



PRINCE WILLIAM COUNTY

Prince William County, Virginia Internal Audit – Proposed Internal Audit Plan Calendar Year Ending December 31, 2020

December 10, 2019



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TRANSMITTAL LETTER



December 10, 2019

The Board Audit Committee of
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We hereby submit the proposed internal audit plan for calendar year (“CY”) ending December 31, 2020 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, and various department Directors to gain an understanding of their objectives and identified risks. 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 is to develop a proposed internal audit plan, the purpose of which is to provide 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. 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 with regard 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, department Directors, as well as the various departments and staff involved in assisting us with developing the proposed internal audit plan.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS



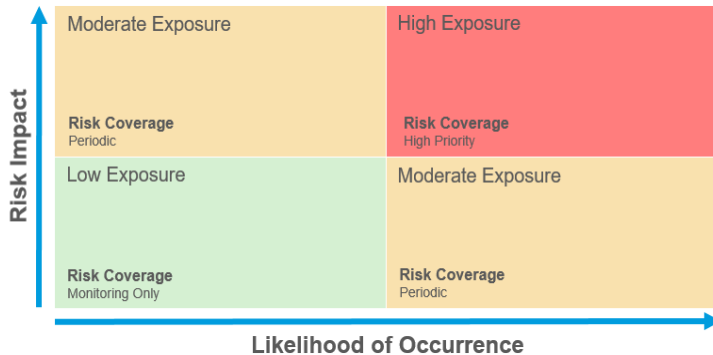
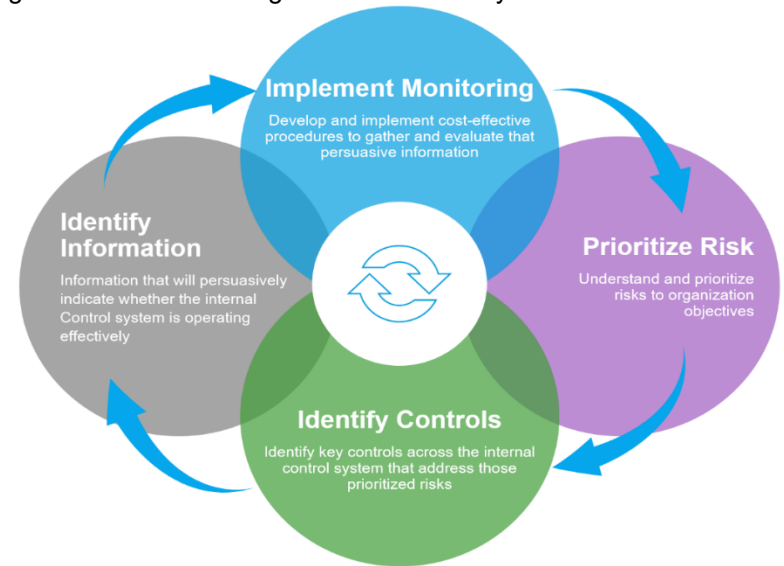
RISK ASSESSMENT METHODOLOGY

As previously noted, the objective of this risk assessment is to provide the County with a proposed internal audit plan that has 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 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, and various department Directors 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 2020, the fiscal year 2020-2025 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:

