

# **Department of Internal Audit**

## **History**

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### **Our Mission**

Improve accountability within General Government.

### **Office Goals**

1. Review for proper safeguarding of General Government assets.
2. Examine for compliance with relevant laws and regulations.
3. Audit for reliability and integrity of County information.
4. Evaluate for effective and efficient operations.

### **Office Objectives**

1. Conduct scheduled Internal Audits to evaluate controls, note commendable practices and recommend workable improvements; assist with External Audit of Independent Auditor.
2. Audit Special Projects for corrective actions as required.
3. Follow Up on prior Audits to determine complete, monitored and effective implementation of agreed upon recommendations.
4. Advise and consult with County Management for improvements in operating efficiencies, effectiveness and results.
5. Administer Office activities for continuous training and skills development, excellent quality and adherence to independence with integrity; staff Audit Committee.

### **History**

The Board of Supervisors established the Internal Audit function in 1978 as an independent appraisal activity to examine and evaluate County operations as a service to the Board and management. Internal Audit reports to the County Manager but has unrestricted access to the County's Audit Committee which consists of two members of the Board of Supervisors and the County Manager. These reporting relationships ensure Office independence, promote comprehensive audit coverage and assure adequate consideration of audit recommendations.

The need for the creation of an internal auditor position was first recommended by the County's external auditors in 1976. (See appendices for letter from County Manager, Frank Faison, to the Board of Supervisors referencing a recommendation by Mitchell, Wiggins & Company, Certified Public Accountants.) When the function was established on May 10, 1978, by unanimous vote of the Board of Supervisors by Board Paper #313-78, it consisted of a single position that made up the Internal Audit and Control Section of the Department of Finance. The first priority was given to certain revisions of the

County's financial procedures. John A. (Jack) Spooner was the first Internal Auditor. He served from October 1, 1979 to February 2, 1988.

The Audit Committee was created by the Board of Supervisors on January 26, 1983 during a Board Work Session to help find ways the County could reduce expenses. Three supervisors were appointed to form the Committee based on recommendations from the external auditors, Coopers & Lybrand. The external auditors also recommended an improved internal auditing system, including distribution of the internal auditor's reports to the County Manager and Supervisors. (See appendices for newspaper article excerpt.). The Internal Auditor then reported to the three-supervisor committee with his previous bosses (Deputy County Manager for Finance and Administration and Assistant Deputy Director of Finance) serving as liaisons.

In 1986, a separate Agency was established with 2 positions. The Internal Auditor position was retitled to Director of Internal Audit and a separate Auditor position was added. In 1987, a third position was added. During Mr. Spooner's tenure a separate Internal Auditor position was established for the Henrico County Public Schools and there was some consideration of whether the position should have been added to the staff of the existing department.

At some time between 1983 and 1988, the Audit Committee changed to four members (two board members, the County Manager and the Director of Finance). The Internal Auditor's reporting relationship changed so that it reported directly to the County Manager administratively along with a requirement to report internal audit activities to the 4-member Audit Committee.

By November 1988, the Director of Finance was dropped from the Committee and the current 3-member composition was established as documented in the Statement of Purpose and Internal Audit Charter. The Statement of Purpose defined the functioning of the Committee. The Internal Audit Charter provided for the purpose, authority, and responsibilities of the Internal Audit Office. Both documents were signed and dated November 23, 1988. (See Appendices for latest versions.) The Audit Committee functioned from appointment by the County Manager rather than as an official Board Committee.

On August 25, 1992, the County Manager issued a memo to Department Heads and Key Officials outlining procedures to be followed in those exceptional instances when a Department Head disagrees with the recommendations of the Internal Auditor and assumes responsibility for not complying with the recommendations made in the auditor's report. (See Appendices.)

In 1992, the Auditor position was retitled to Auditor I and a new Auditor II classification was established with 2 positions. In 1993, the Bingo Auditor was temporarily assigned to the Office from the Finance Department. The Bingo Auditor was later transferred to the Police Division in 1994. Also in 1994, an Office Assistant II Part-time position was added to the Office but was never filled. The position was abolished/deleted from the

complement as part of the County Manager's Rightsizing Directive in 1996. During February 1999, the two Auditor II positions were promoted to a new classification of Senior Auditor.

On May 13, 1998, the Audit Committee agreed to post a listing of issued Internal Audit Reports on the County's website. The site indicates that individuals interested in obtaining a copy of any of the reports should contact Internal Audit specifying the report and providing their mailing address.

