The initiative’s goals are to: streamline business processes, empower and hold staff accountable and provide a superior customer experience. The objectives of an audit of One Stop Arlington would be to monitor the implementation, compliance, timeliness and success of the specific goals and deadlines for the project.

DES - Capital Planning and Budgeting

Among other key responsibilities, the Department of Environmental Services is responsible for the planning and execution of numerous Capital Projects across its various lines of business. The CIP funds Capital Projects and infrastructure, which is defined as those projects that include total costs in excess of \$100,000 and an estimated useful life of 10 years or more. They include major projects such as the design and construction / renovation of County facilities, roadways, bridges, traffic control devices, and water and sewer infrastructure. Inter-bureau coordination throughout the budgeting and project prioritization process are critical to the overall success of these projects. Objectives of an audit of capital planning and budgeting would include review and assessment of capital plan development, review, and approval; capital budget development, review, and approval; capital project scheduling / prioritization; and budget to actual variance analysis.

DES - Facilities Management Services

Facilities Management Services is the Department of Environmental Services’ largest line of business. Timely repair and preventative maintenance of existing capital assets will prolong the useful life of those assets and potentially reduce the future cost of renovation, repair and/or replacement. Facilities Management will soon be implementing a new Work Order system. The primary objective of an audit of facilities management services would be to assess the adequacy and effectiveness of the work order process and associated controls.

Individual Function Audits - continued

DES - Transportation Capital Program Management

With over \$1 billion in planned transportation related capital improvements to the County's streets, transit systems, and pedestrian networks over the next 10 years, it is critical that the DES Transportation & Development Division effectively design, implement, and operate key processes and controls to ensure the responsible, compliant, and efficient expenditure of tax payer funds on these projects. Capital program management encompasses the coordination of numerous internal and external resources, including community stakeholders, 3rd party design professionals, construction management firms, subcontractors, and materials suppliers. Objectives of an audit of transportation capital program management would include a review and assessment of capital planning and development, review, and approval; transportation capital budget development, review, and approval; transportation capital project scheduling / prioritization; and transportation vendor monitoring and management.

DHS - Grant Administration and Monitoring

The Department of Human Services provides public assistance, physical and mental health programs, aid for children and families, aid to older adults and Housing to Arlington County residents. A significant portion of the funding for this department comes from Federal and State Grants. These grants are provided to the County with various compliance requirements, including monitoring and reporting, for which the County is responsible. It is important for the County to maintain and implement robust policies with respect to monitoring sub-recipients. The primary objective of the grant administration and monitoring audit would be to test for regulatory compliance and design and operation of controls, as well as make recommendations regarding the documentation and implementation of the County's policies with respect to sub-recipient monitoring.

DHS - Purchasing Compliance, Vendor Management & Administration

The Department of Human Services services children and families, the homeless, the elderly; those with mental illness; and organizes volunteers. DHS contracts with a multitude of external parties and vendors for all these different functions for a variety of services. Use of contractors for these functions helps afford the County access to specializations on a project by project basis. Establishing appropriate monitoring controls over outsourced functions, including regular review and remediation (if applicable) of contractor performance, is critical to the successful use of outside parties in this high risk environment. Objectives of an audit of DHS's purchasing compliance, vendor management, and administration would focus on the compliance with certain purchasing aspects, management and administration of vendors and contracts, including monitoring.

Police – Information Technology: Public Safety

The County has critical IT projects, infrastructure and applications initiated and managed outside of DTS, including those in Public Safety. The Police, Fire and Rescue and Emergency Management Departments recently consolidated their IT functions. Included in the proposed internal audit plan for FY 2016 is a review of the Non-centrally Managed Systems Governance, which is an exhaustive inventory detailing the criticality of those systems and efforts, as well as the presence of any sensitive data maintained within them. The review of Public Safety IT is the proposed next phase to this review due to the high risk nature of those systems, with the primary objective of performing an evaluation of the general controls in order to validate the control environment.

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