Audit Committee Meeting

Meeting Date & Time:
Thursday, September 27, 2018
4:30 pm – 6:30 pm

Meeting Location:
Courthouse Plaza
2100 Clarendon Blvd., Suite 311
Arlington VA, 22201

AGENDA

1. Call to order
2. Approval of the March 22, 2018 and May 18, 2018 Meeting Minutes
3. County Auditor Audit Status report
4. DMF Internal Audit briefing and discussion
   a. Summary of FY 2018 audits
   b. FY 2019 Audit Plan
   c. First DMF risk assessment survey (high-level information sharing)
   d. Financial Fraud, Waste, and Abuse Hotline (high-level information sharing)
   e. Review of County’s whistleblower protection process
5. Status of Joint APS-County Audit Committee Meeting for discussion of APS Construction Costs audit
6. Next meeting:
   a. Wednesday, December 19, 2018, Rm 311, 4:30-6:30 PM
   b. Anticipated topics: Briefing of issued County Auditor audit(s); External auditor briefing
7. Adjourn
I. Call to order
Co-chair Vihstadt called to order the regular meeting of the Audit Committee at 4:32 PM on March 22, 2018 in Room 311 of the Arlington County Courthouse Plaza building.

II. Roll call
All Audit Committee members were present for the meeting:

- John Vihstadt – Co-chair
- Erik Gutshall – Co-chair
- Mark Schwartz – County Manager
- Stephen Agostini – Director, Department of Management and Finance (DMF)
- Tenley Peterson – Fiscal Affairs Advisory Committee representative
- Hal Steinberg – Public Member
- Nancy Tate – Public Member

Also in attendance were
- Libby Garvey, County Board member
- Chris Horton, County Auditor
- Maria Meredith, Deputy Director, DMF
- Patricia Sullivan, Washington Post reporter

Co-chair Vihstadt introduced County Board member Erik Gutshall as the new Audit Committee co-chair. All meeting attendees introduced themselves.

III. Approval of minutes from last meeting
Co-Chair Vihstadt presented the draft minutes from the November 30, 2017 Audit Committee meeting. The minutes were approved unanimously. The minutes will be revised to reflect that Ms. Peterson is the Fiscal Affairs Advisory Committee representative.
IV. Business

1) County Auditor report:

   a) Audit Status Report: Chris Horton provided a project status report for all audits on the FY 2018 Annual Audit Work Plan. The Emergency Communications Center-Overtime audit is complete (discussed later). The Fleet Management audit is in the fieldwork phase. Horton explained that the Emergency Communications Center-Overtime audit had been moved ahead of the Fleet Management audit to ensure that at least one audit was complete prior to the Audit Committee meeting. Horton briefly noted that the Fire and Police Department overtime audits will be kicked off once an audit contractor has been identified. The audit of Sheriff’s Department overtime will be kicked off when the Fleet Management audit report draft is complete and submitted to management for review.

   The Audit Committee discussed the status report. A suggestion was made to add the initial audit objectives to each audit listed on the status report, as a reminder of what the focus on the audits would be. There was a broader discussion of the Fleet Management’s audit current scope. Horton noted the key areas within the scope and that the director of the Department of Environmental Services had been notified of the scope and fieldwork audit objectives. Agostini asked Horton to share the fieldwork audit scope and objectives with him, since DMF plays a role in one of the areas in the audit scope. Regarding the Fire Department Overtime audit Peterson and Schwartz noted the importance of accounting for any changes to the staffing schedule.

   b) Contracting: Horton informed the Audit Committee that the process for finding a contractor to perform the Fire and Police Department overtime audits was still ongoing, and was in the negotiation phase.

   c) Recognition: Horton reported that he had been named as the Secretary-elect for the Association of Local Government Auditors Board of Directors, and had been named as a local government auditing representative to the Comptroller General’s Domestic Working Group.

2) Emergency Communications Center Overtime Report: There was a broad discussion of the Emergency Communications Center Overtime audit report. Horton reviewed the structure of the report, noting that the Report Highlights page includes the reason why the audit was conducted. The Committee also discussed the findings of the audit, and the responses. Schwartz noted that he worked with the management of Public
Safety Communications and Emergency Management to finalize the management response. Horton stated that the response to the recommendations included reasonable timeframes for implementation.

3) **DRAFT FY 2019 Annual Audit Work Plan:** The discussion of the draft FY 2019 Annual Audit Work Plan was limited by the time remaining in the meeting (approximately half an hour at the beginning of the discussion). The Committee discussed the proposed procurement audit, including how the proposed audit of procurement came to be included on the Plan. Agostini suggested that the scope of the proposed procurement audit be refined further. Specifically, Agostini suggested that the scope would benefit from the development of a process map for procurement, after which the County Auditor would come back to the Audit Committee to show what piece of the process map would be the scope of the audit. Gutshall asked Horton how much work is done to develop more specific information and risk areas prior to submitting the draft Plan. Tate asked Horton if additional information could be provided to clarify why the proposed audits were deemed more important than those on the Audit Horizon but not on the proposed plan. Horton will work on developing information to address each of these three areas for the next Audit Committee meeting.

4) **Next meeting date:** The Audit Committee determined that another meeting to complete discussion of the draft Annual Audit Work Plan was merited prior to the County Board’s adoption of the Plan. Co-chair Vihstadt noted that the meeting could be combined with efforts to conduct a joint meeting with the Arlington Public Schools Audit Committee. Horton will work to arrange this meeting. Agostini noted that if the joint meeting with the APS Audit Committee would allow for information sharing regarding an APS audit of construction cost benchmarking, it would be helpful to have that meeting prior to the completion of the proposed Capital Improvement Plan.

