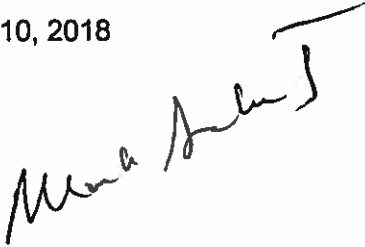


**ARLINGTON COUNTY, VIRGINIA
INTER-DEPARTMENTAL MEMORANDUM**

December 10, 2018

TO: Members of the County Board

FROM: Mark J. Schwartz, County Manager 

SUBJECT: Fiscal Year 2018 CAFR, Management Letter and Auditor of Public Accounts (APA) Compliance Report

Enclosed are 7 copies of the above referenced documents which will be presented to the County Board during the County Manager's report at the Recessed December 18th County Board Meeting. As has been our practice, I have included a copy for each of the Board members, a copy for the Clerk to the County Board and a copy for the file.

The CAFR has been placed on the County internet site. The County received an unqualified opinion, the highest possible opinion for the Fiscal Year 2018 financial statements.

I have also enclosed copies of the Fiscal Year 2018 management and APA compliance letters (dated the day that audit field work was completed, but which was just completed and received recently) prepared by the County's external auditors Cherry Bekaert which identified areas for improvement in County and School operations. The management letter represents an annual standard practice where the external auditors describe areas where they believe the County and Schools could improve its administration and management. The APA compliance letter is similar to the management letter but addresses areas of improvement in relation to compliance with the Commonwealth of Virginia's laws, regulations, contracts and grants. We believe that we have addressed or will be successfully addressing the issues identified in both letters over the next year. In addition, issues identified in prior years have also been addressed.

As you will note there are no major findings in any area.

Please let me know if you need anything else.

C: Michelle Cowan, Deputy County Manager, County Manager Office
Stephen Agostini, Chief Financial Officer, Department of Management and Finance
Maria Meredith, Deputy Chief Financial Officer, Department of Management and Finance
Barbara Wiley, Acting Comptroller, Department of Management and Finance
Rahul Bhalla, Comptroller, Department of Management and Finance
David Blorstad, Director of Finance, Arlington Public Schools

The Honorable Members of the County Board
Management
Arlington County, Virginia

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arlington County, Virginia (the "County"), as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the County's internal control over financial reporting ("internal control") as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

During our audit, we noted opportunities for strengthening internal controls and operating efficiencies. This letter does not affect our report on the financial statements of the County.

We will review the status of our comments during our next audit engagement. We have already discussed these comments and suggestions with various County personnel, and we will be pleased to discuss in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Capital Assets

Construction in progress ("CIP") - During our testing of Arlington County Public Schools' ("Schools") capital assets, we noted that CIP is not being separately captured for financial reporting and depreciation purposes when input by the County into the fixed asset ledger. As Schools is constructing three new schools and construction was in progress at June 30, 2018, we recommend a process be implemented to separately track CIP, as depreciation expense should not be captured until the asset is placed in service.

View of Responsible Officials: Schools will implement a process to separately track CIP beginning in FY19. