
Office of County Executive: Office of Internal Audit

FY 2010 LOBS Presentation

December 1, 2008





LOBS Summary Table:

FY 2008 Adopted Budget Plan Data

<i>Number</i>	<i>LOB Title</i>	<i>Net LOB Cost</i>	<i>LOB Number of Positions</i>	<i>LOB SYE</i>
02-01	Administration of County Policy	\$2,800,428	19	19.0
02-02	Internal Audit	\$1,173,573	12	12.0
02-03	Equal Opportunity Enforcement	\$680,963	8	8.0
02-04	Alternative Dispute Resolution (ADR) Mediation and Pay for Performance Appeals Panel	\$121,718	1	1.0
02-05	Public/Private Partnership Development	\$3,198,573	14	14.0
02-06	Community Revitalization and Reinvestment	\$0	0	0.0
TOTAL		\$7,975,255	54	54.0

The applicable LOB for our office 02-02, Internal Audit, is included within the above table under the Office of the County Executive.

Who We Are

The Internal Audit Office consists of 12 full-time staff, as follows:

- u1 1 auditors
- u1 Administrative Assistant V

In addition, we have two exempt limited term positions:

- u1 part-time Auditor III
- u1 part-time Administrative Assistant II

Our auditors have an average of 18 years of experience. Professional certifications held include: Certified Internal Auditor, Certified Public Accountant, and Certified Information Systems Auditor.

Services Provided by Internal Auditors

“Auditing is essential to government accountability to the public. Audits and attestation engagements provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the audit.”¹

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”²

Source: 1 - United State Government Accountability Office

2 - Institute of Internal Auditors

Mission Statement



The mission of the Internal Audit Office is to provide independent and objective assurance and management advisory services. We seek to proactively identify risks, evaluate controls, and make recommendations that will strengthen county operations.

(The focus of our work directly relates to the county vision element for Corporate Stewardship.)

Who We Serve



Our customers include all county agencies.

Performance Element: Internal Audit will perform audit work in at least 25% of county agencies per year.

Results: For each of the last 5 years we have exceeded our goal by at least 50%.

Agencies We Partner With Include:

- u Department of Purchasing and Supply Management
- u Office of the Financial & Program Auditor
- u Department of Human Resources
- u Department of Finance
- u Police Department
- u Department of Information Technology – Information Security Office

How We Assess Risk

INPUT: Yearly countywide risk assessment process

ANALYSIS: Determine areas with elevated risks and areas where audits can provide improved internal controls, cost savings, revenue enhancement, and increased efficiency

RESULT: Annual Audit Plan

What We Do

The Internal Audit Office was established by the Board of Supervisors in fiscal year 1982. Audits are conducted in accordance with Government Auditing Standards.

Internal Audit projects include:

- u Operational Audits
- u Procurement Card Audits
- u Information Technology Audits
- u Management Advisory Projects
- u Follow-up Reviews

What We Do

Internal Audit projects include:

- u Contract Related Projects
 - Architect & Engineer (A&E) Reviews
 - Pre-Award Reviews
 - Financial Analysis Reviews
- u Fraud Allegations
- u Ethics Questions and Allegations
- u Systems Development Life Cycle (SDLC) Participation
- u Training/Raising Awareness About Risk, Internal Controls, Fraud & Ethics

Benefits of What We Do

- u Internal audits and management advisory projects provide:
 1. Independent, objective assessments of risk, controls, and compliance
 2. Transparency of county operations
 3. Fraud deterrence

- u Audit report recommendations lead to:
 1. Enhanced controls over processes, programs, and functions
 2. Increased efficiency and effectiveness of county operations, and cost savings and revenue enhancement
 3. More effective management decision making

- u Training efforts lead to increased knowledge and awareness of county staff.

- u Financial reviews lead to cost savings and provide management with an assessment of financial stability.

