Internal Audit Work Plan

Fiscal Year 2018

Department of Management and Finance

Internal Audit Services

Arlington County's Internal Audit Division is organizationally located in the Department of Management and Finance. Internal Audit is designed to add value and improve an organization's operations by utilizing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

Annually, Internal Audit compiles a work plan to guide the efforts of the division so that limited resources can be focused on the highest identified risk areas. The Fiscal Year 2018 Work Plan was developed using a limited risk-based approach where processes within County departments were considered, and areas of known and expected risk ultimately selected for inclusion in the schedule. It is expected that a more comprehensive risk analysis will be used for Fiscal Year 2019.

To accomplish the Work Plan, the County employs both internal resources and external consulting services.

The Fiscal Year 2018 Work Plan includes budgeted time for cycle audits, audits of specific programs and processes, non-audit services, follow-up on previously issued audit recommendations, and internal administrative/quality assurance activities. The pages that follow provide an overview of the Internal Audit Work Plan with the caveat that the schedule is subject to change based on unexpected changes in risk that may affect the organization.

Risk Factors Considered for Selection in the Work Plan

Control Environment

- Existence of formalized policies and procedures, accountability, knowledge and training, operational changes,etc.

Materiality

- Revenues/expenditures, potential for loss, impact to the organization, etc.

Complexity of Activity/Business Process

- Level of complexity involved in day-to-day operations or conducting transactions, regulatory considerations, etc.

Information Technology Systems

- Utilization of automated systems to assist in achieving goals, help with decision-making, monitor progress, realize efficiencies, etc.

Time since last audit

- Time since last review or evaluation for the activity or department

Cycle Audits

Contract Compliance

While the Purchasing Division provides centralized assistance to departments in procuring goods and services, the administration and oversight of individual contracts are the responsibility of the respective departments. A County Contract Administration Policy, effective January 1, 2017, provides guidance to Project Officers to assist with oversight responsibilities for an assigned contract; however, the work of the Project Officers is largely decentralized.

Cycle audits of contract compliance will focus on a specific contract and evaluate the effectiveness of internal controls over the administration of that contract, compliance with County policies, and compliance with the terms of the contract under audit.

Key Risk Areas:
- Compliance with County policies
- Appropriateness of expenditures per contract terms
- Quality of service delivery/goods

Payroll and Timekeeping

The Fiscal Year 2018 Budget includes over $300 million in funds for salaries for over 3,900 full-time equivalent positions. Compensation structures vary across position types and hours worked, and timekeeping and reporting methods vary by department. Rotating reviews of timekeeping and payroll practices across the departments will evaluate internal controls over the recording of employees' time worked, software systems used to record time, the accuracy of the conversion of time worked into a paycheck, and approval and oversight processes.

Key Risk Areas:
- Accuracy of time records and compensation types
- User access to software systems used to record information
- Approval processes and associated segregation of duties

Inventory/Asset Management

Physical assets are purchased and maintained at the departmental level across the County, resulting in decentralized asset management. There is inherent risk associated with accurately accounting for items as a result of the decentralization. Departments are responsible for tracking, inventorying, and safeguarding their assets, as well as properly disposing of items at the end of their lifecycles.

Audits of inventory and asset management will evaluate the effectiveness of internal controls over tracking/monitoring asset use, inventories of assets, physical safeguarding of items, and the disposal process.

Key Risk Areas:
- Existence of assets in the workplace
- Tracking assets
- Proper disposal/decommissioning of assets with appropriate approvals

Cycle Audits

Grant Compliance

According to the Comprehensive Annual Financial Report for the fiscal year ended 2016, Arlington County received $136.2 million in operating grants and contributions. Individual departments are charged with overseeing compliance and reporting requirements for their respective grants, as the County does not have a centralized grant management function.

Cycle audits of grant compliance will focus on a specific grant and evaluate the effectiveness of internal controls over the administration of the grant, compliance with terms and conditions stipulated by the grant, and accurate and timely reporting.

Key Risk Areas:
- Appropriateness/reasonableness of expenditures
- Completeness of documentation to justify purchases
- Compliance with grant terms, conditions and reporting requirements

Purchase Cards

Purchase cards are intended to provide an alternative method to the traditional purchasing process by utilizing charge cards to handle the purchase of high-volume, low dollar value goods and services.

Audits of purchase cards in each of the County's departments on a rotating basis will evaluate compliance with County policies, including appropriateness of expenditures, timeliness and completeness of reconciliations, and oversight of the purchase card program.