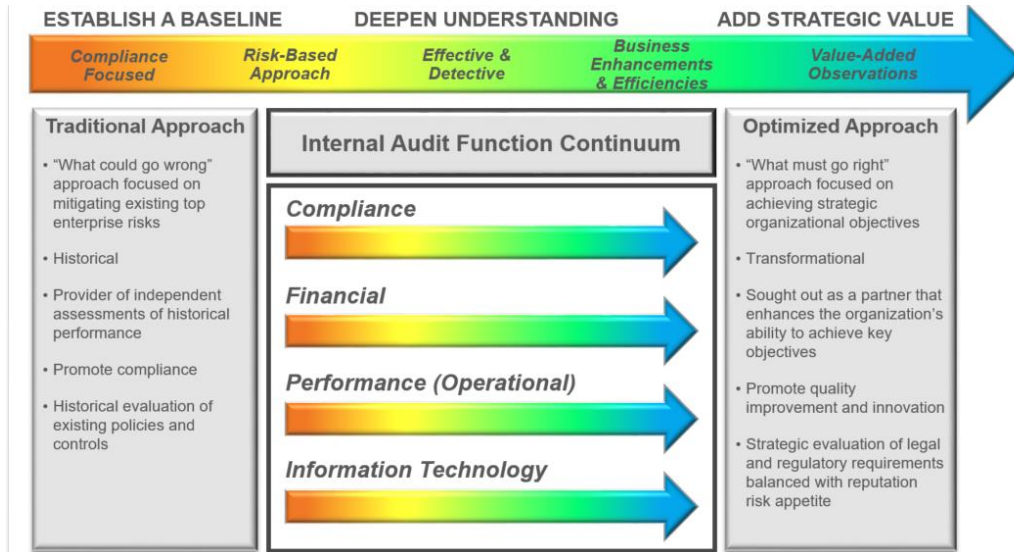
Control Environment	<ul style="list-style-type: none">• Demonstrates commitment to integrity and ethical values• Exercises oversight responsibilities• Establishes structure, authority and responsibility• Demonstrates commitment to competence• Enforces accountability
Risk Assessment	<ul style="list-style-type: 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.

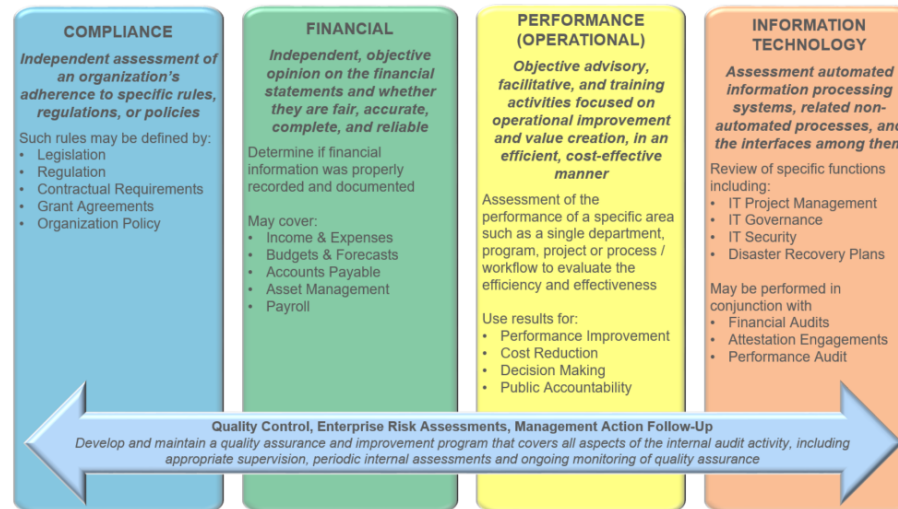


INTERNAL AUDIT CONTINUUM AND TYPES OF INTERNAL AUDITS

As an internal audit function develops and matures, the various types of audits performed will move through a lifecycle of the control environment in order 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.





CALENDAR YEAR ENDED DECEMBER 31, 2020 INTERNAL AUDIT PLAN – WORKING DRAFT

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 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.

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.

Follow-up Procedures

As required by the RSM Internal Audit Methodology, internal auditors should establish a follow-up process to ensure 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 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. 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 – WORKING DRAFT (CONTINUED)

The objective of this assessment is to provide the County with sufficient and continuous internal audit coverage of 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 be reviewed during CY 2020. There is a placeholder in the current proposed internal audit plan for a project 'to be determined' to allow for future coverage.

Boards, Committees, and Commissions – Phase 2

As part of the CY 2019 Internal Audit Plan, we completed the Prince William County, Virginia Internal Audit Report – Boards, Commissions, and Committees (BCCs) – Phase 1. The primary objective of the internal audit was to compile an inventory of the known County BCCs and evaluate the effectiveness of controls surrounding the administrative tasks to manage the BCCs, as well as to perform a high-level analysis of the County's BCCs as compared to a relevant County peer group. As a product of Phase 1, a second internal audit will be performed ("Phase 2") assisting the assessment of the overall effectiveness of each individual board, commission, or committee.