V. **Adjournment**

Co-chair Vihstadt adjourned the meeting at 6:33 PM.

Minutes submitted by: Chris Horton, County Auditor
Arlington County Board
Audit Committee
Meeting Minutes
May 18, 2018

I. Call to order
Co-chair Gutshall called to order the regular meeting of the Audit Committee at 5:01 PM on May 18, 2018 in Room 311 of the Arlington County Courthouse Plaza building.

II. Roll call
All Audit Committee members were present for the meeting:

- John Vihstadt – Co-chair (attended telephonically due to other commitments)
- Erik Gutshall – Co-chair
- Mark Schwartz – County Manager
- Stephen Agostini – Director, Department of Management and Finance (DMF)
- Tenley Peterson – Public member, Fiscal Affairs Advisory Committee representative
- Hal Steinberg – Public Member
- Nancy Tate – Public Member

Also in attendance was Chris Horton, County Auditor.

III. Approval of minutes from last meeting
Co-chair Gutshall presented the draft minutes from the March 22, 2018 Audit Committee meeting. Agostini offered a suggested amplification for the minutes, regarding a comment attributed to him. Horton agreed with the suggested revision. No other revisions were offered. Co-chair Gutshall expressed his preference that the March 22, 2018 draft minutes be revised to reflect Agostini’s suggested change, and then re-submitted for approval at the next Audit Committee meeting. Thus no minutes were approved at this meeting.

IV. Business

1) County Auditor report:
a) **Audit Status Report:** Chris Horton provided a project status report for all not-yet-completed audits on the FY 2018 Annual Audit Work Plan. The Fleet Management audit is in the fieldwork phase. The Fire and Police Department overtime audits were kicked off in early May in conjunction with the audit services contractor, SC&H Group, and are in the planning phase.

Horton noted that pursuant to feedback from the Audit Committee, the initial objectives of each audit are included in the status report and if fieldwork has begun the fieldwork objectives are also included. Horton reported his view that he was unable to report on more detail of preliminary fieldwork data due to government auditing standard (Yellow Book) provisions that require giving management an opportunity to respond to preliminary audit findings before the information is shared with outside groups, such as the Audit Committee.

A larger discussion regarding the role of the Audit Committee ensued. Steinberg observed that not allowing the Audit Committee to see the draft audit report before it was issued was unusual. Horton briefly recapped the purpose for structuring the role of the Audit Committee as it is; the committee focuses on risk advisory offerings to the Board and does not see audit reports prior to their completion. Horton noted that the structure has been extensively discussed by the committee in 2017, and that it would create a challenge to auditor independence if the committee were to see and comment on the audit report prior to completion. Co-chair Gutshall indicated his understanding that the Audit Committee role was based on the Yellow Book. Agostini offered his view that the Yellow Book does not render an unambiguous statement regarding the role of an Audit Committee. Steinberg remarked that the committee, particularly the public members, could be used more beneficially by seeing the audit reports prior to issuance. He noted that feedback from the committee would be thoughts that did not have to be implemented. Gutshall concluded that he would take the comments under advisement and would talk to his Board colleagues. Tate stated that these topics had been discussed extensively the previous year.

Vihstadt asked Horton for an update on the Arlington Public Schools (APS) construction costs audit process. Horton reported that the APS Audit Committee was scheduled to review the draft construction costs audit report in early May. Vihstadt asked Horton to follow up with the APS internal audit to understand the progress of the construction costs audit. Vihstadt also asked about the possible inclusion of APS fleet in the fleet management audit. Horton replied this was still a possibility, and that the APS internal auditor had been apprised of this.
2) **DRAFT FY 2019 Annual Audit Work Plan:** The discussion of the draft FY 2019 Annual Audit Work Plan focused on different elements related to the draft plan, as delineated below.

a) The scope for the proposed audit of procurement was developed further since the March 22, 2018 Audit Committee meeting, based primarily on discussion between Horton and Agostini. Vihstadt asked whether staff turnover in the procurement function would be an opportunity or a hindrance for this proposed audit. Schwartz opined that the turnover represented an opportunity for a fresh look. Agostini felt that the audit would be helpful now. Gutshall asked whether the proposed audits for FY 2019 were in priority order, and whether the Audit Committee recommended an order. The answer to both was no.

b) Tate noted that she would like to see more clarity regarding how the selection criteria led to the specific audit proposals. She observed that it was hard to see what factors led to the audits that are proposed in FY 2019 and those that are identified in the Audit Horizon. Schwartz echoed the importance of selection criteria and seeing the role the different criteria play in which audits are recommended. Tate also noted that it would be helpful to see those FY 2018 audits that will not be completed by June 30 reflected in the FY 2019 plan, specifically in the table of audits. Horton agreed to add this revision to the next draft of the Work Plan.

c) For the proposed audit of business improvement districts, the County Auditor had developed for the Audit Committee two options of scope and objectives to consider. Peterson believed that Option 1 was preferable. She also suggested looking at whether BIDs are providing services that duplicate those performed by County government. All Audit Committee members agreed that Option 1 was the better choice. Steinberg observed that it would be helpful to learn how the BIDs are helping residents, if they levy an assessment on residents since a portion of the BIDs’ appropriations are derived from residents’ property taxes. Schwartz noted that this issue is generally limited to the Rosslyn BID, based on how the BID boundaries were drawn.