In 1999, the County Manager recommended and the Board of Supervisors approved a new position of Information Technology Senior Auditor starting in FY2000.

In 2002, the Office hosted a delegation from China whose goal was to ascertain the differences between American and Chinese auditing systems and policies, audit planning processes, audit management, and governmental audit risk management. During that year, the Senior Auditor positions also had a title change to Auditor III. A unique Senior Auditor classification was created for staff with financial and technology designations plus a number of years of experience.

In 2003, the Office implemented third-party software, AutoAudit, to improve management of audit documentation, workflow, time tracking, reporting, and documentation and assessment of the universe of all potential audits. The Office has also implemented ACL software to facilitate more robust and comprehensive data analysis.

The Commonwealth of Virginia and other localities recognized the week of May 23-29, 2004 as Internal Auditor Week. The County's Board of Supervisors presented a proclamation in recognition of the week and saluting the Office and the Central Virginia Chapter of the Institute of Internal Auditors for service to the County and community. (See Appendices.)

In 2004, the Office began to look for ways to streamline the audit reporting process. The Office began to use PowerPoint briefings for some of the Audit Reports to help offer a more focused presentation with less verbiage than the longer detailed written report format that had been used to date. The briefings were designed to save time in drafting and reviewing reporting. Separate PowerPoint briefings were already being created to review audit reports with the Audit Committee so the transition to reporting in this format was designed to help use one document for both purposes.

The Internal Audit Charter and the Audit Committee's Statement of Purpose were last revisited and approved by the Audit Committee Members in July 2005.

In 2006, the Office launched web pages on the County's internet site that allow employees and the general public to report potential fraud, waste, and abuse issues, anonymously if desired, to Internal Audit. This forum for reporting issues is publicized through bulletin board flyers around the County and a notice is run periodically on the

County's TV channel. The County Manager has also issued memos encouraging individuals to contact his office or the Internal Audit Office directly. The Office responds to each of these potential issues and provides updates to the Audit Committee on all issues received.

Over the years, the Office has strived to follow professional auditing standards. The Office has selected audit areas based on internal risk assessments with input from employee surveys, reports received regarding potential waste/abuse, or special requests from management. The Office has issued numerous reports to management containing recommendations for improvement of internal controls in a wide range of areas including compliance with policies, laws, and regulations; and security of systems. (See the Appendices for a listing of some of the most recent reports issued.) The Office follows up on the management action plans created in response to audit reports to determine that planned actions have been completed. The Office has assisted the County's external auditors with certain tests related to the annual financial statement audit and has generally contributed at least 200 hours of staff time to that effort. Additionally, the Office has produced electronic newsletters ("Audit News") to share tips on commendable control practices that have been observed and to highlight issues that Agencies should consider as it relates to their own operations.

As of fiscal year 2011, the Office has 4 total positions, with no support Staff and operates on a total personnel and operating budget of \$376,385. All staff members hold relevant professional certifications such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), or Certified Information Systems Auditor (CISA) which require annual continuing professional education to maintain technical skills. All staff are also members of and actively participate in professional groups such as the Virginia Local Government Auditors Association (VLGAA); the Association of Government Accountants (AGA); the Association of Local Government Auditors (ALGA); the Central Virginia Institute of Internal Auditors (IIA); ISACA (formerly known as the Information Systems Audit and Control Association); the Virginia Society of Certified Public Accountants (VSCPA); the American Institute of Certified Public Accountants (AICPA); and the Association of Certified Fraud Examiners (ACFE) to keep current with industry trends and other professional requirements and standards.

As active members of professional associations, the Office has also been the host of professional education conferences for local governmental auditors and assisted with hosting the 2004 Conference of the National Association of Local Government Auditors (now ALGA) in Richmond on May 24<sup>th</sup> and 25<sup>th</sup>.