Awareness & Prevention Benefits

In organizations where there was not a fraud hotline and fraud awareness training was not conducted, the median fraud loss was \$200,000, which was twice as much as at those organizations that did have a hotline and training.¹

1 – American Society of Certified Fraud Examiners -
Report to the Nation on Occupation Fraud and Abuse

Financial Benefits from Architect & Engineer Reviews

- For fiscal years 2007 and 2008 we completed an average of 27 A&E reviews. Audit recommendations implemented over the life of these contracts will result in savings of over \$640,000.
- For FY09 through September, we performed eight A&E reviews, and implemented savings recommendations will save the county more than \$1.1 million.

Agency Growth Since FY 2001



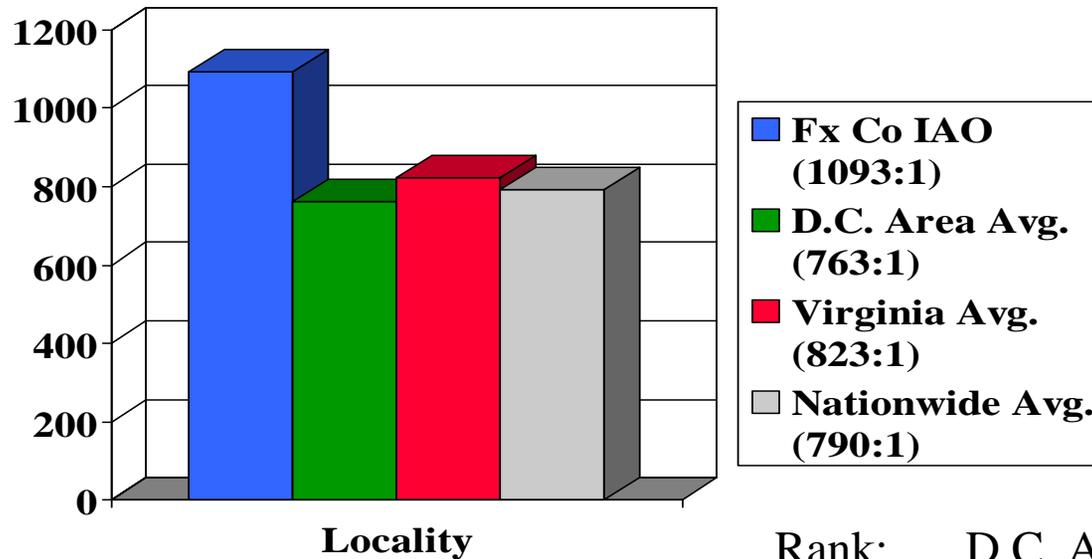
- u FY 2009: \$1.2 million, FY 2001: \$0.8 million
an increase of \$0.4 million or 39.51% and an average
annual increase of 4.25%
- u FY 2009: 12/12.0 Positions/SYE, FY 2001: 11/11.0
Positions/SYE an increase of 1/1.0 SYE
- u Our office has grown by one auditor position over the past
eight years which reestablished the level of staffing at the
amount prior to staffing cuts in the mid-90s. The office
total remains two positions less than its peak total of 14
back in the early 90s.

Benchmarking: Staffing Size of Internal Audit Office vs. Other Localities

Our office conducted a survey covering 51 city and county internal audit offices throughout the nation. Included in the survey participants were 6 jurisdictions in the Washington, D.C. metropolitan area and 11 in the state of Virginia.

