



Internal Audit Work Plan

Fiscal Year 2021

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. To accomplish the Plan, the County employs both internal resources and external consulting services. RSM, LLC – a major provider of assurance, accounting and consulting services to government and corporations – will be working with County resources to complete the plan.

The Fiscal Year 2021 Work Plan includes two carryover audits from FY 2020 that were not completed due to COVID-19. The 2021 Work Plan also includes budgeted time for cycle audits, audits of specific programs and processes, non-audit services, follow-up on previously issued audit recommendations, monitoring purchase card activity 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

Internal Audits

Contract Compliance & Third Party Vendor Oversight Audits (Carryover from FY 2020)

This contract compliance audit will focus on contracts where 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.

A County Contract Administration Policy, effective January 1, 2017, provides guidance to Project Officers to assist with oversight responsibilities for an assigned contract. The contract compliance audits will focus on specific contracts and evaluate the effectiveness of internal controls over the administration of the contracts, compliance with County policies, and compliance with the terms of the contract under audit. An internal contract compliance audit of third party vendors may utilize the County's right to audit clause, and focuses on reviewing vendor processes and related controls.

For FY 2021, the plan includes focusing on commuter services contracts.

Key Risk Areas:

- Monitoring of vendor performance
- Accuracy of vendor reporting
- Appropriateness of expenditures per contract terms
- Compliance with County policies
- Quality of Services Provided

Contract Compliance- Construction Contracting

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. Construction contracts pose a higher risk generally due to the large dollar value and the increased monitoring needed of contract performance and payments due to the variability of contract terms and schedules. Additionally, there are increased risks due to COVID-19, due to potential work stoppages, idle costs and other increased costs due to the pandemic. This contract compliance audit will focus on a specific construction 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

Internal Audits

Affordable Housing Investment Fund (Carryover from FY 2020)

This audit will evaluate Arlington County's processes for operating the Affordable Housing Investment Fund (AHIF). The County's AHIF is one of the main financing programs for affordable housing development. Since its creation in 1988, AHIF, along with Federal loan funds have helped to create the majority of the County's approved affordable rental units that benefit low- and moderate-income households. The primary objective of this audit will be to assess whether the system of internal controls surrounding the AHIF are operating effectively, as well as, compliance with specific requirements for a sample of loans. Additionally, the audit will include a review of staff efforts addressing two observations identified within a previous AHIF Audit which was completed by Clifton Larson Allen LLP in 2017.

Key risk Areas:

- Overall management and administration of the fund aligns to County's direction and standard practices
- Detailed documentation supporting loan amounts and other terms and conditions
- Accuracy of repayments to amounts approved by the County.

Medical and Prescription Drugs Benefit Claims & Cost Controls

This audit will evaluate medical and prescription drug claims paid on behalf of the County by its third party service provider, Connecticut Health and Life Insurance Company (CIGNA). The County is self-insured and therefore pays the claims submitted by the providers (thru CIGNA) subject to the amounts negotiated between CIGNA and its providers. Due to the self-insurance nature, the CIGNA contract allows the County to conduct a claims audit on an annual basis. Since the inception of this contract in 2014, the County has not executed this contract clause. The primary objective of the audit will be to ensure claimed amounts are accurate and comply to benefit terms and conditions and based on what CIGNA pays to its providers based on its agreements.

A second objective will evaluate whether CIGNA has effectively implemented several cost controls as required by its contract with the County. There are several contract terms that CIGNA is required to implement to control the costs of medical and prescription drugs. They range from pursuing maximum prescription drugs discounts to a cost containment program and implementing a maximum allowable cost provision for prescription drugs. The audit will assess whether CIGNA has effectively implemented these provisions providing the assurance that the claims paid are contractually accurate and reasonable

Key Risk Areas:

- Accuracy of claimed amount to health plan terms
- Confirmation of services provided
- Reconcile to amounts paid by CIGNA to providers based on its agreements
- Effective implementation of cost controls covering medical and prescription drug payments.

Internal Audits

Purchase Card Expenses – Department of Human Services, Economic Improvement Division and Child and Family Services

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. Internal audit has been performing analytical procedures over the past year and identified significant costs charged (over \$200 thousand per year) through Purchase Cards supporting the DHS clients of the Economic Independence Division, the Child and Family Services Division, and the Behavior Healthcare Division. The nature of the costs range from providing emergency housing for clients to travel and transportation costs for foster children. These costs present a higher risk due to the extent and variability on the type of costs and the potential subjective nature on the approval of such costs. Additionally, the approval for purchase card expenses are not as rigorous as invoice payments under approved purchase orders. An audit will evaluate the internal controls covering these PCARD expenses. The audit will also test compliance with State policies and applicable Grant agreements, DHS policy and procedures, and the appropriateness and reasonableness of expenditures.