Hosted Conferences have included:

- VLGAA Fall Conference, October 19, 1990
- VLGAA Fall Conference, October 21, 1994
- VLGAA Fall Conference, October 17, 1997
- VLGAA Fall Conference, October 5, 2001
- VLGAA Roundtable, October 3, 2003
- NALGA Conference, May 24-25, 2004

- VLGAA Fall Conference, October 17, 2007
- Joint AGA & VLGAA Conference, May 24, 2008
- VLGAA Fall Conference, October 1, 2010

**Historical Staffing Facts**

<u>Directors of Internal Audit</u>	<u>Term</u>
John A. Spooner, CPA	10/1/79 to 2/2/88
Garland A. Adkins, Jr., CPA	2/17/88 to 11/14/90
Gary L. Martin, CPA, CGFM	1/16/91 to 4/30/09
Vaughan G. Crawley, CPA, CISA	6/8/09 to present



Auditors Sharon Thornton, Sharon Wade, Gary Martin, Joyce Aikor-Richardson (l-r)



Chinese Delegation Visit: Pictured include County Manager, Virgil Hazelett and auditors David Hubley, Judy Davis-Poore, and Gary Martin.

## **Audit Committee Historical Facts**

- Membership composition is confirmed at the beginning of each calendar year in a work session with the County Manager
- Meetings:
  - Currently 4 – 5 times per calendar year
  - Annual meetings scheduled in spring for review of the external auditor's planning for the fiscal year financial statement audit and in the fall at the conclusion of the external audit to receive/review the report of the auditors
  - Other meetings scheduled as necessary to review results of recently issued internal audit reports and to cover any other topics.
- Began reviewing internal audit report results as far back as at least 1988

Members have included:

- Virgil R. Hazelett, P.E., Chairman (County Manager) (1992- present)
- James B. Donati, Jr., Varina District Supervisor (1992? - present)
- Patricia S. O'Bannon, Tuckahoe District Supervisor (2005 – present).
- David A. Kaechele, Three Chopt District Supervisor (-1988-1992?; 1995 – 2005)
- John A. Waldrop, Jr., Fairfield District Supervisor (1992? – 1995)
- Richard W. Glover, Brookland District Supervisor (1988-1992?)
- William F. LaVecchia, P.E., AICP, County Manager (1984? – 1992)
- Frank A. Faison, County Manager (198x – 1984?)
- J. Larry Dixon, Brookland District Supervisor (1983 – 198x)
- Anthony P. Mehfoud, Varina District Supervisor (1983 – 198x)
- L. Ray Shadwell, Jr., Tuckahoe District Supervisor (1983 – 198x)



COMMONWEALTH OF VIRGINIA  
COUNTY OF HENRICO

May 5, 1978

FRANK A. FAISON  
County Manager  
076-747-2206



Board of Supervisors  
County of Henrico  
Virginia

Gentlemen:

It is recognized that all departments within the County administration are in need of procedural review. However, it is believed that first priority should be given to certain revisions of our financial procedures.

The administration feels that the quickest and most effective method of accomplishing this goal is for the establishment of a new position of Internal Auditor to be filled by a technically qualified accountant to report directly to the Director of Finance.

This recommendation was recognized by the County's external auditors, Mitchell, Wiggins & Company, Certified Public Accountants, in July 1976. In a letter dated July 8, 1976, addressed to the Board of County Supervisors (copy enclosed) this CPA firm pointed out the need for the creation of this position.

Attached is background information for your review relative to this matter. There will be a board paper on the agenda for the May 10, 1978, meeting of the Board requesting a change in composition of the Department of Finance.

Cordially,

Frank A. Faison  
County Manager

bcc:  Personnel Officer

# Proclamation



OF THE BOARD OF SUPERVISORS OF HENRICO COUNTY, VIRGINIA

## INTERNAL AUDITOR WEEK

MAY 23 - 29, 2004

**WHEREAS**, internal auditors play an essential role as independent, objective professionals who add value to organizations; and

**WHEREAS**, internal auditors accomplish their objectives by bringing a systematic, disciplined approach to evaluating and enhancing the effectiveness of risk management, control, and governance processes; and

**WHEREAS**, internal auditors analyze and monitor important issues, such as risk and control, governance processes, reliability and integrity of information, and compliance with policies and regulations; and

**WHEREAS**, internal auditors synthesize information and advise organizations and management on what they can do to maintain, correct, and improve their operations; and

**WHEREAS**, internal auditors promote the accountability, productivity, and enhancement of management controls in public and private organizations; and

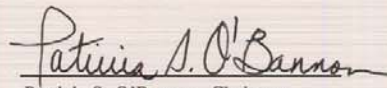
**WHEREAS**, the valuable contributions of internal auditors benefit the people of Henrico County and are worthy of recognition; and

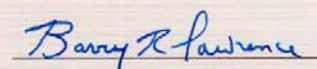
**WHEREAS**, the National Association of Local Government Auditors will be holding its annual conference in Richmond, Virginia during May 23 - 26, 2004.