Audit Staffing Benchmarks

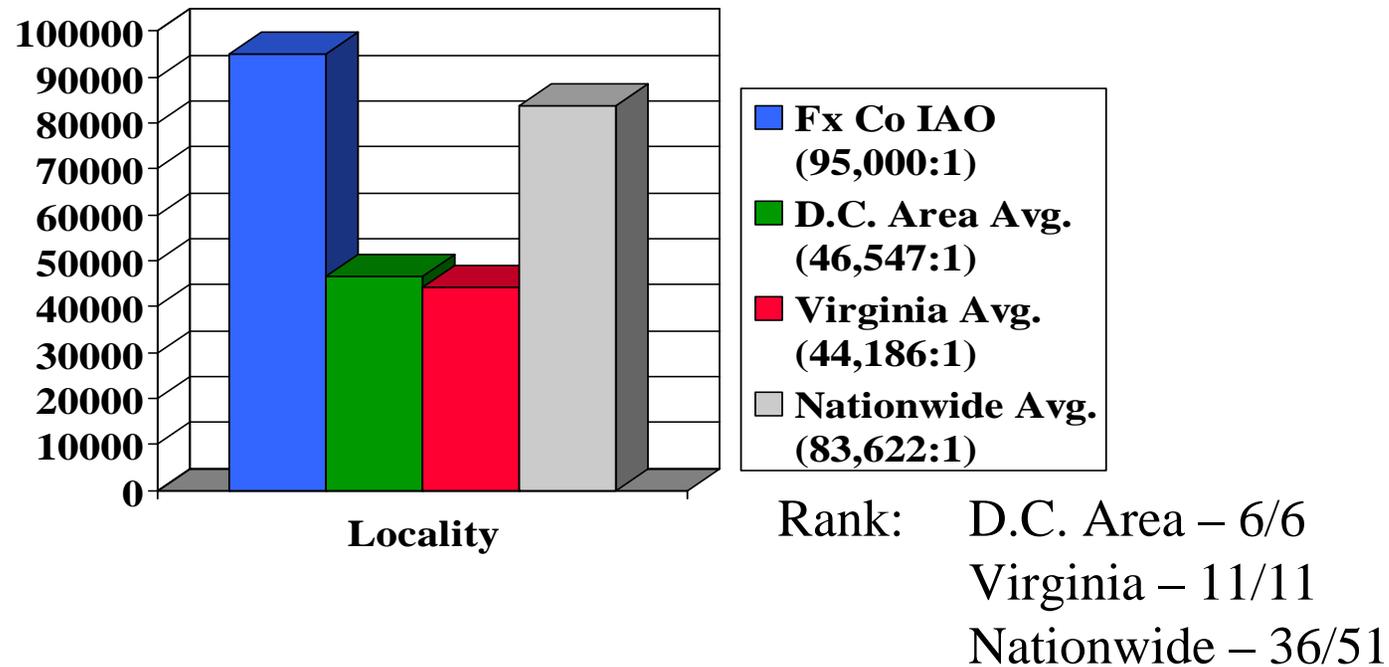
Number of County/City Employees Per Auditor



