



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit – Proposed Internal Audit Plan Calendar Year (“CY”) Ending December 31, 2024

January 16, 2024

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TRANSMITTAL LETTER

January 16, 2024

The Board Audit Committee of
Prince William County, Virginia
1 County Complex Court
Woodridge, Virginia 22192

We hereby submit the proposed internal audit plan for calendar year ("CY") ending December 31, 2024 for Prince William County, Virginia ("County" / "PWC"), as determined by updating the risk assessment for the County.

We applied a broad-based, business view of risk, linked to the annual budget, operations, and the strategic plan. We conducted interviews with members of the Board of County Supervisors ("BOCS"), the County Executive, Deputy County Executives, Director of Finance/CFO, and Department Directors to gain an understanding of their objectives and identified risks and issued surveys to County Directors. During the interviews, we discussed and identified areas of high-risk, opportunities and vulnerabilities from their various levels of perspective.

The objective of this risk assessment was to develop a proposed internal audit plan, the purpose of which is to identify those areas determined as having a relatively high-risk profile or that otherwise require internal audit attention for various reasons. The proposed internal audit plan is *on-line real-time* and labeled as *proposed* because it is a *living document*. As factors change and situations arise, the proposed internal audit plan can and will change. As part of this risk assessment, 'risk' focuses on financial, strategic, performance/operational, and compliance risk, as well as the general effect of public perception related to County-wide activities and initiatives.

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 identified proposed internal 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.* We have provided a high-level process of each proposed audit function/area, the key potential financial, compliance, and public perception inherent risks, as well as the internal audit strategy for evaluating the effectiveness of the processes, procedures, and controls in place within the function.

We would like to thank the BOCS, the County Executive's Office, and the various departmental personnel involved in assisting us with developing the proposed internal audit plan.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS

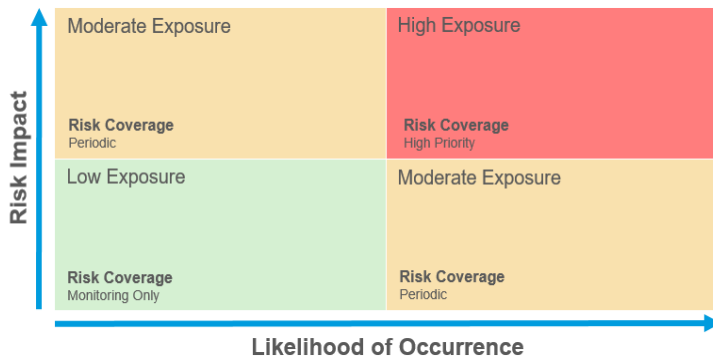
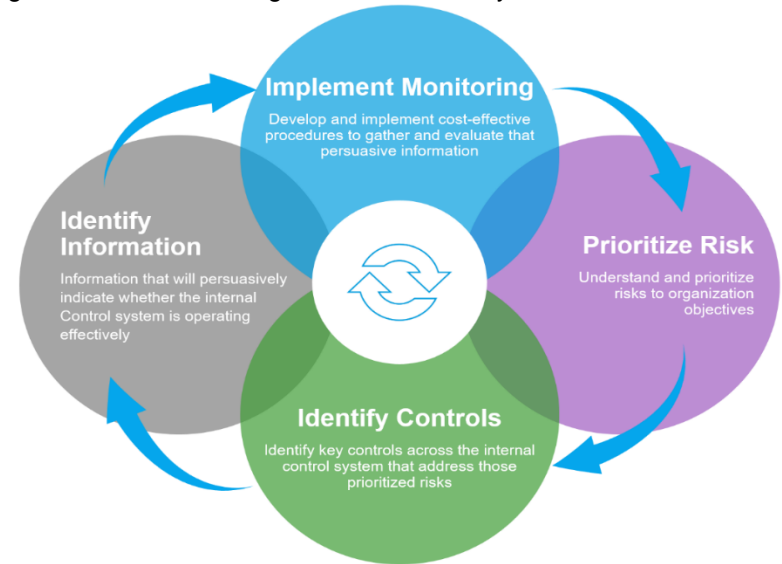
RISK ASSESSMENT METHODOLOGY

As previously noted, the objective of this risk assessment is to provide the County with a proposed internal audit plan that has 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 proposed internal audit plan from the risk assessment will facilitate that resources are focused on areas, which are currently of most immediate 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 proposed internal 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 proposed internal 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 proposed internal audit 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 proposed internal audit plan generally focuses on areas or functions that are high exposure and high priority (the upper right quadrant). We also consider other areas that are not included in this quadrant to insert a level of unpredictability into the proposed internal audit plan and risk assessment process in order facilitate County-wide awareness that all business units, functions, and processes may be subject to an internal audit at any time.