Key Risk Areas:

- Compliance with State, County and DHS policies and procedures
- Compliance with any applicable Grant Agreements
- Appropriateness/reasonableness of expenditures
- Completeness of documentation to justify purchases

Monitoring Activities

Purchase Card Activity

The Internal Audit team performs continuous monitoring of purchase card transactions with the primary objectives to assist in identifying any misuse, misappropriation and/or potential fraud; identify opportunities to improve program effectiveness; and to ensure compliance with PCARD policies and procedures. PCARD transactional data is reviewed on a quarterly basis using data analytics to identify transactions for a detailed review. The review results of the transactions are summarized and corrective actions and process improvements, if any identified, are initiated real-time.

Other Audit Services

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.

Previously Completed Audits and In-Process

FY 2020 (some audits delayed due to COVID-19)

- 55 and Older Programs – In process
- Contract Compliance & Third Party Vendor Oversight – draft report stage
- Contract Compliance & Third Party Vendor Oversight – draft report stage
- Information Technology Governance and Risk Assessment - in process

FY 2019

- [Timekeeping Audit – Department of Human Services](#)
- [Contract Compliance – Department of Environmental Services – Facilities Design and Construction – Contract 16-368-RFP](#)
- [Server Inventory Audit – Department of Technology Services](#)
- [Contract Compliance – Department of Environmental Services – Facilities Design and Construction – Contract 17-223-RFP](#)
- Purchasing Audit – near completion
- Contract Compliance & Third Party Vendor Oversight – draft report stage
- [Employee Expense Reimbursement Audit](#)

FY 2018

- [Contract Compliance – Department of Environmental Services – Equipment Bureau – Contract 580-13](#)
- [Contract Compliance – Department of Environmental Services – Water, Sewer and Streets – Contract 17-108-ITB](#)
- [Timekeeping – Department of Environmental Services – Facilities Maintenance Bureau](#)
- [Digital Production and Mail Center – Department of Environmental Services](#)
- [Sole Source Purchases](#)
- [County Wireless Devices](#)
- [Fuel Card Program](#)
- [End Point Device Inventory](#)
- [Vendor Management, Contract Compliance – Department of Environmental Services – ART Bus Operations](#)

Previously Completed Audits

FY 2017

- [Funds Handling – Department of Human Services: Child and Family Services and Financial Management Bureau](#)
- [Grant Compliance – Department of Human Services: catalog of Federal Domestic Assistance #93.659 – Adoption Assistance](#)
- [Contract Compliance – Department of Environmental Services – Contract 16-234-ITB](#)
- [Purchase Card – Department of Libraries](#)
- [Purchase Card – Department of Environmental Services – Water Pollution Control Plant](#)
- [Purchase Card – Department of Environmental Services: Transportation Division](#)
- [Contract Compliance – Department of Technology Services – Contract 582-14](#)
- [Purchase Card – Juvenile and Domestic Relations Court](#)
- [Funds Handling – Arlington Economic Development: Cultural Affairs Division](#)
- [Grant Compliance – Police Department – Seized Assets – Catalog of Federal Domestic Assistance #16.922 – Equitable Sharing Program](#)
- [Affordable Housing Investment Fund \(AHIF\) Multifamily Housing Loan Portfolio](#)
- [Inventory of Assets valued at Less than \\$5,000 – Department of Parks and Recreation](#)
- [Inventory of Assets valued at Less than \\$5,000 – Dept. of Environmental Services – Water, Sewer, Streets and Water Pollution Control Bureaus](#)
- [Payroll and Timekeeping – Human Resources, Department, Fire Department, Police Department, Department of Environmental Services \(Water, Sewer Streets\), Department of Parks and Recreation \(Sports and Recreation Division\), and Public Safety Communications and Emergency Management](#)

Previously Completed Audits

FY 2016

- [Department of Real Estate Assessments Administrative Appeals Process Review](#)
- [Purchase Card Review – Office of Emergency Management](#)
- [Purchase Card Review – Department of Police](#)
- [Purchase Card Review – Department of Community Planning, Housing and Development](#)
- [Purchase Card Review – Department of Parks and Recreation](#)
- [Purchase Card Review – Department of Human Resources](#)

FY 2015

- [Purchase Card Review of the Department of Environmental Services – Facilities Management and Equipment Bureaus](#)
- [Contract Compliance – Contract 596-14](#)
- [Cash Collection and Handling – Department of Libraries – Central Library](#)
- [Cash Collection and Handling – Department of Parks and Recreation – 3700 Four Mile Run Drive](#)

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>