d) For the proposed audit of economic development incentives, questions arose about what would come out of the audit, and if a possible Amazon incentive would be impacted or included in the scope. Horton noted that the initial scope of this audit was expected to be incentives that had been completed and approved by the Board at the time of the audit’s kickoff. Some committee members noted that the issue of economic development incentives seemed timely. Some incentive
agreements have clawback provisions, and assessing their applicability and usefulness would be helpful.

e) The discussion regarding proposed supplemental audits (to be performed if capacity allows) focused on the Neighborhood Conservation Advisory Commission (NCAC). Peterson noted that FAAC members had brought up a possible equity issue regarding whether neighborhoods with members who had skill-set advantages (e.g., lawyers, grant-writers) were getting more benefit from NCAC. This led to a larger discussion of the ability of performance audits to assess equity issues. Horton stated his view that performance audits could address equity by focusing on root causes, such as structural barriers, that lead to disparate outcomes. Schwartz noted that not all neighborhoods have a neighborhood association, which is a pre-requisite to having an NCAC project. Steinberg asked about the mission of the NCAC program. The mission was not unambiguously clear. Schwartz noted that an important reason for NCAC’s existence is to give the neighborhoods more of a voice in construction activities in their neighborhood.

f) Gutshall asked whether the committee needs to discuss what the Auditor is supposed to do, noting his experience that an auditor focuses on cost savings. Tate observed that having more insight into fundamental issues facing the County is better than less. Peterson reminded the committee that the previous County Auditor had identified several reasons for performing an audit, such as efficiency, effectiveness, and reputational concerns.

g) As the time for completing the meeting drew near, Agostini noted that he had some thoughts about the Audit Horizon that he would share with Horton after the meeting, including with respect to a financial condition analysis. Horton informed the committee that he would make changes to the draft Work Plan and circulate all revisions to the committee with changes tracked.

3) Next meeting date: The Audit Committee determined that the July 5 meeting could be rescheduled to better fit members’ schedules and to find a time that APS Audit Committee members could attend a joint meeting. In addition to a joint meeting with the APS Audit Committee, possible topics for the next meeting include audits from the County Auditor and updates from the DMF internal audit function.

V. Adjournment

Co-chair Gutshall adjourned the meeting at 6:28 PM.
Minutes submitted by: Chris Horton, County Auditor
County Auditor Project Status Report – as of September 19, 2018

This project status report shows the current state of projects underway within the County Auditor’s function. Projects are listed in order of kick-off date.

All primary projects within the Annual Audit Work Plan are shown. Supplemental projects are not shown until capacity allows these engagements to be initiated.

<table>
<thead>
<tr>
<th>FY 2018 Audits</th>
<th>Kickoff Date</th>
<th>Current Audit Phase</th>
<th>Projected Date for Final Report</th>
<th>Initial Objective and Scope on the Annual Audit Work Plan</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fleet Management</td>
<td>July 24, 2017</td>
<td>Planning</td>
<td></td>
<td>The initial objective was to assess the effectiveness of the County’s fleet management operations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fieldwork</td>
<td>✓</td>
<td></td>
<td>Fieldwork is focusing on the following areas:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Report Writing</td>
<td></td>
<td></td>
<td>1. DES’ process of evaluating fleet efficiency</td>
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<tr>
<td></td>
<td></td>
<td>Management Review</td>
<td></td>
<td></td>
<td>2. Shop safety</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3. Access to accurate fleet management data</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4. Vehicle maintenance timeliness</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>November 2018</td>
<td>Note: The auto auction objective was closed in fieldwork with no adverse indications.</td>
<td></td>
</tr>
<tr>
<td>Public Safety Overtime – Fire Department</td>
<td>May 1, 2018</td>
<td>Planning</td>
<td></td>
<td>The initial objective is to assess the administration and use of overtime in the Fire Department. Elements could include the need for overtime, the use</td>
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<tr>
<td></td>
<td></td>
<td>Fieldwork</td>
<td>✓</td>
<td></td>
<td>Audit conducted in conjunction with SC&amp;H Group.</td>
</tr>
<tr>
<td>Project Name</td>
<td>Start Date</td>
<td>Plan/Status Points</td>
<td>Description</td>
<td></td>
<td></td>
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<td>--------------------------------------------------</td>
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<tr>
<td><strong>Public Safety Overtime – Police Department</strong></td>
<td>May 2, 2018</td>
<td>Planning Fieldwork</td>
<td>The initial objective is to assess the administration and use of overtime in the Police Department. Elements could include the need for overtime, the use of effective overtime management techniques, the impact of current staffing levels and policies, and opportunities for potential savings.</td>
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<tr>
<td></td>
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<td>Report Writing</td>
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<tr>
<td></td>
<td></td>
<td>Management Review</td>
<td>Audit conducted in conjunction with SC&amp;H Group.</td>
<td></td>
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<tr>
<td><strong>Economic Development Incentive Funds</strong></td>
<td>September 18, 2018</td>
<td>Planning Fieldwork</td>
<td>The initial objective is to assess AED’s process for monitoring of economic development incentive funds for compliance with agreed-upon requirements. Additional elements could include the quality and frequency of economic development incentive fund reporting, the quality and accuracy of the information used in the reports, and root cause analysis for any issues identified in the audit. Note that the matter of economic development incentive funds’ overall effectiveness would be excluded from</td>
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<td></td>
<td></td>
<td>Report Writing</td>
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</table>
Public Safety Overtime – Sheriff’s Department  | September 26, 2018  | Management Review

| Planning  | ✔  | the scope of this audit, and potentially included in a future audit once enough longitudinal data are available. |
| Fieldwork |
| Report Writing |
| Management Review |

Fieldwork Report Writing

Procurement Processes  | FY2019 – Q3  | FY 2019 – Q3

| Planning |
| Fieldwork |
| Report Writing |
| Management Review |

The initial objective is to assess the administration and use of overtime in the Sheriff’s Department. Elements could include the need for overtime, the use of effective overtime management techniques, the impact of current staffing levels and policies, and opportunities for potential savings.

