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Meeting Minutes for 30, January 2025
Audit Committee Meeting

Audit Committee Members:
Susan Cunningham, Audit Committee Co-Chair (Present)
Maureen Coffey, Audit Committee Co-Chair (Present)
Mark Schwartz, County Manager (Present)
Maria Meredith, Management & Finance Director (Present)
Thelma Askey, Community Member (Present)
Luanne Lohr, Community Member (Present – Participating virtually Microsoft Teams)
John Vihstadt, Community Member (Absent)
William (Bill) Wiggins, Community Member (Absent)

Administrative Attendees:
Wayne Scott, County Auditor (Present)
Marjorie Sandoval, County Board Aide (Present)
Jonathan Davis, County Board Deputy Clerk (Present)

CliftonLarsonAllen LLP (CLA) Attendees:
Aries Coleman, Director
Heather Briggs, Principal

Department of Management and Finance (DMF)
Karen Spence, Comptroller
Lynda Mattocks, Staff Accounting/Auditing Specialist
Kenneth Saccoccia, Senior Staff Financial Analyst
Moon Pacentrilli, Senior Staff Financial Analyst
Michael Stewart, Management & Finance Deputy Director

At 4:36 p.m., Co-Chair Maureen Coffey called the January 30, 2025, Audit Committee meeting to order. Ms. Coffey welcomed the new Audit Committee Co-Chair, Susan Cunningham. Due to the number of individuals in attendance, Ms. Coffey requested that everyone in the room to provide a short introduction.

Summary:
The meeting of the Audit Committee covered several key items. The December 12, 2024, meeting minutes were presented for approval by the Committee. Item 3 introduced the new Co-Chair, Susan Cunningham. Following this, CLA provided the external Financial Audit Update under Item 4. In Item 5, the DMF Internal

Audits and the FFWA Hotline Annual Update were discussed, and Item 6 allowed for the discussion of miscellaneous items by Committee members.

Item 2 - Approval of Meeting Minutes from December 12, 2024:

***Ms. Coffey** introduced this item by informing the Committee that proposed corrections had been provided earlier in the day by Mr. Scott. She then asked if there were any additional edits. The meeting minutes from the December 12, 2024, were moved for approval by Ms. Coffey, seconded by Mr. Schwartz, approved unanimously, by voice vote. Ms. Cunningham abstained, as she was not in attendance at that meeting.*

Item 3 - Introduction of Committee Co-Chairs

***Ms. Coffey**: Ms. Coffey introduced Susan Cunningham as the new Co-Chair of the Audit Committee.*
***Ms. Cunningham** expressed her enthusiasm and stated that she looks forward to being part of the Committee.*

Item 4 – CliftonLarsonAllen External Financial Audit Update

***Ms. Meredith** initiated the item and expressed appreciation for the opportunity to showcase the volume of work completed within DMF. She introduced **Ms. Spence** to assist in leading the discussion on this item.*

***Ms. Spence** confirmed that all in attendance had a copy of the CLA presentation. She introduced the CLA audit team: Heather Briggs, Principal, and Aries Coleman, Director.*
Ms. Coleman began the discussion by summarizing that the audit was completed with an unmodified (clean) audit opinion for the fiscal year. She mentioned three changes that impacted the audit period:

1. *Moving the stormwater fund from governmental to enterprise,*
2. *GASB 101 for Compensated Absences (early implementation), and*
3. *GASB 100 for Accounting Changes.*

*The item was then passed to **Ms. Briggs** to present the slide deck included in Committee materials. Ms. Briggs thanked DMF and the entire team for their cooperation during the audit. She provided an overview of the audit process, which included assessing the accuracy and fairness of the information presented, as well as compliance with state and federal requirements. The audit involved reviewing processes to evaluate internal controls, conducting a risk assessment for potential material misstatements, and ultimately forming an audit financial statement opinion and issuing a final report.*

*As **Ms. Coleman** continued the presentation, she noted that the audit resulted in a clean opinion, including a clean opinion on all five federal programs included within the audit scope. Ms. Briggs discussed the required communications with the Committee and various changes in accounting policies. The County was an early adopter of Governmental Accounting Standards Board (GASB) Statement No. 101 for Compensated Absences and modified its reporting for the Stormwater Management Fund.*

The team also reviewed estimates for Compensated Absence Liability and Self-Insurance Incurred But Not Reported claims. Ms. Briggs reported no difficulties in conducting the audit or disagreements with management.