**NOW, THEREFORE, BE IT PROCLAIMED** that the Board of Supervisors of Henrico County, Virginia recognizes May 23 - 29, 2004 as Internal Auditor Week and encourages all citizens to make note of this observance and learn more about the important contributions of internal auditors.

**BE IT FURTHER PROCLAIMED** that the Board of Supervisors salutes the Henrico County Internal Audit Office and the Central Virginia Chapter of the Institute of Internal Auditors for their service to the County and community.



  
Patricia S. O'Bannon, Chairman  
Board of Supervisors

  
Barry R. Lawrence, Clerk  
May 11, 2004





## CERTIFICATE of RECOGNITION

*By virtue of the authority vested by the Constitution in the Governor of the Commonwealth of Virginia, there is hereby officially recognized:*

### INTERNAL AUDIT AWARENESS WEEK

**WHEREAS**, internal auditors play an essential role as independent, objective professionals who add value to and help organizations improve their operations and accomplish their objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes; and

**WHEREAS**, internal auditors assume the burden of analyzing and monitoring important issues, including risk and control, governance processes, reliability and integrity of information, and compliance with policies and regulations; and

**WHEREAS**, internal auditors analyze their findings and advise organizations, board members and management on ways to maintain, correct or improve their operations; and

**WHEREAS**, internal auditors promote accountability, productivity and improvement of management controls in public and private entities; and

**WHEREAS**, the efforts and contributions of internal auditors benefit Virginia's citizens and employees;

**NOW, THEREFORE**, I, Mark R. Warner, do hereby recognize May 24-28, 2004, as **INTERNAL AUDIT AWARENESS WEEK** in the **COMMONWEALTH OF VIRGINIA**, and I call this observance to the attention of all our citizens.



*Mark R. Warner*  
Governor

*Anita A. Rindler*  
Secretary of the Commonwealth

**COUNTY OF HENRICO  
OFFICE OF INTERNAL AUDIT**

This charter identifies the purpose, authority, and responsibility of the Office of Internal Audit.

**PURPOSE**

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report finding and recommendations to the County Manager, the Audit Committee and the agency reviewed.

All Internal Auditing endeavors are to be conducted in compliance with County objectives and policies as well as the government auditing standards applicable to financial and performance audits.

**AUTHORITY**

Internal Auditing reports to the County Manager but has unrestricted access to the County's Audit Committee. These reporting relationships ensure Office independence, promote comprehensive audit coverage and assure adequate consideration of audit recommendations.

Internal Audit personnel, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited accessibility to all County activities, records, property, and employees, except that Official Personnel Files will be obtained through the County Manager.

Internal Auditing is a staff function that has no direct authority over activities which its personnel review. The performance of these reviews does not relieve management of any assigned responsibilities.

Objectivity is essential to the audit staff in the proper fulfillment of its duties. Performance of line responsibilities by internal auditors may compromise their objectivity. This practice will be limited and considered in personnel selection for audit assignments.

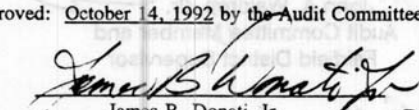
**RESPONSIBILITIES**

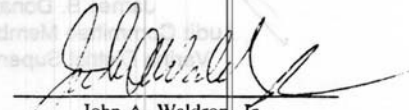
Internal Auditing is responsible for accessing the various functions and control systems in the County. The objective of Internal Auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, Internal Auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

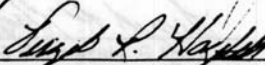
The fulfillment of this accountability is not confined to but includes:

- \* Appraising the effectiveness and application of administrative and financial controls and reliability of data that is developed within the County.
- \* Evaluating sufficiency of an adherence to plans, policies and procedures and compliance with governmental laws and regulations.
- \* Ascertaining the adequacy of controls for safeguarding County assets and, when appropriate, verifying the existence of assets.
- \* Performing special reviews, requested by the County Manager or the Audit Committee.
- \* Conducting appraisals of effective and efficient use of County resources and making appropriate recommendations to the County Manager, Audit Committee, and the agency reviewed.
- \* Coordinating audit planning and scheduling activities with the Audit Committee.