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.

Our risk assessment was conducted utilizing a broad-based business view of risk. We conducted interviews with members of the BOCS to gain an understanding of their perspective of risk, focusing on their objectives in order to identify potential risks. We also conducted interviews with the County Executive, Deputy County Executives, Director of Finance/CFO, and other personnel within the County to identify risks, vulnerabilities, and potential opportunities. Meeting with various levels within the County gave us insight and understanding of potential risk from their various levels of perspective. In addition, we reviewed the adopted budget for fiscal year 2024, the fiscal year 2023-2028 capital improvement plan, the strategic plan, as well as media coverage and BOCS meeting agendas, minutes, and other available documentation.



RISK ASSESSMENT METHODOLOGY (CONTINUED)

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 evaluate the level of risk present in each area / function, across a standard spectrum of industry-accepted risk categories as follows:

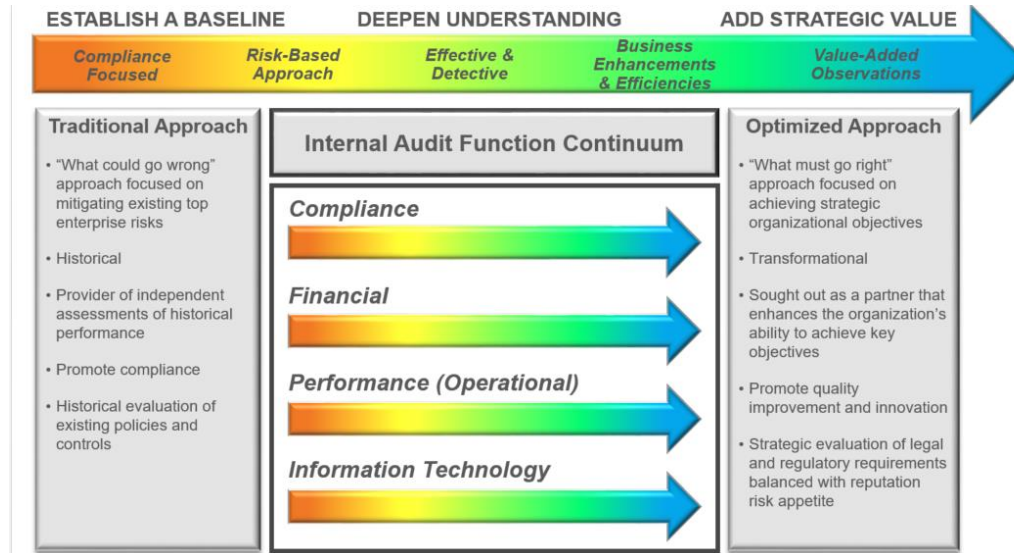
Control Environment	<ul style="list-style-type: none">• Demonstrates commitment to integrity and ethical values• Exercises oversight responsibilities• Establishes structure, authority and responsibility• Demonstrates commitment to competence• Enforces accountability
Risk Assessment	<ul style="list-style-type: none">• Specifies suitable objectives• Identifies and analyzes risk• Assesses fraud risk• Identifies and analyzes significant change
Control Activities	<ul style="list-style-type: none">• Selects and develops control activities• Selects and develops general controls over technology• Deploys through policies and procedures
Information & Communication	<ul style="list-style-type: none">• Uses relevant information• Communicates internally• Communicates externally
Monitoring	<ul style="list-style-type: none">• Conducts ongoing and/or separate evaluations• Evaluates and communicates deficiencies

As shown on the following pages, a strong, high-functioning internal audit process has a balance of all types of internal audits and reviews. As such, the proposed internal audit plan includes Overall Audit Functions, Cycle Audits, Entity-Wide Audits, Individual Function Audits and Special Requests. The proposed plan may also include performance and / or consultative-type projects that assist management with strategy, ongoing initiatives, and planning. We have presented a snapshot of the proposed internal audit plan working draft separately, 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.