Two proposed but not recorded adjustments were identified:

1. *A change in Schools' Compensated Absences for GASB 101 implementation.*
2. *Schools excluding FICA tax from Compensated Absence calculations.*

Both adjustments were deemed immaterial, and management opted not to record the adjustments. Ms. Briggs stated that this decision does not have a material impact on the fairness of the financial statements.

Question & Answer Session:

Ms. Askey: *Asked whether the transition of the stormwater system from a basic services model to a fee-based system would allow for comparisons over time, specifically regarding the amount collected and expended. She further inquired if this change would enable comparisons to previous years.*
Ms. Briggs: *Asked if Ms. Spence could explain.*
Ms. Spence*: Explained that when the system was on the governmental side, it was split across two different funds. In the enterprise system, it is now divided across three different funds, but the fundamental process remains the same. Revenue is still collected and separated from other business operations, with funds being exclusively dedicated to stormwater. This separation allows for tracking and assessing whether the funds were collected as part of the tax system or as a fee.*
Ms. Askey: *Asked if it is separately identified among two to three, but with the same universe, making it easily comparable.*
Ms. Spence: *Confirmed that this is correct.*
Mr. Schwartz: *Asked about the process of integrating the constituent (Arlington County Public Schools) parts into the financials, noting that this year's comments were mainly about schools. While he didn't label the challenges as severe, he pointed out the difficulty in integrating schools into the overall process. He also inquired whether this was a common challenge in other jurisdictions.*
Ms. Briggs: *Responded that many governments have various reporting component units. As part of the audit process, efforts are made to incorporate them into the full financial statement report. She explained that this year's adjustments were related to the GASB 101 conversion. The adjusted amounts were included in the presentation, reflecting the prior years' cumulative amounts and the addition of a FICA estimate at the end of the period.*
Mr. Schwartz*: Asked if that refers to the compensated absences mentioned and requested an explanation for others who may not be familiar with it.*
Ms. Briggs: *Explained changes in accounting for compensated absences under GASB 101. Previously, under GASB 16, liabilities were recorded based on the assumption that employees would work until termination and receive payouts. GASB 101 introduces a "more likely than not" criterion, requiring liabilities to be recorded for accrued vacation and sick time if employees are likely to use them. This change affects how compensated absences are reported, but the impact on vacation accruals was minimal due to already accurate tracking.*
Ms. Spence*: Explained that for the County, the adjustment for vacation was not material because the numbers were correct, but a FICA adjustment had to be added. For sick leave, the adjustment was calculated separately for those hired before 2001 and those hired after 2001. Accruals are being made for those hired before 2001, but adjustments were necessary for those hired after 2001 since it is more likely that they will use sick time. The adjustment for this period was $92 million.*
Ms. Briggs*: Clarified during the audit discussion that the audit opinion is on the component unit (the County) versus individual fund levels such as APS.*
Ms. Cunningham*: Asked CLA to clarify if they did not audit controls on the school's side.*
Ms. Briggs*: Explained that they gain an understanding of the controls but do not report an opinion on internal controls. The audit includes gaining an understanding of control design and operating effectiveness. Tests of the controls are performed, but the opinion is not on the controls.*
Ms. Askey: *Sought additional clarification about whether the stormwater system was divided into two- or three-parts post-conversion and asked whether there was any additional distinction between funds.*
Ms. Spence*: Clarified that the reason for separating the system into two or three different funds is to provide additional insight, particularly for understanding funding sources. These distinctions allow for better analysis of operations versus capital expenditures. Currently, the system includes operational funds, capital with PAYGO money, and capital with bonded funds, which gives the department greater insight into the financial situation.*
Ms. Coffey: *Brought up the idea that while the financial report was comprehensive, it might not be very approachable for the general public. She inquired about the proposal of creating an abbreviated version,*

