



PRINCE WILLIAM COUNTY, VIRGINIA

# Prince William County, Virginia

Proposed Internal Audit Plan - Working Draft  
Fiscal Year Ending June 30, 2017

Report Date: July 12, 2016

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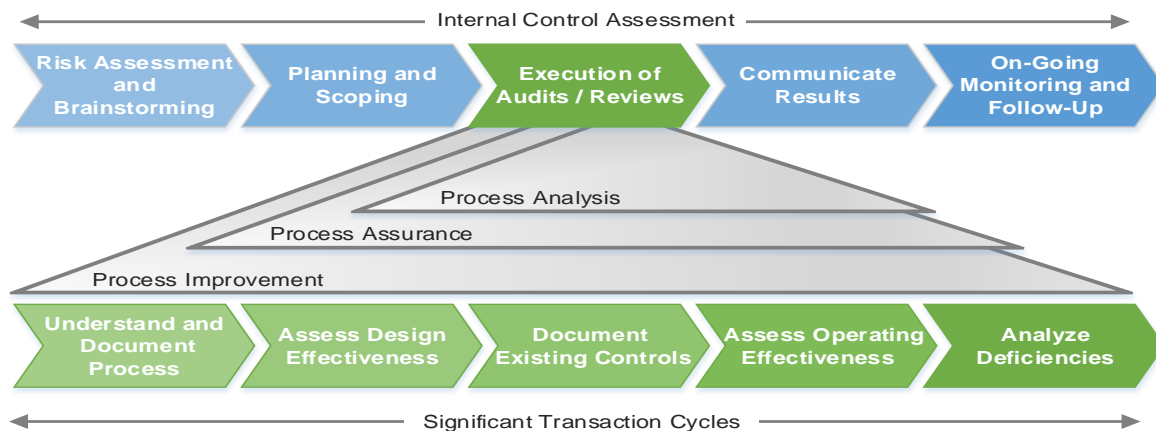
July 12, 2016

The Audit Committee of  
Prince William County, Virginia  
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Prince William, Virginia 22192

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We hereby submit the proposed internal audit plan for fiscal year (“FY”) ending June 30, 2017 for Prince William County, Virginia (“the County”) as determined by updating the risk assessment for the County. We applied a broad-based, business view of risk, linked to the annual budget and operations, and conducted interviews with the Board of County Supervisors (“BOCS”) and the County Executive’s office to gain a high-level understanding of areas of concern/risk and narrow in on their objectives and identified risks. We conducted interviews with members of the Senior Leadership team and Department Directors within the County to identify opportunities and vulnerabilities. We drilled down in different departments and/or functional areas to understand risk from the perspective of the individuals responsible for controlling such risks. As in the past, when we talk about ‘risk’, we focus on Financial, Compliance, Performance/Operational and Public Perception. Our risk assessment considers ‘inherent risk’ which is the risk of a function in a control free environment. Functions with inherently high risk included in the audit plan does not mean ‘issues’ or concerns over controls exist, rather that the nature of the function has inherently high risk. This audit plan is *on-line real time* and 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.

## Internal Audit Approach and Methodology



The objective of this risk assessment is to develop a proposed internal audit 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 BOCS, the County Executive’s office, Department Directors, and staff involved in assisting us with developing the proposed internal audit plan.