The initial objective will be to assess the efficiency of County procurement practices from a department’s initial request through contract completion. The initial request will incorporate the scope of services development process, while contract completion would occur when a contract is signed and ready for implementation. Audit elements may also include an analysis of root causes for any inefficiencies identified. While the Purchasing Office is contained within the Department of Management and Finance, this audit is expected to include procurement.
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</thead>
<tbody>
<tr>
<td>process activities conducted by other offices or departments, such as the County Attorney’s Office.</td>
<td>The initial objectives will be to evaluate how well the County is overseeing the BIDs and whether the County should make improvements to facilitate the BIDs’ strategic effectiveness. Elements could include whether the County is ensuring that the BIDs comply with current BID agreements, whether improvements are needed in BID agreements or work plans, the effectiveness of the County’s guidance to the BIDs, and the timeliness and accuracy of fund transfers to the BIDs.</td>
<td>Audit kickoff to be coordinated with the end of the Economic Development Incentive Funds audit, to reduce workload on AED.</td>
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</table>
Update on Financial Fraud, Waste and Abuse Hotline and Internal Audit to the Audit Committee

September 2018
Financial Fraud Waste and Abuse Hotline Update

Call center operated by Ethical Advocate

Employee hotline implemented in May 2015 with an Administrative Regulation Whistleblower Policy

Public hotline implemented in November 2016
Number of Complaints per Calendar Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Complaints</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>9</td>
</tr>
<tr>
<td>2016</td>
<td>15</td>
</tr>
<tr>
<td>2017</td>
<td>25</td>
</tr>
<tr>
<td>2018</td>
<td>34</td>
</tr>
</tbody>
</table>

83 Total Complaints – 70 Unique Complaints
Anonymity

- **YES**: 57; 69%
- **NO**: 26; 31%

September 2018 Update for Audit Committee
Relationship to County

- Resident, 29, 35%
- Visitor, 3, 4%
- Other, 15, 18%
- Employee, 36, 43%
Returned to System

- Yes, 37, 45%
- No, 46, 55%

September 2018 Update for Audit Committee
Type/Result of Complaint

- Substantiated and/or IC Weakness, 11, 13%
- In Process, 1, 1%
- Referred to HR, 15, 18%
- Non-Govt, 21, 26%
- Unsubstantiated, 35, 42%
Continued Advertisement

- Quarterly included in e-News (employee news)
- Insider
- AC Commons – County intranet
- County web page
Internal Audit Update

Internal Audit Services

Internal Audit Program Mission

To strengthen County operations and minimize risk and fraud through systematic evaluation of operations and internal controls.

- To assist senior management and departments to effectively and efficiently implement County programs in compliance with financial, accounting and other County policies by conducting objective internal audits and reviews.
- To test internal controls to provide reasonable assurance that resources are safeguarded against waste and abuse.
- In conjunction with the County Manager’s Office and other departments, implement the Financial Fraud, Waste and Abuse Hotline

Organization

Internal resources and external consulting services will together implement the annual Work Plan and any unexpected needs. In the Fiscal Year (FY) 2015 Adopted Budget, the County Board approved funding for one internal audit position, bringing the total number of internal resources to support this function to 1.5 FTEs. Presently, RSM, LLC. — a major provider of assurance, accounting and consulting services to governments and corporations — is working with the County to complete the Work Plan.
Resources

• 1.5 FTE - for most of FY18 – we had .5 vacancy
• Recently hired the .5 FTE  Started 9/18
• Consultant Dollars - ~$200,000

• Rebid the Internal Audit Services contract
• Awarded to RSM in April 2018 - lapse of 3 months
FY 18 Internal Audit Work Plan

- Contract Compliance
  - DES Equipment Bureau - Mansfield Oil – Complete - RSM
  - DES Water Sewer Streets – A&M Concrete – Complete - RSM
  - DES Transit Operations – National Express Transit – Management Response - KED

- Payroll and Timekeeping
  - DES Facilities Maintenance Bureau – Complete - RSM

- Inventory/Asset Management
  - DTS Less than 5K Assets – near complete - KED

- Sole Source Purchases – Complete - RSM
- Printing and Mail Services – Complete - RSM
- County Cell Phones – Finalizing Report - RSM
- Fuel Card – Management Response Review - RSM

Due to resource constraints and risk assessment, did not complete
- Grant Compliance
- Purchase Cards
- Funds Handling
Summary of Findings of FY 18 Completed Audits

Contract Compliance:
Department of Environmental Services: Fleetcor Technologies Operating Company LLC, Contract # 580-13

  • High – Invoice Review

Department of Environmental Services: A&M Concrete Corporation, Contract # 17-108-ITB

  • No Findings
Summary of Findings of FY 18 Completed Audits – (cont’d)

Timekeeping/Payroll
Department of Environmental Services: Facilities Management Division

• Moderate  Timesheet Accuracy, Verification and Authorization

• Moderate  Pre-Approval of Various Compensation Categories – County Level

• Moderate  Post-Payroll Review

• Low    Segregation of Duties and User Access
Summary of Findings of FY 18 Completed Audits (Cont’d)