Inherent risks may include: Inactive/ineffective BCCs; and Damaged public perception of BCCs effectiveness.

Internal Audit Strategy:

The purpose of Phase 2 of this internal audit will be to evaluate the effectiveness of existing BCCs and provide support as described within the Management Action Plan within the Phase 1 Internal Audit report. During Phase 1, approximately 77 BCCs existed, ~38% of which were required by State or Federal regulation. We will assist in identifying non-required BCCs, which do not clearly support critical County operations. The identified BCCs will be prioritized for evaluation as part of the planned "BCC Refresh" which will provide consistency and transparency into the County's BCCs going forward.

Contract Compliance

Contract compliance encompasses all contractual agreements. It includes those activities performed from the time a contract has been executed until the work has been completed and accepted, payment has been made, and disputes have been resolved. Although certain aspects of the procurement function are centralized within Purchasing, many of the high-risk areas, such as, contract monitoring are decentralized to the individual departments/contract owners.

Inherent risks may include: Outdated, inadequate or undocumented policies, and procedures; Inadequate controls to detect fraud, waste and abuse; Inadequate segregation of duties; Non-compliance/improprieties with Code of Virginia and County policies for solicitation and procurement; Unreported conflicts of interest; Vendor favoritism; Non-performance of vendors; Inappropriate spending due to non-compliance with contract terms; Non-compliance and inconsistencies with policies and procedures; and Failure to meet select contract provisions.

Internal Audit Strategy:

The purpose of the internal audit will be to assess whether the system of internal controls is adequate and appropriate for effective contract compliance, with selected provisions of the contract as it relates to the procurement and payment for goods/services, management and administration of vendors and contracts, and assess the department's monitoring processes for opportunities for improvement. We will select a sample of high-risk contracts to test in detail for compliance with proper procurement, and agreement terms and conditions, including pricing and invoicing to the County, as well as adherence to any right to audit clauses and required insurance coverage, and other potential risks to the County as appropriate.



PROPOSED INTERNAL AUDIT PLAN – WORKING DRAFT (CONTINUED)

Data Mining/Analytics

The County's systems of record, such as Ascend, house a large amount of data and information related to the County's business and operations (ex. expenditures, payroll, etc.). Data Analytic and Data Mining tools can enable effective decision-making and optimization within almost any organization.

- Data analytics focus on identification and presentation of information related to specific activities within an organization (ex. trend analysis, categorical data, etc.). Data analysis tools allow the process for collecting and presenting information to be automated and consistently performed.
- Data mining utilizes available data to identify unknown relationships in data.

Inherent risks may include: Systems and applications are not configured appropriately to support data analytics and data mining (poor data quality); County data is not being utilized effectively to make business decisions; and Time and resources may be inefficiently spent manually analyzing and presenting data from County systems.

Internal Audit Strategy:

The purpose of the internal audit will be to assess quality of financial data generated and stored by the County and opportunities to employ tools, which enable data analytics and data mining. Common areas of opportunity for data analytics and data mining include expenditures, overtime, benefits, and others. Our procedures may include Assessing data quality for use in analytics; Designing key performance indicators ("KPI") and key risk indicators ("KRI") to support decision-making; and Integrating KPI and KRI design into data visualization tools to enable constant analysis of performance and risk. We will collaborate with the Department of Information Technology ("DoIT") to gain an understanding of system capabilities and tools currently utilized in the County (if applicable).

Fleet Management

Fleet refers to the vehicles owned and maintained by the County, and includes vehicles available for employees to use for travel between County sites and work vehicles required for technician use. There are shifting trends in public sector entities regarding the size and maintenance of a fleet for the organization. Public sector entities are analyzing the costs and benefits of traditionally maintained fleet vs the alternatives. Those alternatives include reimbursement of mileage, having vehicles 'pooled' or a combination of both. Rightsizing the entity's fleet could reduce public perception and financial risks, as processes could be streamlined to reimburse mileage, resources could be reallocated and inventories could be minimized.