Respectfully Submitted,

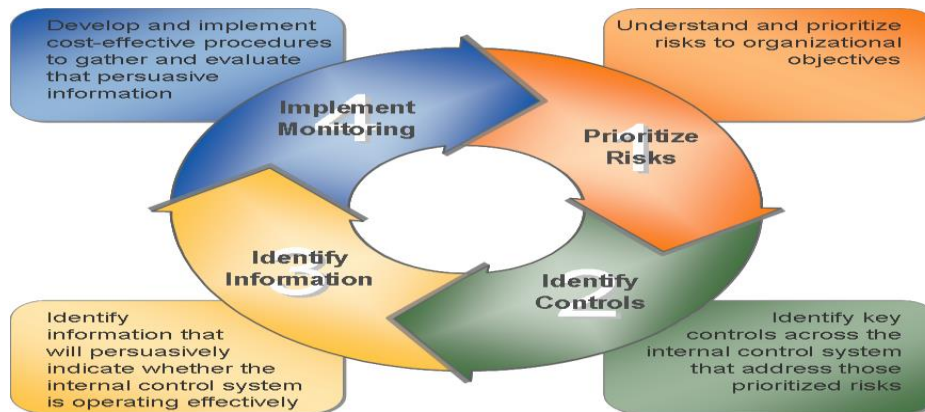
*RSM US LLP*

**INTERNAL AUDITORS**

## Overview

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

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



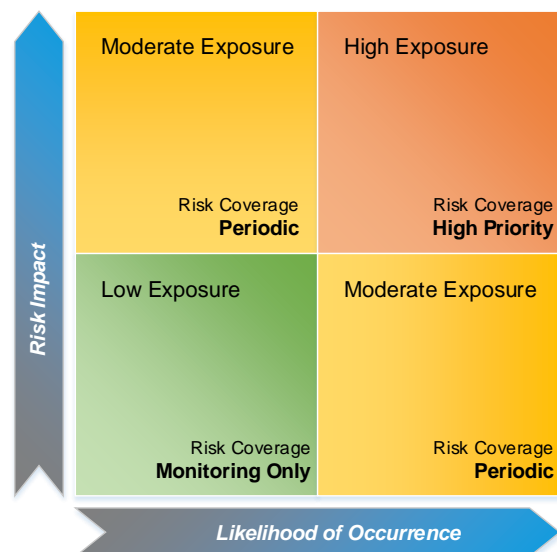
Preparing the Internal Audit Plan from the risk assessment will align resources to focus on areas of most concern to the County. Our risk assessment considers ‘inherent risk’, which is the risk of a function in an environment void of controls. Therefore, functions with inherently high risk may be included in the audit plan; although their inclusion does not mean ‘issues’ or concerns currently exist, but rather that the high-risk nature of the function is such that a higher potential exists for issues to develop. This audit plan is *on-line real-time* and will be consistently presented in *draft* form because it is a *living document*. As factors change, situations arise, and as the County continues to embrace the internal audit function, this plan can and will change. The chart below illustrates the exposure environment for positioning the County’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

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

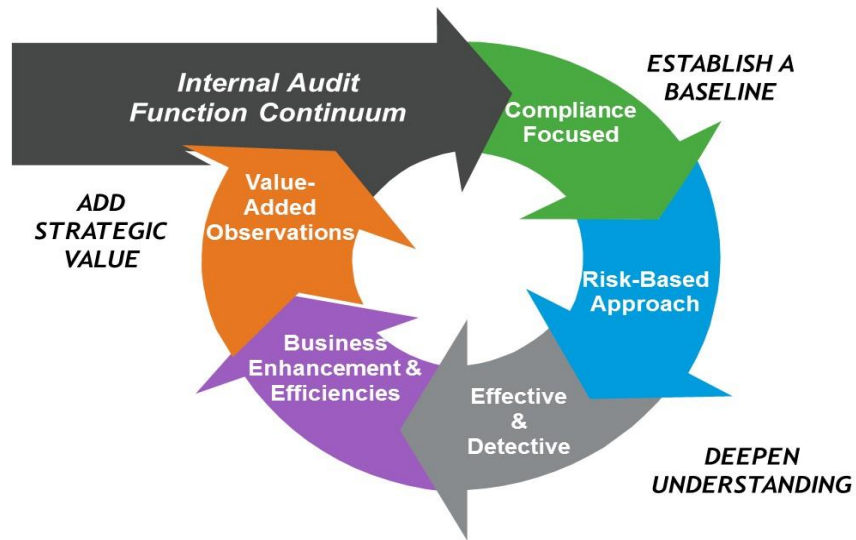
<b>Control Environment</b>	Describes the overall tone and control consciousness of the process / function. It involves the integrity, ethical values, and competence of personnel as well as management philosophy and operating style.
<b>Change</b>	Addresses the extent to which change has impacted or is expected (in the near term) to impact the process / function, including changes in key personnel, statutes, the organization, its products, services, systems, or processes.
<b>Process Risk</b>	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 County functions, including the threat to continuity of the County 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.
<b>External Factors</b>	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 overall County and regulatory environment, the level of interaction with stakeholders and success in satisfying their requirements, the financial reporting environment, and results of regulatory compliance audits.
<b>Revenue Source / Materiality</b>	Describes resources available and expended by the process / function. Factors to consider include the originating source of funds for a process / function, function budget, function spend, availability and use of other resources, and significance of impact to the overall operation of the County.

