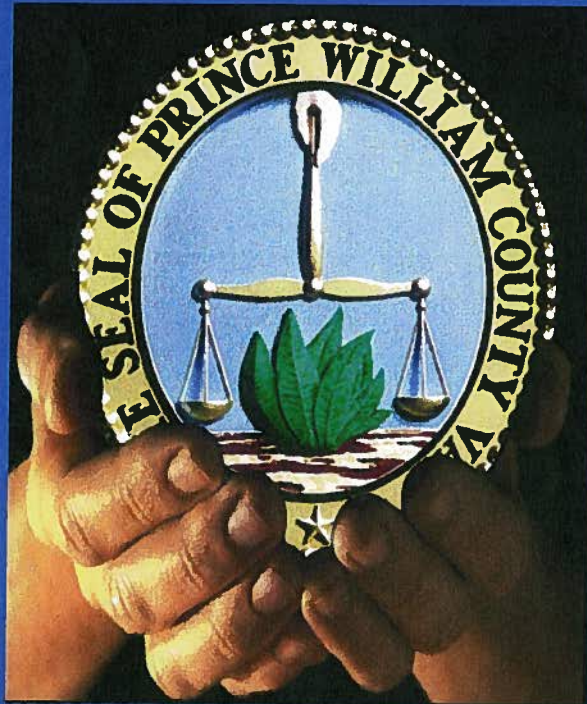


Prince William County, Virginia

Internal Control & Ethics Initiative



VACo Achievement Award Nomination

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Call for Entries



2011 VACo Achievement Awards

Deadline: June 1, 2011

Application Form

All applications must include the following information. Separate applications must be submitted for each eligible program. Deadline: June 1, 2011.

Program Information

Locality Prince William County
Program Title Internal Control & Ethics Initiative
Program Category Category (9) - Organizational Development
Population Category Category (5) - 100,000+

Contact Information

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Signature of county administrator or chief administrative officer

Name Melissa S. Peacor
Title County Executive
Signature* _____

*Entries without this signature will not be accepted.

Background:

Over a decade ago, the Committee on Sponsoring Organizations for the Treadway Commission (COSO) published its *Internal Control – Integrated Framework* to help organizations assess and enhance their systems of internal control. More recently, as a result of financial scandals that rocked a few high profile corporations, there has been a heightened focus and concern on organizational controls, prompting the passage of the Sarbanes-Oxley Act of 2002. While this Act applies only to publicly-traded companies, the County was concerned about the trickle-down effects it could have on state and local governments. Furthermore, in 2006 the American Institute of Certified Public Accountants (AICPA) issued *Statement on Auditing Standards (SAS) No. 112* (superseded by *SAS 115* in 2009), that elevated the importance of identifying and evaluating control deficiencies by requiring the independent auditor to evaluate control deficiencies and report, in writing, significant deficiencies and material weaknesses to management and those charged with governance.

Although reporting significant deficiencies and material weaknesses identified during an audit has long been a requirement under *Generally Accepted Government Auditing Standards*, the onus on governments for maintaining a sound system of internal controls became more prominent under *SAS 112*. So much so, that the Commonwealth of Virginia Auditor of Public Accounts issued an “Audit Risk Alert” to all Virginia localities in 2006. In response to this heightened concern and focus on internal controls, the County made a conscious effort to improve its control environment and institute organizational change and a cultural shift – in other words, make internal controls important to all employees of Prince William County.

Overview:

The County's Internal Control & Ethics Initiative was designed to maintain and foster an organizational culture which is intolerant of fraud, waste and abuse, and to adopt and maintain an effective system of internal control and responsible governance. Utilizing a multi-layered system of committees, including the "Guiding Public Service" Board of Trustees and the Values, Ethics & Control (VEC) Steering Committee (comprised of senior leaders who oversee interdepartmental cross-functional teams of employees focusing on internal controls and ethics) the Internal Control Council (ICC), and the Values & Ethics Programming Council (VEPC), the County has achieved a positive cultural shift in its control environment.

Solution:

The initiative became a reality upon senior management's recognition of the need and ultimate allocation of scarce resources to implement and maintain an active system of internal controls. First, the County commissioned an independent study of its internal audit function by its external auditors. The County's internal audit activity had historically focused on performance measures and service, efforts & accomplishments reporting, with little attention toward traditional risk-based auditing and internal control assessment. COSO principles suggest that a key component of a favorable control environment is a robust internal audit function. The study concluded that the County's staffing levels in its internal audit function lagged behind the staffing levels found in similar sized organizations. Furthermore, the study surmised that while adding additional internal auditors and changing the focus of the internal audit activities would

indeed detect internal control weaknesses, allocating additional resources to administrative functions, such as Finance, would serve to prevent internal control weaknesses in the first place.

In response to the findings of the study, the Finance Department generated a five year staffing plan, laying out the additional internal control related functions and initiatives that would be commenced with each new full-time equivalent (FTE) position. This staffing plan was similar to the staffing plans long time generated by the County's public safety agencies on an annual basis. The plan was presented to the County's Budget Congress (another interdepartmental cross-functional team of senior managers and department heads that helps the Budget Office prioritize annual budget requests for recommendation to the County Executive). The Finance Department successfully demonstrated to the Budget Congress that, if adopted, its staffing plan would translate to both increased customer service and greater support for the Finance Department, particularly as it related to process documentation, internal control assessment and training. In an attempt to find funding for the staging plan, creativity and a collaborative approach were essential. For example, the Police Department voluntarily forfeited two of its requested police officer positions in support of two additional accountant positions in the Financial Reporting & Control Division of the Finance Department. In the end, the County Executive's FY 2009 recommended budget called for five additional FTEs in the Finance Department and two additional FTEs in Internal Audit, all of which were approved by the Board of County Supervisors (BOCS) when the budget was adopted in April 2008. Furthermore, a reinvigorated "tone at the top" was set. Not only did the BOCS approve the new positions for FY 2009, but the BOCS established the increased focus on internal controls as a performance goal and priority for the County Executive. Due to the economic downturn nationally, regionally

and locally, additional staffing was not funded for administrative functions in FY 2010, but in FY 2011 two more FTEs were included in the adopted budget.