such as a popular annual financial report, as discussed in last year's minutes by Mr. Vihstadt. She asked whether any additional decisions have been made on this proposal, or is one under consideration?
Ms. Spence: *Confirmed that the team was already looking at formats and preparing a more accessible version. The abbreviated report, typically around 10 pages, would serve as a pamphlet-style summary for public consumption. She also mentioned that the Governmental Financial Officers Association (GFOA) has a checklist of requirements, and once the report is completed, it will be submitted to them for review. The team is aiming to complete the FY 2025 report within the next couple of months.*
Ms. Meredith*: Clarified the simplified version will be available for the FY 2025 financials and not for the FY 2024 report and would be available some period of time after the ACFR was completed. This was previously agreed to at the last financial audit meeting.*

Item 5- DMF Internal Audits and FFWA Hotline Annual Update

Ms. Meredith *Introduced the item, a presentation and update on Internal Audit and the Financial Fraud, Waste and Abuse Hotline.*

Mr. Saccoccia *Noted that the presentation, prepared by him and Ms. Pacentrilli, had been provided to the Committee in advance and was included in the meeting materials. Mr. Saccoccia began the presentation by outlining the accomplishments since January 2024. He began by providing a refresher of the function's mission. The team conducts audits focused on both internal controls and compliance and is also responsible for monitoring the Fraud, Waste, and Abuse Hotline. The audit organization currently has 1.5 full-time equivalent staff and continues to partner with RSM LLP in conducting audits.*

The update indicated that 59 audits have been completed, up from 54 last year, an increase of five. Additionally, the number of findings increased from 198 to 224. All findings are rated as high, medium, or low to help management focus on the most critical risks. High-risk rated areas receive the most attention and resources for resolution. Internal Audit conducts follow-up audits to verify that remediation has occurred and corrective action has been implemented. Contract management is a key focus area and one of the highest risks, which is why it receives significant attention in audits.

For FY 2024/2025, five audits were completed—three by RSM and two by Internal Audit.
RSM conducted a contract compliance audit of Arlington Thrive, a third-party partner that provides financial assistance to prevent homelessness. The audit revealed issues with the accuracy of the financial reports received from the County. At the end of the contract period in October 2023, funds not disbursed for homelessness prevention were required to be returned to the County. DHS agreed with the findings and will implement the recommendations.

An audit of the Department of Parks and Recreation (DPR) was also conducted to assess the handling of funds related to DPR memberships, totaling approximately $2 million. The team focused on ensuring the correct amounts were charged and that proper controls were in place for received funds. No findings were identified in the DPR audit.

Additionally, a general application control audit was conducted by RSM to assess access to various County systems and to ensure strong controls over user access. Access control risks are considered high across all counties. Due to the sensitive nature of the findings, specific details cannot be shared. The audit focused on ensuring that only authorized individuals have access to sensitive data and that appropriate controls are in place when personnel changes occur. The audit covered three applications, and management agreed with the findings and committed to implementing the necessary corrective actions.

The Health Benefit Dependent Eligibility Audit was discussed. The overall conclusion was that 97% of the dependents were eligible. The remaining 3% were deemed ineligible due to a lack of supporting *documentation. HR has agreed to implement the recommendations and has modified its onboarding process for new hires to request additional information.*

***Ms. Pacentrilli** presented the results of the DHS and JDR Gift Card audit. The identified findings included a lack of segregation of duties, gift card logs that could not be reconciled with gift card inventory, untimely funds handling training, and inadequate documentation. Recommendations were provided to address these issues, and management agreed to implement them. No questions were raised for Ms. Pacentrilli.*