Sole Source Procurement Process
• Moderate – Inadequate Documentation to Substantiate Sole Source Determination

Department of Environmental Services: Digital Production and Mail Center
• High Funds Handling

• Moderate - Print Rate Chart

• High - Contract Compliance

• Moderate - Duplicative Printing Systems

• Moderate - Invoice Approval and Payment
Summary of Findings of FY 18 Completed Audits (Cont’d)

Near Completion

Contract Compliance – DES Transit Operations
Contract Compliance – DTS Inventory of Assets Less than $5K
Fuel Card Program – DES Equipment Bureau
Wireless Device Billing - DTS
Review of Prior Audit Remediation Efforts

Internal Audit is required to validate the implementation of management’s corrective action plans as documented for each reported finding. The following summarizes the status of Internal Audit’s follow-up as of September, 2018

**Findings Summary:**
Total Findings as of September 2018 101
Less: Findings not yet subject to follow up (1) 0
**Total Subject to Follow-up** 101

**Status of Findings Subject to Follow-up:**
- Remediation tested by IA and deemed adequate 57
- Remediation of testing currently in process, not completed 30
- Items not yet tested by IA 14
**Total Subject to Follow-up** 101

<table>
<thead>
<tr>
<th>Rating</th>
<th>Remediation tested by IA and deemed adequate</th>
<th>Remediation of testing currently in process, not completed</th>
<th>Items not yet tested by IA</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>11</td>
<td>5</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Moderate</td>
<td>13</td>
<td>15</td>
<td>10</td>
<td>38</td>
</tr>
<tr>
<td>Low</td>
<td>33</td>
<td>10</td>
<td>1</td>
<td>44</td>
</tr>
<tr>
<td>Totals</td>
<td>57</td>
<td>30</td>
<td>14</td>
<td>101</td>
</tr>
</tbody>
</table>

(1) Expected implementation dated after September 30, 2018; generally strives to commence follow-up within 180 days of expected implementation date.
First Half of FY19 Work Plan (See attached)

Contract Compliance
  DES
  TBD
Payroll and Timekeeping
  Three divisions in DHS
Inventory/Asset Management
  DTS
Employee Expense Reimbursements
  County - Wide
Utility Tax
P Card Analytics
Remediation Review
Other Internal Audit Activities

• Provide consultative support for the creation/modification of policies and Requests for Proposals
• Aid and assist in improving departmental processes
• Conduct investigations reported from any source – FFWA Hotline or otherwise
• Increased focus on internal control training as time permits
• Currently drafting “Red Flag Reporter”. The Reporter will be a short newsletter that discusses relevant internal audit issues, topics, etc. Estimated release date Q2 FY19.
Second Half of FY19 and Future Year Work Plan

• Created first County-wide Risk Survey. (Release date September 24, 2018) to inform the Second Half of FY19 and future years’ work plans.

• Elements of the Risk Survey include the following:
  • A tutorial with voice-over providing survey participants background around why a risk survey is being performed, the importance of completing the survey, the business risks (and related definitions) the County faces in achieving its mission, and instructions for completing the survey
  • Pool of participants includes the Executive Leadership Team, the Extended Management Team, individuals with a significant role in financial processes and other; approximately 200.
  • For each risk, the participant will assess the likelihood and impact of an event occurring as High, Medium or Low.
  • Results will be an important element in developing the 2nd half FY 19 Internal Audit Work Plan and provide a platform for addressing county-wide risk challenges.
External Auditors Update

After competitive solicitation, Cherry Bekaert are the County’s new external auditors.
Internal Audit Work Plan
First Half of Fiscal Year 2019

Department of Management and Finance
Arlington County’s Internal Audit Division is organizationally located in the Department of Management and Finance. Internal Audit is designed to add value and improve the County’s operations by utilizing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

Annually, Internal Audit compiles a work plan to guide the efforts of the division so that limited resources can be focused on the highest identified risk areas. For Fiscal Year 2019, a formal risk assessment survey is currently underway to inform the full year Fiscal Year 2019 Work Plan. In the interim, this document identified the Work Plan for the first half of the FY 2019. Upon completion and review of the results of the risk assessment survey a revised plan summarizing the Fiscal Year 2019 Work Plan will be presented. To accomplish the Work Plan, the County employs both internal resources and external consulting services.

The Fiscal Year 2019 Work Plan includes budgeted time for cycle audits, audits of specific programs and processes, non-audit services, follow-up on previously issued audit recommendations, and internal administrative/quality assurance activities. The pages that follow provide an overview of the Internal Audit Work Plan with the caveat that the schedule is subject to change based on unexpected changes in risk that may affect the organization.
## Risk Factors Considered for Selection Work Plan (First Half Fiscal Year 2019)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Control Environment</strong></td>
<td>• Existence of formalized policies and procedures, accountability, knowledge and training, operational changes, etc.</td>
</tr>
<tr>
<td><strong>Materiality</strong></td>
<td>• Revenues/expenditures, potential for loss, impact to the organization, etc.</td>
</tr>
<tr>
<td><strong>Complexity of Activity/Business Process</strong></td>
<td>• Level of complexity involved in day-to-day operations or conducting transactions, regulatory considerations, etc.</td>
</tr>
<tr>
<td><strong>Information Technology Systems</strong></td>
<td>• Utilization of automated systems to assist in achieving goals, help with decision-making, monitor progress, realize efficiencies, etc.</td>
</tr>
<tr>
<td><strong>Time since last audit</strong></td>
<td>• Time since last review or evaluation for the activity or department</td>
</tr>
</tbody>
</table>
Cycle Audits (First Half Fiscal Year 2019)

**Contract Compliance**

While the Purchasing Division provides centralized assistance to departments in procuring goods and services, the administration and oversight of individual contracts are the responsibility of the respective departments. A County Contract Administration Policy, effective January 1, 2017, provides guidance to Project Officers to assist with oversight responsibilities for an assigned contract; however, the work of the Project Officers is largely decentralized.