Key Risk Areas:
- Appropriateness/reasonableness of expenditures
- Completeness of documentation to justify purchases
- Compliance with County policies

Funds Handling

Revenue collection is decentralized across various County departments and locations. As a result of the decentralization, collection practices and methods also vary. Regular audits of funds handling seek to provide assurance over the internal controls associated with safeguarding of assets and effective cash management.

Key Risk Areas:
- Physical safeguarding of cash, checks, etc.
- Segregation of duties in cash handling processes
- Access to software applications

Audit Services

Sole Source Purchases

Sole source purchasing is a noncompetitive purchasing practice used when it is determined that only one source is available from which to procure a good or service. In order to qualify as a sole source purchase, a department must complete a Sole Source Justification Form indicating the reasons the vendor is the only one available and the need for the good/services, which must then be approved by the Purchasing Division.

The audit of sole source purchases would include determining whether the purchases were supported by adequate justification and support, justification was appropriately reviewed and approved, and any related policies or requirements were followed.

Key Risk Areas:
- Appropriate expenditure of County resources
- Declaration of a provider as the sole entity from which to purchase
- Compliance with rules, guidelines, policies, noticing requirements

Printing and Mail Services

A full-services print and mail operation exists to assist departments with printing, copying, graphic design and mail services. A new contract requires all County photocopiers/printers to be leased through the Printing and Mail Services Division. Total projected revenue for Fiscal Year 2018 is estimated at $2.4 million.

An audit of the Printing and Mail Services Division would evaluate the effectiveness of the operation, including rate setting and billing, internal purchasing practices, and oversight of the photocopier/printer contract.

Key Risk Areas:
- Compliance with County policies, specifically concerning purchasing
- Appropriate use of equipment
- Data loss prevention for copiers removed from service

Audit Services

County Cell Phones

County-issued mobile devices are provided to approved users based on business needs. The Department of Technology Services manages the County-wide cell phone contract and invoices, as well as Mobile Device Management Software to assist with the remote management of data on lost or stolen devices. A Mobile Device Use and Management Policy governs user activities and expectations for all mobile devices accessing Arlington County government data.

The audit of cell phones would evaluate internal controls over inventory management, issuance and usage of cell phones, and the process for cancelling service and returning cell phones.

Key Risk Areas:
- Management of physical inventory
- Appropriateness/reasonableness of expenditures and usage
- Potential for data loss

Fuel Card Audit

The intent of the Fuel Card and PIN Program is to streamline and simplify the management and purchase of fuel for County vehicles and equipment and to be able to track individual vehicle and equipment fuel use.

The audit of the fuel card program and usage of fuel cards will evaluate compliance with County policies, including appropriateness of expenditures, issuance, usage and safeguarding of fuel cards, and oversight of the fuel card program.

Key Risk Areas:
- Appropriateness/reasonableness of expenditures
- Completeness of documentation to justify expenditures
- Compliance with County policies

Audit Services

Risk Assessment Survey to inform the FY19 Work Plan

Annually, Internal Audit compiles a work plan to guide the efforts of the division so that limited resources can be focused on the highest identified risk areas. The Fiscal Year 2018 Work Plan was developed using a limited risk-based approach where processes within County departments were considered, and areas of known and expected risk ultimately selected for inclusion in the schedule. It is expected that a more comprehensive risk analysis will be used for Fiscal Year 2019. A survey tool will be developed to gather information.

The tool will gather information about risks and concerns communicated by management. The work plan will also take into consideration internal concerns communicated by management and staff throughout the year.

Follow up on Prior Audits

Best Practices in Internal Audit require that Internal Audit 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.

Internal Audit Information

Internal Audit Mission:

- To strengthen County operations and minimize risk and fraud through systematic evaluation of operations and internal controls.

- To assist senior management and departments to effectively and efficiently implement County programs in compliance with financial, accounting and other County policies by conducting objective internal audits and reviews.

- To test internal controls to provide reasonable assurance that resources are safeguarded against waste and abuse.

- In conjunction with the County Manager's Office and other departments, implement the Financial Fraud, Waste and Abuse Hotline.

Copies of Audit Reports:

https://departments.arlingtonva.us/arlington-county-internal-audit-services/

Financial Fraud, Waste & Abuse Hotline:
Report suspected instances of fraud, waste or abuse

Phone: (866) 565-9206
Online: https://arlingtonva.ethicaladvocate.com