Rank: D.C. Area – 5/6
Virginia – 11/11
Nationwide – 39/51

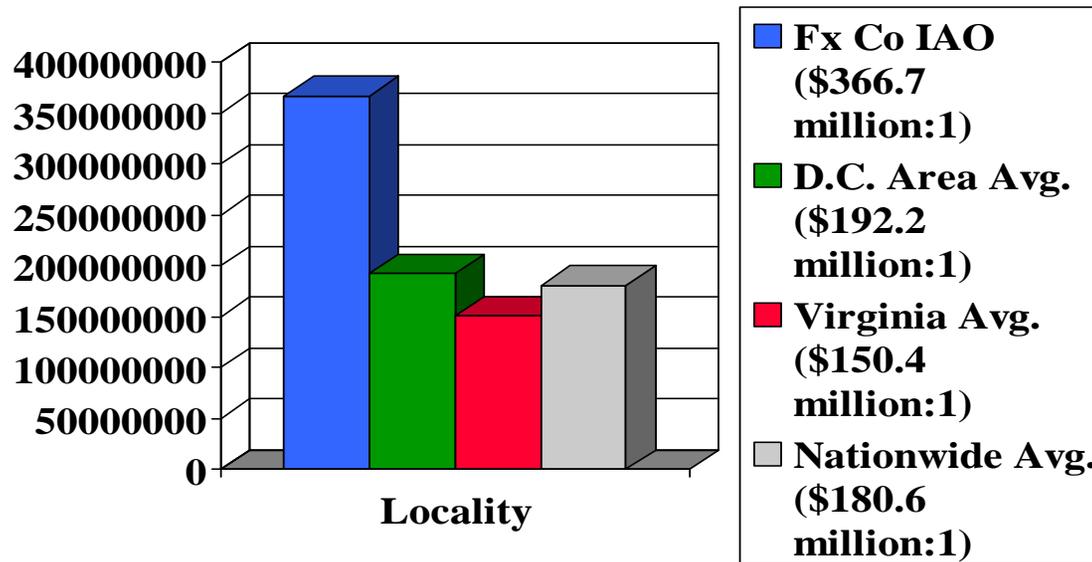
Audit Staffing Benchmarks

Number of Citizens Per Auditor



Audit Staffing Benchmarks

Locality Budgeted Dollars Per Auditor



Rank: D.C. Area – 6/6

Virginia – 11/11

Nationwide – 45/51

New Program Areas Since FY 2001



- u Created Fraud Hotline and a program for receiving and tracking allegations and investigations
- u Oversight of county Code of Ethics
- u Began to teach county courses dealing with financial management and information technology controls
- u Developed Internal Audit Office InfoWeb site
- u Perform financial reviews of human services and housing agency contractors