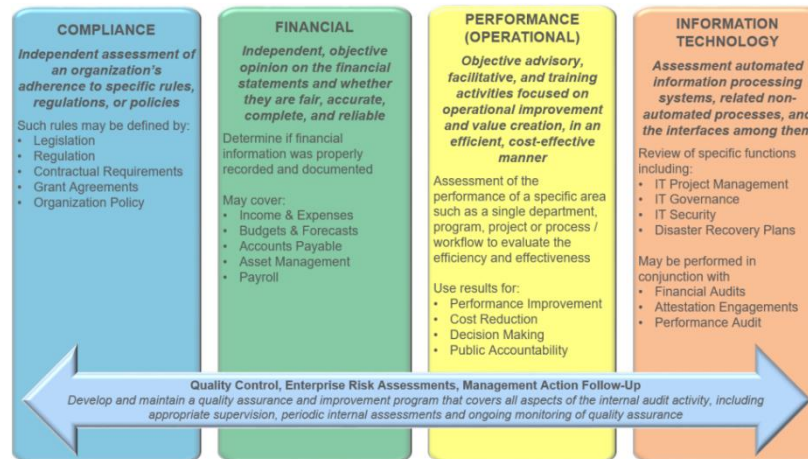


INTERNAL AUDIT CONTINUUM AND TYPES OF INTERNAL AUDITS

As an internal audit function develops and matures, the various types of audits performed will move through a lifecycle of the control environment to not only strengthen and enhance processes and controls, but also to facilitate strategy, decision-making and long-term planning.



The various types of audits that are proposed should include a hybrid mix of audit types, as shown below.



OVERALL AUDIT FUNCTION

As the County's Internal Auditors, we have developed an internal audit methodology aligned with Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and AICPA consulting standards. These include systematic audits selected through the risk assessment, ad hoc audits as new facts emerge, or requests by the BOCS or County Executive.

Overall Audit Functions

Risk Assessment and Audit Plan Development

As required by the RSM Internal Audit Methodology, the internal auditor uses risk assessment techniques in developing the internal audit plan and 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 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 RSM Internal Audit Methodology, the risk assessment and proposed audit plan is required to be updated annually.

Fraud, Waste, and Abuse Hotline Monitoring

RSM is responsible for monitoring the County's Fraud, Waste, and Abuse hotline. We intake all notifications received, and triage as deemed necessary. Activity is reported to the Board Audit Committee of Prince William County at each meeting.

Follow-up Procedures

As required by the RSM Internal Audit Methodology, internal auditors should establish a follow-up process to confirm that management actions have been effectively implemented or that 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 related 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. Follow-up reports will be presented to the Audit Committee periodically through-out the calendar year.



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 prior to reports being issued into the public record.



PROPOSED INTERNAL AUDIT PLAN CALENDAR YEAR 2024 – WORKING DRAFT

The objective of this assessment is to identify those areas judged as having a relatively high-risk profile or that otherwise require internal audit attention for various reasons. Through the risk assessment, we have identified and propose the following functions to be reviewed during CY2024. The below proposed subject areas are in no particular order.

Human Resources – Hiring Process

One of the most critical activities of a high-functioning Human Resources (“HR”) Department is the ability to recruit qualified candidates and execute successful onboarding processes. The HR Department is tasked with providing timely recruitment and selection services that meet the needs of departments to attract and retain highly qualified employees who are committed to being part of the team and exemplifying the County’s vision and values. Subsequent hiring and onboarding processes refer to the procedures taken when an individual is evaluated, interviewed, selected, and approved. This includes working with multiple departments to gather employee information, including state-required documentation, and documenting hiring decisions. In addition to this function being inherently high-risk, there are other factors that have been considered for inclusion in the proposed CY2024 Internal Audit Plan such as, the last internal audit was performed 2014, and the function has experienced change in people, process, and technology.