***Mr. Saccoccia:** Presented the FY 2025 In-Process Audits. Those audits included two contract compliance audits, general application control audit, Non-Profit Risk Assessment, and Fee Reductions for DHS and DPR.*
***Ms. Meredith:** Clarified during the discussion that Internal Audit will not be auditing every nonprofit due to the resources required to perform such a task.*
***Mr. Saccoccia**: Stated that for the Non-Profit Risk Assessment audit, a risk-based approach would be used to assess the contract language and determine what should be included in the contracts. The remaining FY 2025 audits would include County-wide Overtime Policy, Contract Compliance, Unemployment Compensation, and a P-card Review. The discussion focused on the overtime policy, which is applied across the board to ensure that overtime is pre-approved and properly handled. There was interest in conducting another contract compliance audit, time and resources permitting, as unemployment compensation was identified as a high-risk area, especially during the COVID period, though it hadn't been previously audited.*
***Ms. Meredith:** Shared that the audit plan stays a draft plan because flexibility is needed based on activity that could develop based on calls from the Hotline. Any audit not addressed within the plan year is then carried forward to the next plan.*
***Mr. Saccoccia:** Provided a status update of all audit follow-ups dating back to 2015. He also covered the follow-ups for the FY 2025 as presented on page 11 of the Internal Audit presentation.*
***Ms. Meredith:** Recognized the hard work of the Internal Audit team to promote a culture of partnership with departmental management. This approach has proven to be beneficial as departments are reaching out to Internal Audit when assistance is needed.*

No further questions regarding the Internal Audit Plan were asked.

***Ms. Pacentrilli** provided an update on the Financial Fraud, Waste and Abuse Hotline. She began by reviewing the slides starting on page 13 of the Internal Audit Update slide deck. She shared a history of the Hotline, which is operated by a third-party vendor and allows for anonymous reporting. The employee Hotline was launched in May 2015, followed by the public hotline in 2016. Since its inception, a total of 226 complaints have been recorded, though some are duplicates due to multiple complaints being filed simultaneously. There are 205 distinct complaints.*

Ms. Pacentrilli covered various data points from the Hotline, as noted in the presentation. These data points also included comparisons to Hotline data from surrounding localities. Written protocols are established depending on the nature of the Hotline call. Any suspected criminal activity is appropriately handled according to established protocols and involve contact with the Arlington County Police Department.

<u>Question & Answer Session:</u>

***Ms. Askey**: Inquired if all the funds distributed by Arlington Thrive come from the County or if they have other sources.*
***Mr. Saccoccia:** Responded that Arlington Thrive has other funding sources.*
***Ms. Askey:** Followed up, asking about the percentage of funding for Arlington Thrive that comes from Arlington County.*
***Mr. Saccoccia:** He stated that he did not know the percentage provided by Arlington County. The team audited FY 2022 and FY 2023, and the amount for those years was $10 million.*