Approved: October 14, 1992 by the Audit Committee:

  
James B. Donati, Jr.  
Varina District Supervisor

  
John A. Waldrop, Jr.,  
Fairfield District Supervisor

  
Virgil R. Hazlett, P.E.  
County Manager

**COUNTY OF HENRICO  
AUDIT COMMITTEE  
STATEMENT OF PURPOSE**

**OVERVIEW**

The Audit Committee was created by the Board of Supervisors on January 26, 1983 during a Board work session to help find ways the County can reduce expenses. This **Statement of Purpose** identifies the responsibilities of the Audit Committee and other related matters.

**RESPONSIBILITIES**

Representative responsibilities of the Audit Committee include:

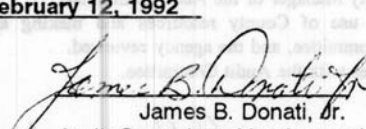
- \* Reviewing the independent auditors' proposed audit scope and approach.
- \* Communicating with and reviewing the activities and effectiveness of internal auditors including the audit plan.
- \* Reviewing the financial statements and the results of the independent audit.
- \* Considering management's recommendation on the appointment of independent auditors.
- \* Overseeing or conducting special investigations of other functions on behalf of the Board of Supervisors.

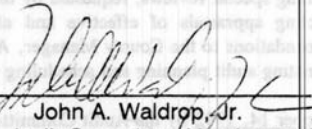
**MEETINGS**

The Audit Committee schedule includes:

- \* A preaudit meeting with the independent auditors to:
  1. Develop a basic familiarity with their approach and the scope of their examination.
  2. Obtain the auditors' advice about internal controls and special areas that may need attention.
  3. Become aware of recent developments in accounting principles or reporting practices that may affect the County.
- \* A postaudit meeting with the external auditors and County financial management to review the year's financial statements.
- \* Periodic meetings with management, the external auditors and the internal auditors, as needed.

Approved: February 12, 1992

  
James B. Donati, Jr.  
Audit Committee Member and  
Varina District Supervisor

  
John A. Waldrop, Jr.  
Audit Committee Member and  
Fairfield District Supervisor

  
Virgil R. Hazelett, P.E.  
Audit Committee Member and  
County Manager

**COUNTY OF HENRICO  
OFFICE OF INTERNAL AUDIT  
CHARTER**

This charter identifies the purpose, authority, and responsibility of the Office of Internal Audit.

**PURPOSE**

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the County Manager, the Audit Committee of the Board of Supervisors, and the agency reviewed.

All Internal Auditing endeavors are to be conducted in compliance with County objectives and policies as well as the Code of Ethics and the Standards for the Professional Practice of Internal Auditing which are promulgated by The Institute of Internal Auditors, Inc.

**AUTHORITY**

Internal Auditing reports to the County Manager but has unrestricted access to the Director of Finance and to the Audit Committee of the Board of Supervisors. These reporting relationships ensure departmental independence, promote comprehensive audit coverage and assure adequate consideration of audit recommendations.

Internal Audit personnel, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited accessibility to all County activities, records, property, and employees.

Internal Auditing is a staff function that has no direct authority over activities which its personnel review. The performance of these reviews does not relieve management of any assigned responsibilities.

Objectivity is essential to the audit staff in the proper fulfillment of its duties. Performance of line responsibilities by internal auditors may compromise their objectivity. This practice will be limited and considered in personnel selection for audit assignments.

**RESPONSIBILITIES**

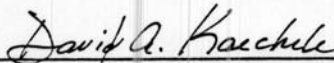
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-Continued-

The fulfillment of this accountability is not confined to but includes:

- \* Appraising the effectiveness and application of administrative and financial controls and reliability of data that is developed within the County.
- \* Evaluating sufficiency of an adherence to plans, policies and procedures and compliance with governmental laws and regulations.
- \* Ascertaining the adequacy of controls for safeguarding County assets and, when appropriate, verifying the existence of assets.
- \* Performing special reviews, requested by the County Manager or the Audit Committee.
- \* Conducting appraisals of effective and efficient use of County resources and making appropriate recommendations to the County Manager, Audit Committee, and the agency reviewed.
- \* Coordinating audit planning and scheduling activities with the Audit Committee.

Approved: November 23, 1988



David A. Kaechele  
Chairman of the Audit Committee  
and Three Chopt District Supervisor



Richard W. Glover  
Audit Committee Member and  
Brookland District Supervisor



William F. LaVecchia  
Audit Committee Member and  
County Manager