Cycle audits of contract compliance will focus on a specific contract and evaluate the effectiveness of internal controls over the administration of that contract, compliance with County policies, and compliance with the terms of the contract under audit.

**Key Risk Areas:**
- Compliance with County policies
- Appropriateness of expenditures per contract terms
- Quality of service delivery/goods

**Payroll and Timekeeping**

The Fiscal Year 2019 Budget includes over $300 million in funds for salaries for over 3,900 full-time equivalent positions. Compensation structures vary across position types and hours worked, and timekeeping and reporting methods vary by department. Rotating reviews of timekeeping and payroll practices across the departments will evaluate internal controls over the recording of employees’ time worked, software systems used to record time, the accuracy of the conversion of time worked into a paycheck, and approval and oversight processes.

**Key Risk Areas:**
- Accuracy of time records and compensation types
- User access to software systems used to record information
- Approval processes and associated segregation of duties

**Inventory/Asset Management**

Physical assets are purchased and maintained at the departmental level across the County, resulting in decentralized asset management. There is inherent risk associated with accurately accounting for items as a result of the decentralization. Departments are responsible for tracking, inventorying, and safeguarding their assets, as well as properly disposing of items at the end of their lifecycles.

Audits of inventory and asset management will evaluate the effectiveness of internal controls over tracking/monitoring asset use, inventories of assets, physical safeguarding of items, and the disposal process.

**Key Risk Areas:**
- Existence of assets in the workplace
- Tracking assets
- Proper disposal/decommissioning of assets with appropriate approvals
Cycle Audits (First Half Fiscal Year 2019)

**Employee Expense Reimbursements**

The County allows for employee reimbursement of expenses related to County business.

These transactions are separate from PCard transactions, have a separate process, and are utilized as needed. It is critical that the employee reimbursement process operate with the same adequacy of control as the PCard process so that no gaps exist to allow misuse or abuse.

Audits of employee expense reimbursements will focus on evaluating the effectiveness of internal controls over the administration of expense reimbursements, adequacy of policies and procedures, and compliance with County policies and state regulations.

**Key Risk Areas:**
- Compliance with County policies
- Appropriate backup is provided
- Expenses are not duplicated

**Utility Tax**

Arlington charges a utility tax on commercial users of electricity and natural gas. This tax is based on kilowatt hours (kWh) for electricity and hundred cubic feet (CCF) for natural gas delivered monthly to commercial consumers. Rates are limited in the state code: Residential to a $3/month maximum per utility and that rates must be based on usage and Commercial not to exceed 20% of “the monthly amount charged to consumers”. At the currently adopted rates, the commercial utility tax is projected to generate $10.3 million in FY 2019.

A residential utility tax was imposed on consumers of electricity and natural gas in FY 2008. There are different rates for residential and apartment buildings. At the new rates, the total revenue projected from the residential utility tax in FY 2019 is $5.2 million.

An audit will focus on evaluating the adequacy of internal controls surrounding billing and revenue collections, rate setting, compliance with policies and procedures, monitoring, and reporting.

**Key Risk Areas:**
- Correct rates being charged for each property type
- Commercial taxes are staying within the 20% ceiling
- Tax revenue is tracked by jurisdiction and the correct amount is remitted to the County monthly
- Tax exempt customers are being charged tax
Audit Services (Full Fiscal Year)

Follow up on Prior Audits

Best practices in Internal Audit require that Internal Audit establish a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not implementing recommended remediation(s).

Included within Management Responses in the previously issued internal audit reports is the targeted implementation date for remediation. Follow-up procedures are performed on those issues where the target dates have been reached, and ample time has passed under the new control (generally six months) to verify and report the implementation status of the recommendations to the previously reported findings.
Internal Audit Information

**Internal Audit Mission:**

- To strengthen County operations and minimize risk and fraud through systematic evaluation of operations and internal controls.

- To assist senior management and departments to effectively and efficiently implement County programs in compliance with financial, accounting and other County policies by conducting objective internal audits and reviews.

- To test internal controls to provide reasonable assurance that resources are safeguarded against waste and abuse.

- In conjunction with the County Manager’s Office and other departments, implement the Financial Fraud, Waste and Abuse Hotline.

**Copies of Audit Reports:**

[https://departments.arlingtonva.us/arlington-county-internal-audit-services/](https://departments.arlingtonva.us/arlington-county-internal-audit-services/)

**Financial Fraud, Waste & Abuse Hotline:**

Report suspected instances of fraud, waste or abuse

- **Phone:** (866) 565-9206
- **Online:** [https://arlingtonva.ethicaladvocate.com](https://arlingtonva.ethicaladvocate.com)
Subject/Topic: Whistleblower Policy
Topic Category: Human Resources
Department Lead: Office of the County Manager
Last Revised: 05-20-15

Summary: To provide protection for employees who file or make a Report, as defined in this policy, of a suspected instance of financial fraud, waste or abuse that has or could have a significant detrimental impact on County resources or assets (FFWA). This policy outlines the criteria to which those complaints should adhere in order to qualify the employee for whistleblower protections against retaliation for making a complaint about FFWA to the County’s hotline or to specified County staff members. This policy also provides access to the County’s grievance process to those whistleblowers.