Inherent risks may include: Outdated, inadequate, or undocumented policies and procedures surrounding job posting, recruiting, screening, and offers of employment; interdepartmental collaboration is ineffective; onboarding processes are inefficient; candidate vetting procedures are inadequate or inappropriate; new hire approval process is inconsistent or incomplete; compensation decisions do not receive proper approval; employees are hired who are not adequately screened and/or qualified; and non-compliance with applicable policies, laws and regulations, resulting in fines or legal implications.

Internal Audit Strategy:

To assess the following processes: recruiting, selecting, and onboarding of employees. Aspects of the assessment would include, but not be limited to, testing of completion of any required pre-employment consent forms, the performance of necessary background check activities, candidate vetting, the orientation process, and timeliness to fill positions.

PROPOSED INTERNAL AUDIT PLAN CALENDAR YEAR 2024 – WORKING DRAFT (CONTINUED)

Contract Compliance

Contract compliance encompasses all contractual agreements including, but not limited to, vendor and contractor agreements. Although certain aspects of the purchasing function are centralized within the Office of Procurement Services, many of the high-risk areas like contract administration and monitoring are decentralized to the individual departments/agencies.

Inherent risks may include: Outdated, inadequate, or undocumented policies and procedures; compromised transparency and accountability; inappropriate spending due to non-compliance with the contract; damaged public perception of the County and vendors; conflicts of interest; unidentified non-compliance with contract provisions; and inadequate documentation and audit trail of projects and vendor history.

Internal Audit Strategy:

To obtain an understanding and evaluate the policies, procedures, and controls for managing contract awards in accordance with terms, conditions, and performance requirements set forth in the contract, including communication and training for contract managers. The scope of our work will include the following: contract execution; contract administration process analysis; vendor monitoring procedures; analysis of high-risk areas for existing contract; compliance with various terms such as pricing, insurance requirements, invoicing; and testing of compliance and internal control.

Food and Beverage Tax

As authorized by 58.1-3833 of the Code of Virginia, the County began levying a tax on the purchase of prepared food and beverages, effective July 2022. Assessed at 4% of the total cost of food and beverages sold by restaurants and other businesses, businesses are required to remit this tax to the County on or before the 20th of each month. The County allocated two (2) FTEs to support the billing and collection process specific to this tax. According to the fiscal year ending June 30, 2023 (“FY2023”) County Budget, the tax was forecasted to generate \$24.5 million in revenue, and in the fiscal year ending June 30, 2024 (“FY2024”) County Budget, the County increased projections to \$32 million. This tax is self-reported, and businesses are given an incentive to remit payments timely in the form of tax discounts.

Inherent risks may include: Outdated, inadequate or undocumented policies and procedures; revenue is reported inaccurately; expenditures are reported inaccurately; anomalies within collection rates are not identified or not identified timely; funds are spent inappropriately; collections process is driven by inaccurate calculations, resulting in under- or over-reporting; strategic goals cannot be met; and loss of public trust and public perception.

Internal Audit Strategy:

To assess the design and effectiveness of processes and controls surrounding the new food and beverage tax to address inherent risks and meet tax objectives. Our procedures may include an evaluation of the control structure to support accurate financial reporting, including revenue reconciliations, document retention requirements, and compliance/enforcement. Procedures will be performed to evaluate the segregation of duties controls within the recording and reconciliation processes, the accuracy of reporting provided to the County, and the adequacy of policies and procedures to support these processes.

PROPOSED INTERNAL AUDIT PLAN CALENDAR YEAR 2024 – WORKING DRAFT (CONTINUED)

Capital Projects – Budgeting

According to the FY2024 Capital Improvement Plan, the capital planning process begins each summer, when agencies are asked to update current capital project plans and identify capital project needs. Agency submissions are collaboratively evaluated by staff throughout the County, and funding requests are prioritized using multi-faceted, pre-defined criteria. Developed estimates are balanced against available funds, reviewed by the County Executive, and presented to the BOCS for approval. The County's total projected capital improvement expenditures between FY2024 and FY2029 is \$1.4 billion, \$311.3 million of which is allocated to FY2024 alone.