Agency Strategic Focus

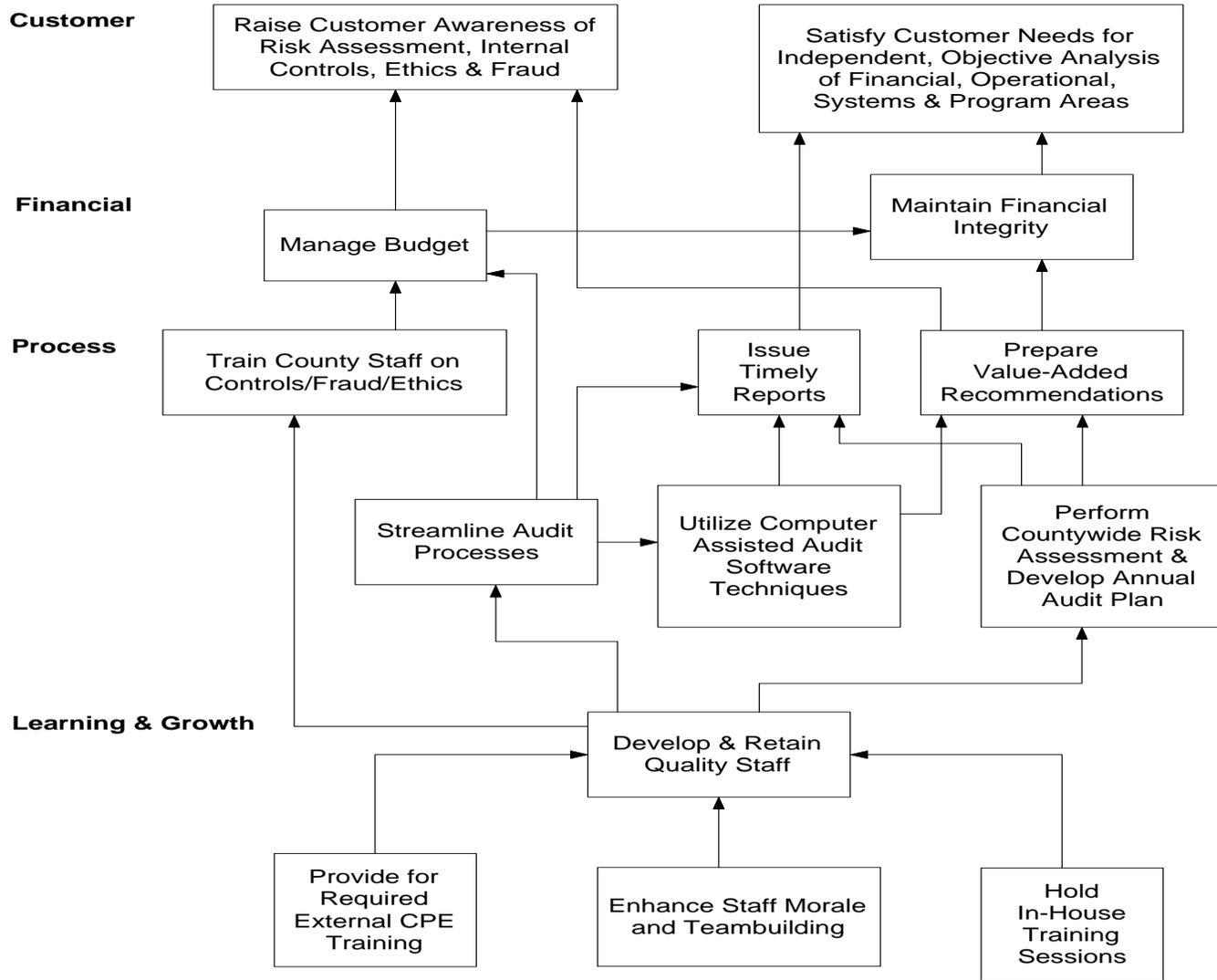


Vision Statement

Our vision is to be known for providing superior internal audit services and to provide them in a value added, best practices manner.

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- u Initial strategic plan was developed in fiscal year 2004 and was revised in 2008.
 - u The Internal Audit Office's strategic focus is to provide our customers with:
 - 1) Independent, objective analyses of financial, operational, systems, and program areas
 - 2) Training resources for risk, controls, fraud, ethics, and financial reviews

Internal Audit Office - Strategy Map



Challenges

- u **Decentralized Business Processing in the Following Areas:**
 1. Human resources
 2. Accounts payable
 3. Accounts receivable
 4. Procurement
 5. Information technology management
 6. Information security

- u **P-card program expansion:** Transaction volume has grown from 51,000 to 113,000 since 2001 and the cumulative dollar totals has increased from \$8.942 million to \$37.676 million per year.

- u **Information Technology:** Growth in financial and sensitive electronic data increases risks relating to data integrity, reliability, security, and privacy of communications and business transactions, as well as contingency planning.

- u **Regulatory Compliance:** Compliance with federal, state and county regulations such as the Health Insurance Portability and Accountability Act (HIPAA), IRS regulations, the Virginia Records Act and the Fairfax County Information Technology Security Policy.

Areas That Can't Be Performed at Desired Levels

- u Given current staffing levels we are unable to perform p-card, operational, and IT audits at desired frequency or scope levels.
- u Workload increases from additional responsibilities in the areas of fraud, ethics, and financial reviews result in delays in getting Annual Audit Plan projects completed and reports issued in as timely a manner as desired.

Agency Reduction Priorities

Reduction Philosophy



- u Our budget includes two areas, operating funds and personnel costs. Our operating budget is 3.6% of our total budget and; therefore, our LOB reductions require a significant cut in personnel costs, resulting in the potential loss of two full-time and two part-time positions. Cuts in audit personnel directly affect our ability to complete audit projects and to perform them in a timely manner.
- u Our approach in determining the priority of cuts for reduction was to begin with the support staff ELT position and then add the part-time ELT Auditor III position. As we began to eliminate professional auditor positions, we would be able to reduce a portion of our operating budget which is tied to training and certification requirements relating to the Government Auditing Standards which our office follows. We then chose to balance the remaining cuts of full-time merit staff between the two auditor classifications within our office. The Auditor III position was selected to be cut first, as our IS Auditors generally are multi-functional and can perform operational audits as well as detailed technical systems reviews. They are also utilized to assist in extracting and examining financial and operational system data during audits of county processes and functions.