Ms. Askey: *Inquired if administrative costs would be associated only with the Arlington County portion of the funds.*
Mr. Saccoccia*: Explained that typically, administrative costs are not applied to just one part of a contract. However, in this case, since the funding sources are different, they are attempting to segregate the administrative costs associated with homeless prevention. He emphasized that the contract specifically states that the administrative cost is capped at 10%, and that is the amount Arlington Thrive is entitled to receive.*
Mr. Schwartz: *Asked how much of the funding during that period was related to COVID funding.*
Mr. Stewart: *explained that under the former contract, a typical annual amount for Thrive would range between $1 million and $2 million. He added that much of their funding was COVID-related, flowing to the community, with Thrive being a key partner.*
Ms. Cunningham: *Asked if any of the findings could help DHS learn from future emergency response situations to make them more stable.*
Mr. Saccoccia: *Discussed the new vendor working with DHS. He explained that the new contract language includes provisions for monitoring and reporting, with DHS having its own process in place. For example, if a report states that $10,000 was spent on a particular item, DHS can verify and track expenditures in real time. Even if the amount changes, such as an increase to a million dollars due to an influx of funds, DHS has a process in place to double-check expenditures. He noted that this process was put in place because previous issues arose when this type of monitoring was not being done.*
Ms. Cunningham: *Asked if anyone had looked across other DHS contracts.*
Mr. Saccoccia: *Stated that this would be discussed when the future audit plan for FY 2025 is reviewed.*
Ms. Coffey*: Inquired whether people were obligated to pay back any amounts for which they were not eligible and whether they would be required to do so going forward due to misrepresentation. (The question was related to the Health Benefit Dependent Eligibility Audit.)*
Mr. Saccoccia: *Responded that he was unsure.*
Mr. Schwartz*: Asked how much of the error in the Health Benefit Dependent Audit was due to willful misrepresentation, as opposed to people simply not understanding the rules.*
Mr. Saccoccia: *Explained that it was hard to say because many people were nonresponsive to the audit, and some stated they did not want to respond.*
Ms. Meredith: *Clarified that, regarding the Health Benefit Dependent Audit, they were not aware of the exact amount, as the dollar error was an average. They did not know the dependent's claim history, nor did they test the submitted claims.*
Ms. Askey: *Asked what the "other" category (Hotline presentation) was about.*
Ms. Pacentrilli*: Explained that it was mixed, depending on how the caller chose to identify when responding.*
Ms. Askey: *Asked if residents could flag themselves as anonymous or if someone could just identify as a resident.*
Ms. Meredith*: Responded that individuals select how they want to identify themselves. She noted that a key benefit of the hotline functionality is that it allows them to contact the anonymous party with follow-up questions while protecting their privacy. She added that users create a unique ID and password, which they must remember, as there is no "forgot password" option available.*

<u>Item 6- Miscellaneous items</u>
Mr. Scott *mentioned that an audit of the Housing Grants Program was recently conducted. The audit team held an exit meeting to review and discuss the findings included in the draft report. DHS is currently working on their management responses, and it is expected that a more detailed discussion of the audit will take place in March upon release of the final report.*

In terms of follow-up audit activity, there have been approximately seven audits performed over the years. The focus now is on reviewing those audits, with one recent audit completed on the DTS contract management. This will also be discussed at the March meeting. Additionally, a draft report on the Fleet Management audit with DES is currently under review. The final audit report will be shared at the March 26th *meeting.*

A verbal offer has been extended and accepted for a new hire. The next steps involve completing the necessary background checks and formalities. If all goes well, the new team member will be on board by March 10th and will attend the March meeting.

Ms. Askey: *Inquired as to the status of incursions by homeowners on to Arlington County property and asked if there has been any follow-up to her request from the prior Committee meeting.*
Ms. Coffey: *Explained that included in the FY 2025 audit work plan for the County Auditor is a Community Site Benefit audit that will include agreements with private entities and other agreements. That audit will be announced as one of the next audits.*
Mr. Schwartz: *Stated that, as previously discussed, the issue of private businesses or residents taking over space they are not entitled to has been a long-standing challenge in the County. He emphasized that this is something they take seriously and requires significant resources to manage. He noted that a comprehensive assessment would be a monumental task, but they do act when such situations are identified, in collaboration with the County Attorney's office. He encouraged sharing any known items with the Real Estate Bureau or code enforcement.*
Ms. Coffey*: Suggested sending an email to the County Manager's office for action.*
Ms. Lohr: *Mentioned that this could also become a revenue issue, as residents are taking over park space and adding value to it, which should be assessed.*
Mr. Schwartz: *Explained that adverse possession does not apply to County property, and the land is always owned by the County. In such cases, the property owner will be fined.*
Ms. Lohr: *Pointed out that this type of situation could negatively impact Community Benefit, as it could limit public access to land intended for community use.*
Ms. Coffey: *Clarified that the Community Benefit is an explicit contract outlining the agreement between the County and a developer. She explained that this situation is more of a violation of the social contract, as it involves taking over public land for private use.*

Adjournment

Without objection, at 6:05 pm, Co-Chair Maureen Coffey adjourned the January 30, 2025, Audit Committee Meeting.

Minutes submitted by: Marjorie Sandoval

~END~