

# INTERNAL AUDIT

## DESCRIPTION

Internal Audit assists the County Manager and the Board of Supervisors by providing objective analyses, recommendations, advice and comments concerning those areas reviewed to ensure an appropriate level of control at a reasonable cost. Historically, the focus of Internal Audit has been on General Government as Education has had a separate audit function. However, in the FY2019-20 budget, Internal Audit services will include coverage of Education through consolidation of audit functions. To be effective, Internal Audit must maintain independence, and therefore reports directly to the County Manager and the County's Audit Committee. As a result of the consolidation, Internal Audit will also report to the School Board's Audit Committee and provide support to the Superintendent of Schools.

Internal Audit evaluates the adequacy and effectiveness of internal controls within County agencies and School operating divisions and examines the quality of performance of their operations for improvement of accountability. Assessing quality of performance includes (1) appraising the reliability and integrity of financial and operating information and the means to process data; (2) evaluating the sufficiency of compliance with significant plans, policies, procedures, laws and regulations; (3) ascertaining the adequacy of controls for safeguarding assets and, as appropriate, verifying asset existence; and (4) examining efficient use of resources and program accomplishments.

## OBJECTIVES

- Perform an annual risk assessment, identify areas of risk for audit, and conduct planned internal audits to evaluate controls, recommend workable improvements, and note commendable practices that can be shared with other agencies.
- Follow up on prior internal audits to determine that agreed-upon management action plans have been effectively implemented to address the risks identified during the audits.
- Assist with the County's annual external audit.

## FISCAL YEAR 2020 SUMMARY

### Annual Fiscal Plan

<u>Description</u>	<u>FY18</u> <u>Actual</u>	<u>FY19</u> <u>Original</u>	<u>FY20</u> <u>Proposed</u>	<u>Change</u> <u>19 to 20</u>
Personnel	\$ 431,717	\$ 440,758	\$ 627,485	42.4%
Operation	36,381	14,579	24,452	67.7%
Capital	0	0	0	0.0%
Total	\$ 468,098	\$ 455,337	\$ 651,937	43.2%

\*Personnel Complement 4 4 6 2

\*One position merged from Henrico County Public Schools and one additional position added.

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PERFORMANCE MEASURES

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>Change 19 to 20</u>
<b>Workload Measures</b>				
Audit Projects: Audits, Follow Ups, Consults	26	26	35	9
<b>*Efficiency Measures</b>				
Henrico County budget/audit position (mil)	\$ 167	\$ 173	\$ 221	48
Henrico County employees/audit position	1,025	1,030	1,882	852

\*FY18 and FY19 reflect only Henrico County General Government.

\*FY20 reflects both General Government and Henrico County Public Schools.

OBJECTIVES (CONTINUED)

- Advise County and School management, and the County’s and School’s Audit Committees on potential improvements in operations and results through technical assistance.
- Perform requested special audits and follow up on issues raised through the fraud reporting mechanisms and recommend corrective action as required.
- Administer office activities for continuous professional education, training, and skills development, ensuring excellent quality and adherence to independent auditing with integrity.

BUDGET HIGHLIGHTS

The County Manager and Superintendent of Schools support the consolidation of Internal Audit functions in FY20 in conjunction with the retirement of the director responsible for Education’s separate audit function. This consolidation allows both entities to leverage resources, audit skillsets, and minimize redundancy. With this consolidation, existing personnel costs associated with Education’s remaining auditor and some existing operating costs historically included in the Education budget (totaling \$95,992) have been moved to the Internal Audit budget. Additionally, funds totaling \$82,140 personnel and \$2,448 operating have been allocated for an additional auditor position with corresponding operating costs to facilitate audit coverage.

The auditing environment has become increasingly complex and challenging as the County and its agencies implement additional technology and as regulations and accounting requirements are continuously changing. To meet these challenges and provide quality audit results, Internal Audit uses enhanced auditing software in all of its audits to better examine activity in a cost-effective manner. The department pays annual software licensing costs to maintain current versions and vendor support for these tools. In addition, the department requires all staff to maintain professional certifications and provides annual continuing education to stay current with requirements, business risks, and the latest audit techniques. The software licensing costs as well as the continuing education costs are the two largest components of the operating budget for Internal Audit.

As the majority of the department's budget (97%) consists of personnel costs, service levels will continue at current levels on General Government audits, special projects and follow ups while also expanding to ensure similar coverage continues at Schools. Internal Audit conducts an annual survey and finalizes a risk-based planning assessment to

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select and perform routine audits of the effectiveness of controls in a number of areas. The goal of the audit planning process is to select auditable areas of risk in the major General Government operating segments each year -- Administration, Community Services, Community Development, Community Operations, and Public Safety. Audits will also be selected from the Schools' operating divisions.

The department manages the County's webpage and telephone hotline which allow citizens and employees to report concerns of potential government fraud, waste, and abuse. These resources may generate additional special projects. Technical assistance will be provided to County agencies and School divisions as requested. The department also assists the County's external auditors with the required annual financial and compliance audits to help control those costs.

Some of the internal audits conducted by the department in FY2018-19 included receipts and/or expenditures in the Police Division, Juvenile Detention, and Information Technology; telecommunication billings; and a post-implementation review of Finance's new cashier system.

Internal Audit's budget of \$651,937 represents an increase of \$186,727 or 42.4 percent over the FY2018-19 approved budget. This increase is driven by the personnel component and reflects the results of the consolidation with Education's separate audit function including a transfer of costs for one auditor as well as the addition of one auditor. For existing staff, the increase also reflects the FY19 salary increase, removal of projected vacancy savings, and the rising costs of health care benefits. The increase in the operating component also relates to the transfer and addition of corresponding costs related to new staff as a result of the consolidation effort.