Inherent risks may include: Budget calculations contain unintentional errors; data entry procedures, including secondary reviews, are incomplete or inadequate; budgets are intentionally manipulated or misreported; budget rationale, status, and amendments are not communicated appropriately or timely; increased exposure to operational disruption; contractual and legal risk; reputational damage; and non-compliance with governing authorities.

Internal Audit Strategy:

To assess the Capital Projects budgeting process through an assessment of the design and effectiveness of internal controls over budget development, monitoring, reporting, and modification. Our procedures would include a review of the bid process, budget modifications and amendments for appropriateness and proper authorization; evaluation of segregation of duties between budget preparation, approval, execution, accounting/reporting, and vendor selection, an evaluation of how data is obtained, reviewed, and reported, and an evaluation of the timeliness, accuracy, and usefulness of budget status reports and communications.

Oracle Human Capital Management System Implementation – Phase II

In January 2023, the County implemented an Oracle Human Capital Management (“HCM”) solution as part of its strategic initiative to streamline core Human Resource and Payroll functions. The primary objectives of the implementation were to achieve enhanced operational efficiency and better alignment of business processes by consolidating onto a common platform, thereby eliminating the need for multiple integration points. The transition also involved the retirement of the legacy StarGarden system. This comprehensive HCM implementation spanned over twelve months and was facilitated by AST, a third-party systems integrator. The County's partnership with AST aimed to provide a seamless transition and leverage their expertise in implementing the Oracle HCM solution effectively.

By adopting the Oracle HCM solution, the County has taken significant strides towards optimizing HR and Payroll operations, paving the way for improved process efficiency, data accuracy, and better workforce management. The execution of this transition marks a significant milestone in the County's ongoing commitment to modernize and align its HR systems with industry best practices. RSM has been assisting the County from a subject matter perspective to assist with future state design and process flows, recommending best practices, addressing pain points/audit issues; assistance/recommendation with training plan/approach; and testing, etc.

Inherent risks may include the system implemented operates ineffectively; the system does not meet stated requirements, specifications, or constraints; and anticipated changes are not considered during implementation causing immediate gaps between process and systems.

Internal Audit Strategy:

To continue working closely with the County's project leads to provide enhanced support and operate as a combined team (PWC/RSM) working with the implementer. In 2023, RSM completed Phase I of this engagement, which included data migration validation over critical areas, including Core HCM, Payroll, Compensation, Benefits, and Absence; the scope of Phase II includes the HR Help Desk, Learning Management, Career Development, and Performance Management.



PROPOSED INTERNAL AUDIT PLAN CALENDAR YEAR 2024 – WORKING DRAFT (CONTINUED)

Cybersecurity – Internal / External Penetration Testing

Cybersecurity is a priority within all organizations, including the public sector. Threats are constantly changing and evolving; thus, this area is inherently high-risk. Organizations like the County are under constant attack from external threats. As attack methods have evolved, so have the requirements for safeguarding user, and County information. Likewise, it is important to measure the security of technology assets to understand the ability to defend against threats. Performing a penetration test can help identify an organization's security posture and configuration standards through assessing the resiliency of the external network against a determined attacker. Typically, a penetration test should be performed at least annually to stay abreast of new and evolving attacks. Maintaining an effective information security program is critical for the County's ability to achieve its objectives. Furthermore, the risk of data breach or misuse of sensitive data could result in significant damage to the County's reputation, financial standing, and operational capability. Internal Audit first performed targeted penetration testing in 2015, and it has been included in the proposed annual internal audit plan since 2018.

Inherent risks may include: Threats and attacks to County systems that are undetected; critical data is lost or manipulated; systems and applications are not configured appropriately to support proper maintenance and monitoring (closed-loop feedback); County data not being stored securely; and time and resources may be inefficiently spent manually analyzing threats to County systems.