Employees are encouraged to review this policy carefully to ensure that they follow the right steps to secure whistleblower protection and to determine whether or not an action later taken by management was taken as punishment for lodging such a Report and thus an appropriate remedy can be requested through the County’s grievance process.

Purpose: To encourage employees to report with a reasonable belief suspected instance(s) of FFWA and provide a method for employees to provide to the County reliable information to enable the County to conduct an objective, fair and comprehensive investigation of such complaints of FFWA, to take appropriate corrective action, and to deter any future misconduct. For qualified Reports, this policy is intended to afford protection to employees against Retaliation for bringing these matters to the attention of the County.

Scope: Applies to all employees of the County Manager in Competitive Service, as defined in Administrative Regulation 2.7, Chapter 1, Table 1-1.

Policy Detail: It is the responsibility of County employees to report through the official channels (as indicated in the “Reporting Financial Fraud, Waste, and Abuse” section of this policy) suspected instances of FFWA. This policy is limited to whistleblower protections and is not intended to discourage anonymous complaints of FFWA.

In order to secure whistleblower protections and possible access to the County’s grievance process if the anti-retaliation prohibition outlined in this policy is violated, the complaint generally must: identify the name of the person making the complaint; follow the procedures listed in this policy; be related to a FFWA and involve conduct or omissions of possible or actual FFWA, which has or could have a significant financial impact on County operations. The policy provides further details below.

Definitions The definitions below are intended to help clarify the areas that are covered by this policy; however, examples provided in one definition may also be applicable to other definitions. In order to qualify for whistleblower protections, complaints must involve matters that have or could have a significant financial effect on County operations (resources or assets).

- Financial Fraud, Waste, and Abuse (FFWA) - A suspected instance of financial fraud, waste or abuse that has or could have a significant detrimental impact on County resources or assets.
- **Fraud** – Intentional deception or misrepresentation made by an employee with the knowledge that the deception could result in some unauthorized tangible or intangible benefit to themselves or others or could cause significant financial detriment to the County.

For purposes of this policy, fraud also includes conduct prohibited by the [Virginia Conflicts of Interest Act](#) and the acceptance or solicitation of bribes, kickbacks, illegal gratuities; taking or assessing a commission or payment for County work; assessing or collecting unauthorized user fees or charges; forgery; falsification of applications or records; and unauthorized alteration of records.

- **Waste** – Improper expenditure of funds, or the intentional or unintentional, thoughtless or careless consumption, mismanagement, or squandering of resources owned or operated by the County to the detriment or potential significant financial detriment of the County.

Examples of waste include, but are not limited to the following: the abuse, misuse, damage or destruction of County resources or property that is neither accidental nor incidental; incurring unnecessary costs because of inefficient or ineffective practices, systems or controls; personal charges on a County-issued purchase card; improperly disposing of County property; failure to follow accounting or money handling procedures; using County service contracts for work outside of the scope or intent of the contract; improperly using County physical facilities for personal benefit; failing to follow the County’s Purchasing Resolution and processes resulting, for example, in the payment of inflated prices for goods or services or the purchasing of unnecessary goods or services; failing to provide proper oversight of reimbursements or change orders.

- **Abuse** – Excessive or improper use of authority or position for personal financial gain or for the personal financial gain of those with whom an employee has a personal or professional relationship, including former employers. Abuse is also the intentional destruction, diversion, manipulation, misapplication, maltreatment or misuse of resources owned or operated by the County or the extravagant or excessive use so as to abuse an employee’s position or authority to the significant financial detriment of the County.

Examples of abuse include, but are not limited to the following: the misappropriation of County resources for an unauthorized purpose or contrary to their purpose; accounting irregularities; failure to follow money handling procedures; reimbursement or reimbursement request irregularities; inappropriate change orders; procurement irregularities; failure to adhere to or enforce loan or grant terms; failure to make appropriate financial disclosures or meet reporting requirements; Irregularities with a County-issued purchase card; theft; and the improper receipt of gifts.

- **Oversight Committee** – The committee, appointed by the County Manager with representation from senior County Management, including Human Resources and Management & Finance, that is charged with providing oversight, guidance, and checks and balances to the Review Committee.
- **Retaliation/Retaliate** – As a result of making a Report, as defined in this policy, of a suspected instance of FFWA, an employee suffers a materially adverse employment action within twelve (12) months from the date of the incident being reported. Department leadership shall not retaliate against any Whistleblower who makes a Report or an employee who cooperates, gives testimony, or participates in a review, investigation, proceeding, or hearing related to a complaint of FFWA.

- **Report** - A Report is a complaint of a suspected instance of FFWA made through the methods outlined in this policy and meeting the criteria set out in this policy, including the requirement that an the employee disclose his or her name and contact information when making that complaint.

- **Review Committee** – The Committee, appointed by the County Manager, that is charged with reviewing all complaints and Reports of suspected instances of FFWA. The Review Committee will determine next steps in investigating or otherwise resolving complaints and Reports, with the concurrence of the Oversight Committee.

- **Whistleblower** – An employee who makes a Report of FFWA and is entitled to Whistleblower Protection.

- **Whistleblower Protection** – Protection against Retaliation for making a Report of suspected FFWA.

**Protecting Employees Who Report Possible FFWA**

- Department leadership shall not retaliate against any Whistleblower who makes a Report or an employee who cooperates, gives testimony, or participates in a review, investigation, proceeding or hearing related to a FFWA complaint.