## Risk Assessment - continued

A strong, high-functioning internal audit process has a balance of all types of internal audits, such as:



The types of audits performed for the County have been hybrid focused audits



We have attached a snapshot of the internal audit plan working draft as well as a summary of the planned audit strategy for each audit, subject to modification during the initial planning stages of each audit and subsequent discussions with management.



Prince William County, Virginia  
 Proposed internal Audit Plan: Working Draft - July 12, 2016



Fiscal Year	Department	Description of Audit	AUDIT CATEGORY				TYPE OF AUDIT				STATUS				
			Cycle	County-Wide	Individual Function	Special Request	Compliance Audit	Financial Audit	Performance (Operational) Audit	IT Audit	Proposed	In Progress	Report Completed	Report Accepted	Follow-up In Progress
2017	Various	Timekeeping	X				X	X		X					
	Finance	Purchasing		X			X	X		X					
	Human Resource	Benefits Administration		X			X	X	X	X					
	Community	Service Placement			X		X		X						
	Convention Visitors	CVB Operational Analysis			X		X	X	X						
	Development	Building Development Operational Analysis			X		X		X						
	Finance	Real Estate Assessments			X		X	X	X						
	Industrial	IDA Operational Analysis			X		X	X	X						
	Library	Library Operational Analysis			X		X	X	X						
	TBD														

## Proposed Internal Audit Plan

### *Overall Audit Functions*

#### **Risk Assessment and Proposed Audit Plan / Updates**

As required by the RSM Internal Audit Methodology, 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.

#### **Follow-up**

As required by the RSM Internal Audit Methodology, internal auditors should establish a follow-up process to validate that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. Included within each report provided, for each audit completed, a Management Response section will be added for Management to respond and include an action plan for remediation (if needed), as well as a targeted date of completion. Follow-up procedures will be performed after the completion date noted by Management. Follow-up typically occurs after ample time has passed with the new control / procedure in place (generally six months) to verify and report the implementation status of the recommendations, and Management's action with regard to the previously reported findings. Annually, we perform procedures for those issues where the target dates have been reached to verify and report the implementation status of recommendations to the previously reported findings.

#### **Quality Control**

The RSM Internal Audit Methodology requires the internal auditors to 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. RSM's Quality Control processes specific to public sector clients include, when applicable, concurring partner review (independent of the engagement) and, when necessary, consultation with the County's Attorney(s) prior to reports being issued into the public record.

#### **Transition Audits**

Transition audits are conducted to determine whether County assets and administrative responsibilities associated with Department Director(s) departure were effectively transferred and/or terminated.

### *Cycle Audits*

Cycle Audits are narrower in scope than County-wide and Individual Function Audits. 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.

### *County-Wide Audits*

County-Wide Audits address processes and/or functions that touch all or most departments within the County, such as Human Resources, Finance, Budgeting, Procurement, and Information Technology. These audits are designed to gain economies of scale by taking an entity-wide view, 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.



## Proposed Internal Audit Plan - continued

### *Individual Function Audits*

Individual Function Audits focus on unique scenarios or processes within specific departments or a more narrowly-defined portion of a larger process. For example, a County-Wide audit of cash management will focus on the overall treasury process for the County, while a Parks and Recreation cash collections / handling audit will focus specifically on the risks and controls of cash collections of fees and charges for services at the individual park facilities.

### *Special Projects and Request*

Our proposed audit plan focuses internal audit resources on areas or functions that are high exposure and high priority, as ranked using various risk components. From time to time, the BOCS, Audit Committee or management may become aware of a situation or potential situation that may add to or amend the existing audit plan. These projects are often specifically defined and narrowly focused, for the purpose of validating a specific assertion or conclude on a specific concern.

## Cycle Audit

### Timekeeping

The cycle audit of Timekeeping will build on the full-scope internal audit report accepted February 18, 2014, which includes the tracking and documentation of employment-related hours for all employees of the County, both exempt and non-exempt, including work time, leave time, vacation time, holidays and all other employment related time. It will also incorporate approving, tracking and monitoring the time in accordance with policies, contracts and statutes as well as time entry into the County's payroll system. The function is high risk due to the decentralized nature of the County, the significant budget impact (approximately 54% of County budget) and numerous classifications of employees and leave.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	H	H	H	H	HIGH

### **Potential Significant Risks**

- Outdated, inadequate or undocumented policies and procedures.
- Inadequate controls to detect fraud, waste and abuse.
- Inadequate segregation of duties.
- Non-compliance with policies and procedures.
- Employees paid for time not worked or approved.
- Inadequate documentation of changes in timekeeping records.
- Ineffective accounting and administrative controls over timekeeping and reporting.