Internal Audit Strategy:

To assess current security controls to determine the actionable impact from an attacker gaining access to the internal network. The objective of *internal* penetration testing is to assess current security controls to determine the actionable impact from an attacker gaining access to the internal network. The objective of *external* penetration testing is to assess current security controls to determine the actionable impact from an attacker attempting to bypass perimeter security controls and accessing the internal network or sensitive data. The focus of penetration testing is not to prove that the network is free of all vulnerabilities; rather, the focus is to validate the organization's security posture and configuration standards through assessing the resiliency of the internal network against a determined attacker. This level of testing relies heavily on techniques and toolsets favored by real-world threat actors to closely simulate an attack scenario, and leverages both manual and automated testing methods.



PROPOSED INTERNAL AUDIT PLAN CALENDAR YEAR 2024 – WORKING DRAFT (CONTINUED)

Foster Care

The Department of Social Services mission is to transform lives through safety, support, and self-sufficiency, by providing county residents with a wide range of services, public assistance, and residential programs for youth. The Department of Social Services provides County citizens with federally mandated programs including Child and Adult Protective Services, SNAP (Food Stamps), Medicaid and Temporary Assistance to Needy Families. The County's Family Support Services includes foster care, which is a service provided to children who are brought into the custody of the Department of Social Services when their family or prior custodian is unable or unwilling to provide appropriate care for them. Foster parents provide substitute temporary care for the foster children; and they work as a team with department staff and with parents to plan for the children. Per review of the County's FY2024 budget, the budget for Family Support Services increased 7%. Family Support Services is a highly visible department and public perception is a key risk factor for this department. As such, this function is inherently high-risk.

Inherent Risks may include: Outdated, inadequate, or undocumented policies and procedures; non-compliance with Virginia Code, County policies and procedures, and other regulatory bodies; management oversight and administration of foster care activities is ineffective; staffing levels are inconsistent with Department needs or industry standards; employees do not receive adequate and appropriate training; tarnished public perception and legal ramifications related to compliance.

Internal Audit Strategy:

To determine whether the control environment in place within the Department of Social Services' Foster Care program is adequately designed and operating effectively for key activities. Key activities will be scoped upon project execution, and we will include procedures as deemed necessary to appropriately assess the operations and control environment.

To be Determined Audit Area

As previously discussed, this proposed internal 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 proposed internal audit plan can and will change. There is a placeholder in the current proposed internal audit plan for a project 'to be determined' to allow for future coverage

To be Determined Audit Area

As previously discussed, this proposed internal 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 proposed internal audit plan can and will change. There is a placeholder in the current proposed internal audit plan for a project 'to be determined' to allow for future coverage



PROPOSED PROJECT OUTSIDE OF INTERNAL AUDIT PLAN – WORKING DRAFT

ARPA Monitoring

Signed into law on March 11, 2021, The American Rescue Plan Act of 2021 (“ARPA”) provides \$350 billion in additional funding for state and local governments. The local funding portion is approximately \$130 billion, equally divided between cities and counties. Localities will receive the funds in two tranches—the first after the U.S. Treasury certifies the proceeds to each jurisdiction and the second one year later. For counties, the \$65 billion will be allocated based on the County’s population. ARPA specifies several eligible uses and restrictions for the funds that each recipient must comply with, including that funding must be spent through its duration (obligated by December 31, 2024 and expended by December 31, 2026). As with previous COVID-19 relief packages, implementation is an extensive process as new or updated guidance is developed and released by the U.S. Treasury. Internal audit has been performing annual and on-going sub-recipient ARPA monitoring for the County since 2022.

Inherent risks may include: Loss of funding due to failure to adequately monitor the disposition of received funds, including subrecipient spending; failure to adhere to federal ARPA program requirements; failure to adhere to internal policies and procedures; insufficient internal reporting and/or documentation processing for ARPA procedures; inappropriate expenditure of ARPA funding received.

Internal Audit Strategy:

To perform monitoring of the application process, reporting requirements, and adherence to any regulatory guidelines, policies and procedures governing the use of ARPA funds received by the County. Audit procedures may include review and assessment of the expenditure of ARPA funds received by the County, including funds spent directly by the County, as well as funds provided to subrecipients.

Note: ARPA funding includes an allowance for administrative costs, such as monitoring. This project will be funded within the allowable costs per ARPA, and not part of the annual internal audit budget allocation.