- Whistleblower Protection does not shield an employee from criminal prosecution or from discipline arising from his or her later discovered wrong doing, participation in a non-criminal act of fraud, waste or abuse or when a complaint is made for an improper purpose, such as harassment, intimidation or to influence an employment or other County decision.

- While the County strongly encourages all employees to use the County’s Fraud, Waste and Abuse Hotline or to otherwise report such matters, Whistleblower Protections cannot be extended to anonymous complaints even if later investigation reveals the identity of the employee or to complaints of FFWA that do not meet the Report Criteria set out later in this policy.

**Reporting Financial Fraud, Waste and Abuse**

- **County’s Employee Fraud, Waste and Abuse Hotline** – Please click [here](#).

- **Internal Reporting Methods** - County employees who have knowledge of, either directly or indirectly, or have reason to suspect that any financial fraud, waste or abuse (FFWA) has occurred should immediately disclose the situation to one or more of the following (in no particular order though following the chain of command is preferred when possible):
  1. Employee’s supervisor;
2. Employee’s Unit Manager or Employee’s Bureau/Division Chief;
3. Employee’s Department Director or the Department Director where the suspected misconduct is occurring;
4. Department of Management and Finance (DMF); or
5. Department of Human Resources Employee Relations Office.

Whistleblower Protection Criteria  A complaint which entitles an employee to Whistleblower Protection (a “Report”) shall meet the following criteria:

1. Be made by the employee himself/herself and the employee discloses his/her name when making the complaint;
2. Be made with the reasonable belief that the suspected instance of FFWA (financial fraud, waste or abuse) has occurred and the impact on County operations is or could be significant. A complaint cannot be made for an improper purpose, such as harassment, intimidation or to influence an employment action or decision;
3. Be made in writing to the appropriate person in authority, as outlined in this policy, or made to the County’s Fraud, Waste and Abuse Hotline using either the Hotline’s on-line reporting system or the Hotline agent-assisted reporting system;
4. Provide sufficient detail and be recent enough (within 90 days) to render the suspected instance of FFWA capable of investigation; and
5. Be capable of objective corroboration, even if the allegation is ultimately determined to be unfounded or cannot be acted upon.

The Review Committee will determine whether the complaint meets the criteria of a Report, thereby qualifying the employee for Whistleblower Protection status, with the concurrence of the Oversight Committee. This determination on Whistleblower Protection is final and is not grievable.

Responsibilities of Departments, County Review and Oversight Committees  Department Directors, Department management, Review Committee, and Oversight Committee, members shall:

- Adhere to the provisions of this policy.
- Protect the privacy of employees who make Reports, to the greatest extent possible, and not disclose the employee’s name to anyone other than the Review Committee except on a strict need to know basis.
- Not seek to identify the source of anonymous complaint, unless compelled to do so by a court or for criminal investigative purposes.
- Protect the integrity of the reporting process and, with regard to departmental personnel, not disclose the information contained in a complaint/Report to anyone other than as required to transmit the information to the Review Committee, or not take any action that may destroy evidence or influence witnesses.
- Ensure that all Department supervisors and managers will abide by this prohibition against Retaliation.
- Provide appropriate training to all Department supervisors and managers.
Timely transmit to the Review Committee FFWA complaints, plus any supporting materials provided by an employee.

Ensure that the Arlington County Police Department has an opportunity to review any complaints that may involve criminal activity.

Recuse themselves from all review processes if the Department Director, member of Department management, employee in the direct chain of command, or a member of the Review or Oversight Committee is personally named.

The Review Committee is responsible for determining whether a complaint meets the criteria of a Report, thereby qualifying the employee for Whistleblower Protection status, with the concurrence of the Oversight Committee. This determination on Whistleblower Protection is final and is not grievable.

Complaints received related to the Office of the Treasurer, Office of the Commissioner of Revenue, Office of the Sheriff, Office of the Commonwealth Attorney, Internal Affairs for the Police and Fire Departments, Office of the Registrar, the Clerk of the Court, Office of the County Attorney or Judicial Center state employees will be forwarded to the appropriate entity for further review and handling.

Reports received related to, for example, personnel administration, payroll, employee relations, discrimination, the County’s Code of Ethics, Standards of Conduct or other human resources matters are not covered by this policy but will be forwarded to the Department of Human Resources or appropriate department or office for further review and handling.

**Grievance Rights** Any Whistleblower who believes he or she has been subjected to Retaliation for making a Report may file a grievance by following the procedures contained in Administrative Regulation 2.7 – Chapter 19, “Grievances.”

**NOTE:** Issues involving payroll records or time and attendance records are handled through the Department of Human Resources and should be referred to Employee Relations.

**NOTE:** Issues involving County vehicles are handled through the County’s Driver Policy and should be reported to the Office of Risk Management.

**Related Information:**
- Additional Resources (Phone Numbers, Contact Information)
- Administrative Regulation 2.7, Chapter 19, “Grievances”
- Administrative Regulation 2.7, Chapter 1, Table 1-1, “Division of Employees into ’Services’”
- Arlington County Purchasing Manual
- Arlington County Purchasing Resolution
- Arlington County Driver Policy
- County’s Fraud, Waste and Abuse Hotline
- State and Local Government Conflict of Interests Act, Va. Code Ann. § 2.2-3100-3131
Virginia Public Procurement Act, Va. Code Ann. § 2.2-4300-4377

Effective 05-26-2015

Authored by: Michael R. Peter

Approved ________________________ 05/20/2015

County Manager Date