Agency Reduction Priorities

Reduction Summary

Priority Ranking	Reduction Description	Positions	SY E	Net Reduction
1	Eliminate funding for part-time Administrative Assistant II position	0	0.0	\$17,529
2	Eliminate funding for part-time ELT Auditor III position	0	0.0	\$36,185
3	Reduce operating budget	0	0.0	\$4,977
4	Eliminate one Auditor III position	1	1.0	\$70,599
5	Eliminate one IS Auditor position	1	1.0	\$58,800
TOTAL REDUCTION		2	2.0	\$188,090

LOBS Reduction Impact



Reduction 1: Elimination of part-time ELT Administrative Assistant position. (\$17,529)

LOB #02-02 Internal Auditing

The impact of losing the part-time ELT Administrative Assistant II (20 hours per week) is that our support staff would be cut by 33%. Areas affected would be audit setup and report preparation, payroll processing, database entry, Fraud Hotline and Ethics Help Line processing, office supply inventory and ordering, and other general administrative office duties. By cutting this position, duties would have to be picked up by the Administrative Assistant V, with some duties also spread among our auditors, as well. This would result in lessening our productivity and leading to fewer audits and less timely completion of assignments. We estimate that 1 less audit would be able to be performed, and that staff would be able to complete 4 fewer follow-up reviews per year.

LOBS Reduction Impact



Reduction 2: Elimination of part-time ELT Auditor III position. (\$36,185)

LOB #02-02 Internal Auditing

The impact of losing a part-time ELT Auditor III position (20 hours per week) is that our ability to complete as many audits, to perform audit work in as many agencies, to have as many audit recommendations, and to perform projects in a timely manner would be affected. As a result of reducing the number of staff auditors by 6%, our production would be directly affected in a proportionate manner. We would be able to complete 1.2 less projects per year and would perform audit work in 2.5 fewer agencies per year. Overall recommendations for improvement would be reduced by 6 per year, and due to the variety and timing of audit assignments received, ability to perform audits in a timely manner would be reduced.

LOBS Reduction Impact



Reduction 3: Reduction in operating expenses. (\$4,977)

LOB #02-02 Internal Auditing

The reduction in character 30 funds would mean less funding available for continuing professional education training for staff, which is a factor in allowing our office to note that audits are performed in compliance with generally accepted government auditing standards, and could also result in our audit staff having less proficiency. We estimate that our staff training would be cut by \$4,500, or approximately 7 courses per year, with an additional \$477 cut in operating expenses such as supplies, certification fees, and mileage costs for auditors to perform on-site test work at various county locations.

LOBS Reduction Impact



Reduction 4: Elimination of Auditor III position. (\$70,599)

LOB #02-02 Internal Auditing

The impact of losing a full-time Auditor III position is that our ability to complete as many audits, to perform audit work in as many agencies, to have as many audit recommendations, and to perform projects in a timely manner would be affected. As a result of reducing the number of staff auditors by 12%, our production would be directly affected in a proportionate manner. We would be able to complete 3 less projects per year and would perform audit work in 5 fewer agencies per year. Overall recommendations for improvement would be reduced by 12 per year, and due to the variety and timing of audit assignments received, ability to perform audits in a timely manner would be reduced.

LOBS Reduction Impact



Reduction 5: Elimination of IS Auditor position. (\$58,800)

LOB #02-02 Internal Auditing

The impact of losing a full-time IS Auditor position is that our ability to complete as many audits, to perform audit work in as many agencies, to have as many audit recommendations, and to perform projects in a timely manner would be affected. As a result of reducing the number of staff auditors by 12%, our production would be directly affected in a proportionate manner. We would be able to complete 3 less projects per year and would perform audit work in 5 fewer agencies per year. Overall recommendations for improvement would be reduced by 12 per year, and due to the variety and timing of audit assignments received, ability to perform audits in a timely manner would be reduced.

Summary of LOBS Reduction Impact



Reduction: Eliminate 2 full-time merit and 2 part-time positions, and reduce operational spending.