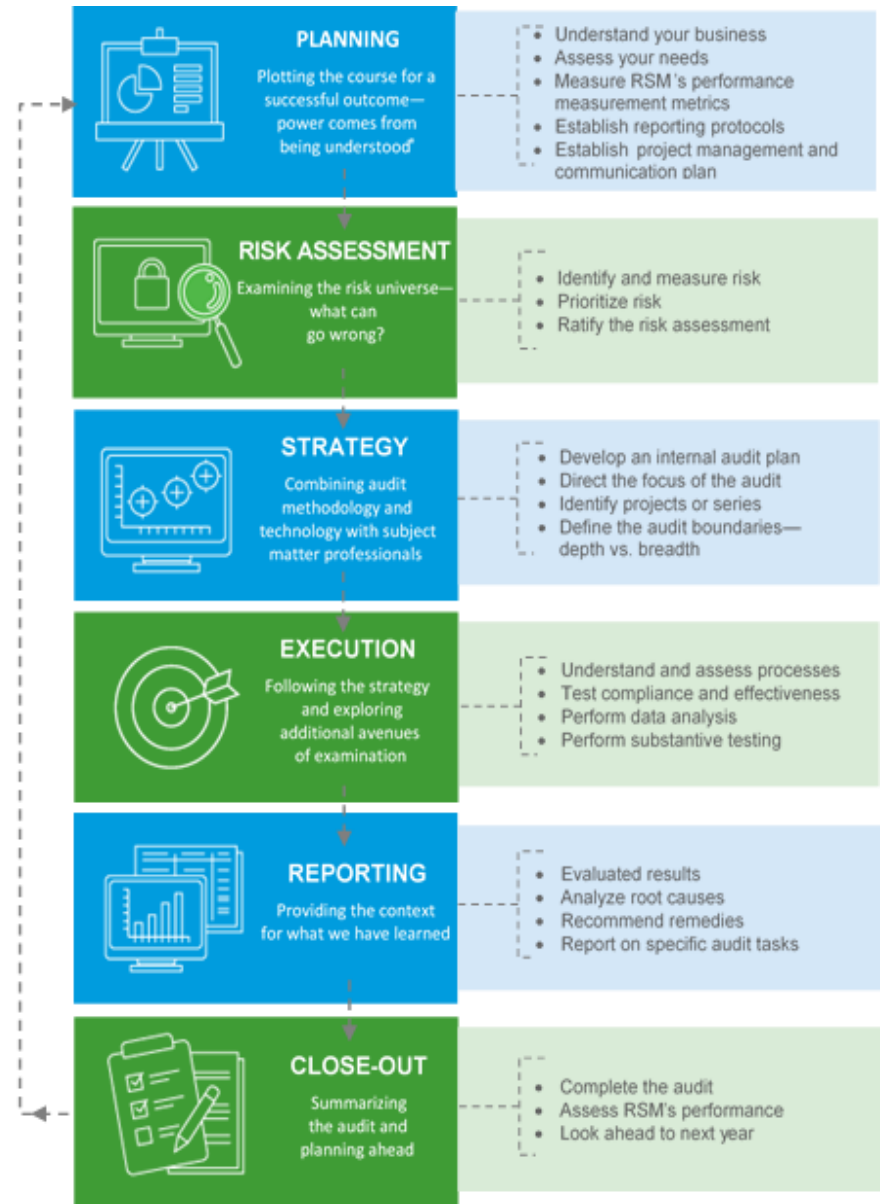



APPENDIX: INTERNAL AUDIT METHODOLOGY

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 process and ad hoc audits as new facts emerge, or by request from the BOCS or the County Executive.

RSM has a comprehensive internal audit methodology with a holistic approach to assessing the County’s most critical risks. There is no one-size-fits-all internal audit project; therefore, we have a flexible methodology that helps internal audit evolve from a necessary process to assume a more strategic role within the County. A high-level overview is included in the matrix below.

We leverage proven processes and advanced technology to help mitigate risk, monitor compliance, and add value to the County. Our methodology is grounded in understanding the County’s needs and working with the County to develop a responsive approach to meet and exceed those expectations. In addition, we integrate quality assurance and project management resources to increase visibility into internal audit projects, providing real-time results and insight into progress.





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