



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 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, 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