



# Internal Audit Work Plan

First Half of Fiscal Year 2019

Department of Management and Finance



# Internal Audit Services

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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 the County'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. For Fiscal Year 2019, a formal risk assessment survey is currently underway to inform the full year Fiscal Year 2019 Work Plan. In the interim, this document identified the Work Plan for the first half of the FY 2019. Upon completion and review of the results of the risk assessment survey a revised plan summarizing the Fiscal Year 2019 Work Plan will be presented. To accomplish the Work Plan, the County employs both internal resources and external consulting services.

The Fiscal Year 2019 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 Work Plan (First Half Fiscal Year 2019)

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## 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 (First Half Fiscal Year 2019)

## 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 2019 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 (First Half Fiscal Year 2019)

## Employee Expense Reimbursements

The County allows for employee reimbursement of expenses related to County business.

These transactions are separate from PCard transactions, have a separate process, and are utilized as needed. It is critical that the employee reimbursement process operate with the same adequacy of control as the PCard process so that no gaps exist to allow misuse or abuse.

Audits of employee expense reimbursements will focus on evaluating the effectiveness of internal controls over the administration of expense reimbursements, adequacy of policies and procedures, and compliance with County policies and state regulations.

### Key Risk Areas:

- Compliance with County policies
- Appropriate backup is provided
- Expenses are not duplicated

## Utility Tax

Arlington charges a utility tax on commercial users of electricity and natural gas. This tax is based on kilowatt hours (kWh) for electricity and hundred cubic feet (CCF) for natural gas delivered monthly to commercial consumers. Rates are limited in the state code: Residential to a \$3/month maximum per utility and that rates must be based on usage and Commercial not to exceed 20% of "the monthly amount charged to consumers". At the currently adopted rates, the commercial utility tax is projected to generate \$10.3 million in FY 2019.

A residential utility tax was imposed on consumers of electricity and natural gas in FY 2008. There are different rates for residential and apartment buildings. At the new rates, the total revenue projected from the residential utility tax in FY 2019 is \$5.2 million.

An audit will focus on evaluating the adequacy of internal controls surrounding billing and revenue collections, rate setting, compliance with policies and procedures, monitoring, and reporting.

### Key Risk Areas:

Correct rates being charged for each property type  
Commercial taxes are staying within the 20% ceiling  
Tax revenue is tracked by jurisdiction and the correct amount is remitted to the County monthly  
Tax exempt customers are being charged tax

# Audit Services (Full Fiscal 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 implementing recommended remediation(s).

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

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## 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.

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## Copies of Audit Reports:

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

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## Financial Fraud, Waste & Abuse Hotline:

Report suspected instances of fraud, waste or abuse

Phone: (866) 565-9206

Online: <https://arlingtonva.ethicaladvocate.com>