LOB #02-02: Internal Auditing

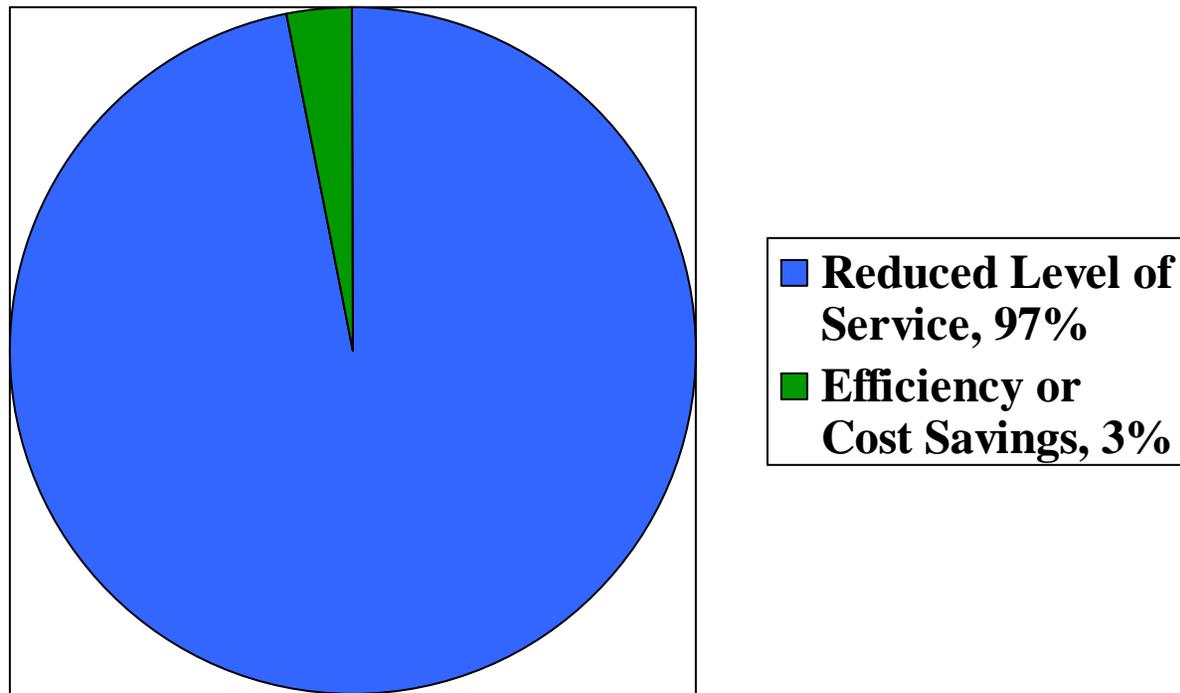
- u The total net reduction and position reduction of a 15% LOB reduction is: \$188,090, with personnel reductions of 2 merit positions and 2.0 SYEs.
- u Impact of LOB cuts: The LOB cuts would directly affect the number of audit projects completed and the timeliness of completion of audits, management advisories, financial reviews, and investigations. We estimate that a 23% cut in the number of auditors would result in completion of 8.2 fewer audits, performing work in 12.5 fewer agencies, and making 30 less audit recommendations for improvement.

On-site audit work can have a positive deterrence effect in reducing fraud and ensuring that controls are adhered to. By cutting the number of audits performed and the amount of agencies audited, our visibility would be reduced and this deterrence would be weakened.

To maintain the quality of our audits and continue to place resources and emphasis in reviewing areas highlighted by our risk assessment process and included in our Annual Audit Plan, areas that would be considered for elimination include our involvement in the ethics and fraud areas. Consideration would be given to reduce our role in the Code of Ethics oversight process, specifically operating the Ethics Help Line, coordinating answers to ethics questions, and performing investigations of allegations of ethical violations as they arise. In addition, our ability to continue with our role in oversight of the county's Fraud Policy and the investigations that are frequently performed would be considered for elimination.

Agency Reduction Priorities

Reductions by Classification



* No elimination of programs for this agency

Questions and Answers