Inherent risks may include: Outdated, inadequate or undocumented policies, and procedures; Inadequate controls to detect fraud, waste and abuse; Inefficiencies in vehicle assignments and usage; and Lack of controls in reporting and monitoring mileage and fuel in accordance with applicable authoritative standards.

Internal Audit Strategy:

The objectives of this audit would include: analysis of the County's current state with fleet management; financial analysis, including performance measures and comparisons; review and assess design and documentation of relevant variables necessary to facilitate fleet keep or drop decision-making; and develop a roadmap of actionable projects to align the organization with a desired future state.



PROPOSED INTERNAL AUDIT PLAN – WORKING DRAFT (CONTINUED)

Grant Management and Reporting

For the fiscal year ended June 30, 2018, the County reported more than \$129M in federal grant expenditures, across multiple agencies and departments. Examples include federal funding from the Departments of Health and Human Services, Homeland Security, Housing and Urban Development. In previous years, the County's external financial statement auditors issued management letter comments with respect to eligibility and/or allowable costs for various programs such as Medicaid Program Assistance, Section 8 Housing Choice Voucher Cluster Income Verification for fiscal years ended June 30, 2017 and 2018.

Inherent risks may include: Outdated, inadequate or undocumented policies, and procedures; Inadequate controls to detect fraud, waste and abuse; Inadequate segregation of duties; Inappropriate spending due to non-compliance with grant terms; Non-compliance and inconsistencies with policies and procedures; and Failure to meet select grant provisions.

Internal Audit Strategy:

The purpose of the internal audit will be to review the County's grants management processes and related controls for identifying, recording and tracking expenditures under applicable grants; as well as monitoring compliance with reporting requirements, and compliance with federal and state regulations, such as 2 CFR 200 for the use of federal funds. We will be tentatively selecting grants within Human Services as a result of prior years' management letter comments.

Independent Verification and Validation (IV&V) - HRM system

The County's Human Resource department ("HR") is implementing a new system of record, which will house the County's employee and payroll related information. As part of system implementations, IV&V is utilized to objectively verify that the system meets the stated requirements, specifications, or constraints; and determine whether the system achieves its intended purpose.

Inherent risks may include: System implemented operates ineffectively; 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:

The purpose of the internal audit will be to objectively assess the implemented HRM system to verify the product meets the stated requirements, specification or constraints; and validate the product achieves its intended purpose and meets the needs of the County.

Information Technology ("IT") Modernization Support

As part of the IT Infrastructure Modernization, Internal Audit's independent role will be to continue to provide subject matter professionals, separate from the core Internal Audit team, acting on an advisory basis including security assistance. We will have as needed touchpoints with the DoIT to discuss the status of the IT Infrastructure Modernization and provide assistance where needed. Status of the IT Infrastructure Modernization project will be reported to the Board Audit Committee on a periodic basis.



PROPOSED INTERNAL AUDIT PLAN – WORKING DRAFT (CONTINUED)

Senior Center

The County operates two Senior Centers: Manassas Senior Center and the Woodbridge Senior Center, providing recreation, exercise, nutrition, health, and wellness programs for persons 55 and older. The Senior Center program is managed by the Area Agency on Aging Department. As the result of a Prince William County Fraud, Waste and Abuse tip received during calendar year 2019, regarding the Woodbridge Senior Center, the Director of Area Agency on Aging completed an internal review. It was determined that controls related to ordering, inventory, disposal, and reporting of meal related goods were not operating effectively.

Inherent risks may include: Inadequate controls to detect fraud, waste and abuse; Inadequate segregation of duties; Outdated, inadequate or undocumented policies, and procedures; and Non-compliance and inconsistencies with policies and procedures.

Internal Audit Strategy:

The purpose of the internal audit will be to conduct a review of the controls, policies, and procedures surrounding meal related purchases at the Senior Centers. Since the Director has deemed controls ineffective, the focus will be on recommendations for improvement. We will perform additional procedures on-site as deemed necessary to appropriately assess the operations and control environment.