### **Internal Audit Strategy**

This cycle audit is intended to validate ongoing compliance and control effectiveness over policies and procedures. Procedures will be narrow in scope compared to the full-scope audit and will vary based upon the results of that audit. We will conduct the following testing, and other procedures as deemed necessary, of detailed time records for a sample of selected departments/divisions:

- Validate that controls over timekeeping include procedures and documents that assure the data used to generate payroll disbursements are adequate.
- Identify differing practices for timekeeping at individual departments and identify best practices for the timekeeping and reporting process.
- Determine that the records and documentation for timekeeping at individual departments are sufficient to establish the time was approved and an audit trail exists for all transactions involving employees' time.
- Evaluate controls to validate pay is accurately calculated, overpayment situations are identified and payroll data is accurately presented in the general ledger.

## County-Wide Audit

### Finance: Purchasing

The purchasing function involves the procurement of materials, supplies, equipment, and/or services, with the appropriate quality that are available at the appropriate time to meet the required standards established and approved by the County. The process includes the proper request and authorization of a purchase, evaluation and selection of vendors and suppliers, execution of contracts, and overall recordkeeping. Adequately documented policies and procedures, a robust control environment, including appropriate segregation of duties, and transparent selection of vendors, are key to the overall success of the function. The centralized purchasing process begins when Purchasing receives a request from an individual department. Purchasing is responsible for facilitating the proper request and authorization of a purchase. The process ends once the purchase order has been activated and vendor approval and setup complete.

This audit begins with the scope write-up from the requesting department and ends when the contract is awarded. It does not include contract compliance or management of the vendor. We have previously performed audits over contract compliance/management; reports accepted July 23, 2013, August 4, 2015 and May 10, 2016. We have also previously performed a purchasing card audit; report accepted August 4, 2015.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	H	H	H	H	HIGH

### **Potential Significant Risk**

- Inadequate segregation of duties.
- Non-compliance with Virginia Code, County policies and procedures, or other regulations, as applicable.
- Outdated, inadequate or undocumented policies and procedures.
- Purchases not properly authorized.
- Purchases not made for legitimate business needs.
- Vendor histories and documentation not adequately maintained.
- Competitive bids not being obtained.

### **Internal Audit Strategy**

Objectives of the internal audit of purchasing will include the following:

- Evaluate the design and control structure including adherence to policies and procedures for operating effectiveness.
- Evaluate if there are adequate controls to prevent/detect related party transactions.
- Evaluate access controls and segregation of duties within the purchasing function.
- Evaluate whether there are adequate records and documentation for competitive bid contracts to establish an audit trail and that policies and procedures are appropriately followed.
- To identify, during the course of the procedures designed to meet the stated objectives, process improvement opportunities and recommend internal control enhancements to improve the overall purchasing process.

## County-Wide Audit - continued

### Human Resources: Benefits Administration

Benefits administration is the process of establishing, maintaining, and managing benefits for the employees of an organization. There are four (4) main processes within the function: setup, benefit plan enrollment, plan maintenance, and benefit processes. Employee benefits typically include medical insurance, pension plans, retirement, vacation time, sick time, worker's compensation, etc. It involves maintaining respective enrollment documentation for every employee, keeping track of information such as the benefit selected, date hired, marital status, number of dependents, total hours worked, attendance records, employee on-boarding, and off-boarding. The County's benefits administration process is different per the respective benefit, entails voluminous required documentation, and has a number of manual controls/process steps within the function. Thus making it high risk.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	M	H	H	H	HIGH

#### Potential Significant Risks

- Outdated, inadequate, or undocumented policies and procedures.
- Non-compliance with Federal rules, Virginia Code, County policies and procedures, or other regulations, as applicable.
- Error due to manual controls/process steps within the function.
- Inefficient/ineffective use of employee time on manual aspects of the function.
- Benefits provided to active/terminated/retired employees in error.
- Loss of/ non-accessibility to company data.
- Unauthorized access to confidential data.