The next challenge the County faced was finding a way to concretely demonstrate to the elected officials the impact of added staffing could have on the control environment. The County formed two oversight groups, an overarching “Guiding Public Service” Board of Trustees comprised of seventeen department directors and senior executives, and the Values, Ethics & Control Steering Committee comprised of seven senior managers and executives. Once formed, these two groups set off to begin the work. (Exhibit A).

First, it was clear that ethics had always been a part of the County’s culture as articulated through its Vision, Values and Leadership Philosophy (Exhibit B), which all speak to “doing the right thing”, “integrity” and “best or right decisions”. But, we soon recognized that as an organization, we hadn’t necessarily talked about or taught a formal ethics curriculum. Second, it was also apparent that if the County wanted to make internal controls important to the entire workforce, the organization would need to be trained on internal controls and more employees would need to be actively engaged in this effort.

In order to use the County’s strengths to address its needs, the County Executive called for the establishment of an Internal Control Council and a Values & Ethics Programming Council. The VEC Steering Committee provided direction and guidance through the County’s first Executive Internal Control Policy (Exhibit C), the creation and implementation of a four hour instructor led training course on internal controls (Exhibit D), and the publication *Understanding Internal Controls: A Guide for Managers & Employees* (Exhibit E). The policy

was vetted through the County's Policy Committee and the training and guide were provided initially to all department directors and division heads.

Subsequently, another four instructor-led training session was offered through "PWC University", the County's source for training and development opportunities. Additionally, plans are underway to convert the internal control training course into an e-learning course in the next six months to provide employees more convenient options outside of a classroom environment to familiarize themselves with the internal control material.

The VEC Steering Committee also developed an application process to solicit employees to serve as Internal Control Representatives on the Internal Control Council (Exhibit F). Each department director was required to have at least one representative and one alternate representative. Selected applicants and their department director were each required to sign a Memorandum of Understanding, detailing the expectations for their participation (Exhibit G).

Another group of fifteen individuals, consisting largely of employees who studied at George Mason University in the Master of Public Administration Northern Virginia Fellows Program with specific coursework in Ethics, was hand-picked by the VEC Steering Committee to focus on ethics. This group, known as the Values & Ethics Programming Council, consists of representatives from each of the County's modes of government (Public Safety, General Government, Human Services and Community Development).

The VEPC worked together to develop a charter to define its purpose (Exhibit H), developed an Ethics Philosophy for the County (Exhibit I) and developed a three hour instructor-led "Making Ethical Decisions" course (Exhibit J) that was taught in 23 sessions to over 600 employees. The course has been converted to an e-learning course "Making Ethical Decisions

101 for County Employees” and is open to all County employees. The VEPC is currently in the process of developing and piloting a series of “Ethics Roundtables”. These roundtables will be open discussions of case scenarios led by a facilitator (Exhibit K).

The thirty-seven Internal Control Representatives that make up the ICC split into subteams to begin its work.

- The Charter Subteam worked together to develop a charter to define the purpose and responsibilities of the ICC (Exhibit L).
- The Compliance Certificate Subteam worked together to develop the requirements for the Compliance Certificate, an annual reporting on internal controls required under the Executive Internal Control Policy (Exhibit M). This certificate is planned for release at the beginning of the upcoming fiscal year and will be transmitted to every County department for completion.
- The Risk Assessment Subteam is developing the first in a series of tools for a “Risk Assessment Toolkit”. The subteam has developed a risk assessment survey by function area (i.e. payroll, disbursements, cash collection, etc) targeted for release at the beginning of the upcoming fiscal year (Exhibit N).
- A Communications Subteam was just formed and will develop the communication that will accompany the compliance certificate and the risk assessment survey.
- A Payroll Subteam was formed to discuss internal control risks surrounding the payroll process. This group conducted a county-wide timecard and time reporting survey that ultimately resulted in a redesign of the County’s standard timecard and leave and overtime/compensatory time request form (Exhibit O). This group also identified areas of

County policy as it relates to compensation and payroll that need improvement as well as areas where increased training is desired.

As each subteam completes their work, a new topic is selected for study. For example, the Compliance Certificate Subteam is planning to shift its focus to a more comprehensive internal control training curriculum and will work towards developing a comprehensive list of areas where job specific training needs to be developed as it relates to internal controls (i.e. cash handling training, asset disposal training, voucher processing & approval training, etc.). Finally, the ICC created the *Monthly IC Brief*, a periodic newsletter that is published electronically on the County's intranet for all County employees (Exhibit P). The newsletter focuses on matters of internal control.

As previously mentioned, the internal control and ethics initiative is extremely important to the County's governing body. As such, formal presentations were made to the Board of County Supervisors to update them on the progress of these two initiatives (Exhibit Q and R). These two exhibits further elaborate on the number of internal control initiatives that have been accomplished to date, beyond those mentioned in this report.

The County believes this model can be easily replicated by other jurisdictions as a method to positively impact the culture and control environment of an organization.