



# Internal Audit Work Plan

Second 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 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 results of a formal risk assessment survey are currently under review and being discussed with Department Directors to identify key risk areas to inform the full year Fiscal Year 2020 Work Plan. In the interim, this document identifies the Work Plan for the second half of the FY 2019. To accomplish the Work Plan, the County employs both internal resources and external consulting services.

The second half of 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 in the Work Plan

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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

# Internal Audits

## Contract Compliance - CMAR Phase 2

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.

This audit will focus specifically on the execution of the County's first Contract Manager at Risk (CMAR) project. During the first half of FY19, a contract compliance audit was completed on the pre-construction phase of the project (design vendor). This audit will focus on the construction execution phase of the project including the related vendor invoicing. CMAR contracts can be cost effective and beneficial, but it is critical that the appropriate procedures are established to facilitate and monitor a CMAR project.

### Key Risk Areas:

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

## Purchasing Performance Audit

The Arlington County Purchasing System processes millions of dollars of procurements per year and executes thousands of purchase orders. The success of any organization is dependent on an efficiently and effectively managed procurement process and supply base. The objectives of an effective procurement organization is to buy goods and services of high quality at reasonable cost and also make sure that all purchasing actions are fair and impartial with no impropriety nor appearance of impropriety, that all qualified buyers and sellers have access to County business. It is important that integrated purchasing strategies, policies and procedures exist that support organizational goals.

A performance audit is an independent examination of a program, function, operation or the management systems and procedures of a governmental entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

This audit will focus specifically on the design and structure of the Arlington County Purchasing System and evaluate the economy, efficiency and effectiveness. The audit will include an evaluation of the procurement life cycle from initial identification of the departmental need through the purchase order placement. Assessing operations by comparing to other jurisdictions and benchmarking will be accomplished. The audit will include tests of compliance with the Virginia Public Procurement Act. The audit will provide recommendations for process improvements to address any areas found to be inefficient, ineffective or noncompliant.

### Key Risk Areas:

- Efficiency and effectiveness of procurement life-cycle
- Meeting the Departmental procurement needs



## Third Party Vendor Oversight

The County utilizes vendors to execute certain operations and provide services on the County's behalf. In these cases, relationships are maintained between the vendor and the applicable County department. These relationships are typically long-term and include various critical elements to achieve success. These critical elements may include: reporting to the County, KPIs/Dashboards/Metrics, integrated systems, collaboration with fourth and fifth parties, among other elements.

An internal audit of third party vendors may utilize the County's right to audit clause, and focuses on reviewing vendor processes and related controls, communication and interactions, accuracy and validity of reporting, invoice support, appropriateness of processes (considering County internal controls), and proof of performance. Some aspects of a contract compliance review are included as part of procedures.

### Key Risk Areas:

- Inadequately controlled processes
- Inefficient processes
- Monitoring of vendor performance
- Accuracy of reporting
- Appropriateness of expenditures per contract terms
- Compliance with certain County policies

# Audit Services

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## 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

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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>