Transportation Operations

The mission of the Department of Transportation is to consistently improve the transportation network and meet the needs of the County's growing community. Their goals include easing the flow of traffic and improving travel with the County; providing transportation options for residents and visitors; and creating and maintaining safe travel conditions. In order to meet these goals, they work with a variety of local, regional, state and federal partners. In addition they management Capital Improvement Projects and work the BOCS to find effective solutions that resolve transportation issues. The approved FY 2020 expenditure budget is \$5M, which is 2.9% of the total Community Development budget

Inherent risks may include: Ineffective/inefficient transportation processes; Tarnished public perception due to ineffective processes in place; Un-realistic goals; Underperformance of existing operations.

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

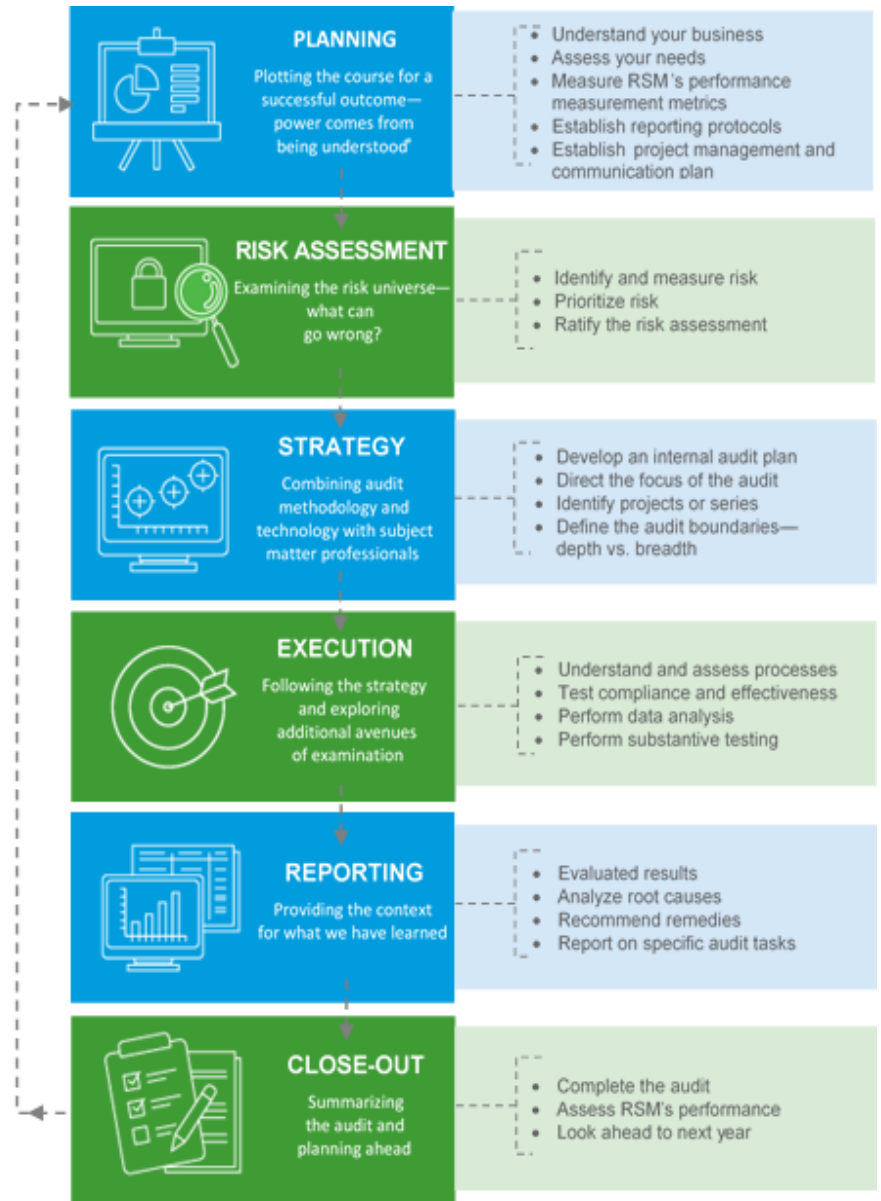



APPENDIX: INTERNAL AUDIT METHODOLOGY

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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