#### Internal Audit Strategy

The objective of our internal audit will focus on reviewing, benchmarking and analyzing operations related to identified aspects (to be determined) of the benefits administration process with the goal of identifying areas of automation and efficiency within the process. We will perform additional procedures on-site as deemed necessary to appropriately assess the operations and control environment.

## Individual Function Audit

### **Community Services: Service Placement Operational Analysis**

The County is mandated to establish a Community Services Board to provide emergency services and case management, services subject to the availability of appropriated state funds. Community Services is the single point of entry into publicly funded mental health, developmental and substance abuse services providing mental health, intellectual disability, substance abuse, emergency services and early intervention programs for residents of the County and the cities of Manassas and Manassas Park. Per the FY 2016-2017 budget, Community Services amounts to 31% of the County's Human Services budget (\$41M out of \$131M). Community Services is a highly visible department and public perception is a key risk factor for this department.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	M	H	H	H	HIGH

#### **Potential Significant Risks**

- Non-compliance with Virginia Code, County policies and procedures, or other regulations, as applicable.
- Outdated, inadequate or undocumented policies and procedures.
- Inadequate policies or procedures.
- Inadequate monitoring of effectiveness of operations.
- Failure to provide effective management oversight and administration of service placement.
- Staffing levels inconsistent with department needs or industry standards.
- Failure to obtain adequate and appropriate training for employees.

#### **Internal Audit Strategy**

The objective of the audit will focus on service placement by performing the following:

- Conduct interviews with staff and key personnel to understand overall organization, staffing, operations and risk areas.
- Collect and review relevant documentation and information, including budgetary and financial reports, human resources information, strategic planning documents, statistical reports and performance indicator data.
- Determine that policies and procedures are in place and operating effectively.
- Test for compliance with applicable County Policies, Federal and State laws, rules and regulations

We will perform additional procedures on-site as deemed necessary to appropriately assess the operations and control environment.

## Individual Function Audit - continued

### Convention and Visitors Bureau: Operational Analysis

The Convention and Visitors Bureau (“CVB”) was established by Board resolution in order to promote and market the County and Manassas area as a tourism, leisure and corporate destination for the benefit of the tourism industry and the citizens of the County and the City of Manassas, thereby, stimulating economic growth and improving the quality of life for our community’s citizens, businesses and visitors. The majority of the Board is appointed by the County.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	M	H	H	H	HIGH

#### Potential Significant Risks

- Outdated, inadequate or undocumented policies and procedures.
- Non-compliance with the memorandum of understanding (“MOU”) with the County.
- CVB goals/strategies do not align with objectives.
- Inaccurate/inadequate key performance indicators.

#### Internal Audit Strategy

The objective of our internal audit will be to evaluate CVB’s use of funds in fulfilling the mission of the CVB and compliance with the memorandum of understanding (“MOU”) with the County. This audit will include reviewing, benchmarking and analyzing comparative data of the CVB as compared to other jurisdictions. Services and scope of work will focus on the following:

- Determine the extent to which the CVB complies with the MOU with the County.
- Validate that County funds provided to the CVB are utilized in accordance with laws and regulations and the MOU.
- Determine that records and documentation are sufficient to establish an audit trail for all transactions association with grants and contracted services, where applicable.
- Determine the appropriateness and accuracy of the CVB’s key performance indicators reported.
- Determine that policies and procedures are effective, documented and in place.
- Review public opinion in regards to the CVB.

## Individual Function Audit - continued

### Development Services: Building Development Operational Analysis

The Department of Development Services (DDS) is the lead development agency for the County. DDS works closely with many affiliated agencies, including Planning, the Fire Marshal, Public Works, Transportation and Information Technology, to assist customers with development projects, with a budget of \$15M. Their goal is to help customers complete their projects in a timely manner in compliance with County and state requirements. DDS includes Building Development, which relates to compliance with the Uniform Statewide Building Code by reviewing commercial and residential construction plans, issuing permits, inspecting structures and enforcing building code requirements, and Land Development, which manages the site and subdivision plan review and permit issuance process, administers the posting and releasing of bonds and escrows and issues zoning permits. This analysis will focus on building development.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	M	H	H	H	HIGH

#### Potential Significant Risks

- Non-compliance with Virginia Code, County policies and procedures, or other regulations, as applicable.
- Outdated, inadequate or undocumented policies and procedures.
- Ineffective/inefficient building development process.
- Tarnished public perception due to processes in place.

#### Internal Audit Strategy

The objective of our internal audit will focus on reviewing, benchmarking and analyzing comparative data and operations related to identified aspects (to be determined) of the building development process to other jurisdictions. We will perform additional procedures on-site as deemed necessary to appropriately assess the operations and control environment.

## Individual Function Audit - continued

### Finance: Real Estate Assessments

Property taxes are a primary source of revenue for the County, accounting for approximately 50% of the County's revenue for fiscal year ended June 30, 2015. The County's real estate tax base (the value of real property) is approximately 17% commercial and 83% residential. Total assessed value of taxable real property for the County was \$53.6 billion for fiscal year ended June 30, 2015. The real estate assessment and appeals function is governed by the Code of Virginia Title 58, Chapter 32.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	H	H	H	H	HIGH

### Potential Significant Risks

- Inadequate segregation of duties.
- Non-compliance with Virginia Code, County policies and procedures, or other regulations, as applicable.
- Outdated, inadequate or undocumented policies and procedures.
- All taxable property not identified and assessed.
- Tax abatements not accurately processed.
- Unauthorized transactions.
- Inadequate/inaccurate performance goals.
- Performance not monitored.

### Internal Audit Strategy

The primary objectives of this audit will be to evaluate the real estate assessment and appeals process and the adequacy of related internal controls, including the process for measuring its performance, tracking appeals and resulting modifications, required approvals, and policies and procedures in place.



## Individual Function Audit - continued

### **Industrial Development Authority: Operational Analysis**

The Industrial Development Authority (“IDA”) was duly created by the BOCS pursuant to the Industrial Development and Revenue Bond Act, Title 15.1, Chapter 33, Code of Virginia. The IDA is a political subdivision of the Commonwealth, governed by seven (7) directors appointed by the BOCS. The IDA is empowered, among other things, to acquire, construct, improve, maintain, equip, own, lease and dispose of parking and other facilities in the Commonwealth and to finance the same by issuance of its revenue bonds. The IDA has no taxing authority.

The BOCS approves the issuance of industrial development bonds solely to qualify such bonds for tax exemptions. These bonds do not constitute indebtedness of the County and are secured solely by revenues from the borrowers. The County has no financial responsibility for the day-to-day financial transactions of the IDA.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	M	M	H	H	HIGH

#### **Potential Significant Risks**

- IDA not fulfilling their mission.
- IDA goals/strategies do not align with County initiatives.

#### **Internal Audit Strategy**

The objective of our internal audit will be to evaluate IDA’s use of funds in fulfilling the mission of the IDA and verify the program is operating as designed and is aligned to the County’s strategic initiatives.

## Individual Function Audit - continued

### Library: Operational Analysis

The County's public library system supports the County vision of "A Community of Choice" through exception service, providing enrichment across both traditional and virtual environments. The FY 2016-2017 budget is \$16.9M to be used within the following programs:

- *Administrative Services:* Provides system-wide management, direction, policy and procedural formulation of all library programs as well as short-term and long-range strategic planning for the Library System.
- *Public Services:* Provides direct service to the public by lending materials from its full service and neighborhood libraries, by responding to information requests from the public, and by offering educational, informational, and recreational events and activities for all ages.
- *Materials Services:* Responsible for the continuing development of the Library System's print, audiovisual, electronic, and digital resources.
- *Financial Services:* Manages the financial, accounting and administrative services for the Library System as directed by the Library Board.
- *Technology Services:* Manages the daily operations of all Library-specific automated systems, such as the library's automated circulation system and print, time management and credit card payment systems, as well as all library Web-based services, such as meeting room and event reservations, interlibrary loan, reading programs, Library wireless services, Library mobile services; and the Library System's Public Access Computer network and related assets.

Inherent Risk	Control Environment	Change	Process Risk	External Factors	Revenue Source / Materiality	Risk Rating
	H	M	H	M	M	HIGH

### **Potential Significant Risks**

- Underperformance of existing operations.
- Tarnished/diminished public perception.
- Un-realistic goals.
- Inappropriate allocation of resources.

### **Internal Audit Strategy**

The primary objective of our performance analysis will focus on reviewing, benchmarking, and analyzing of comparative data of Prince William County's library operations. This analysis will also include data related to jurisdictions who have out-sourced the management of library operations.

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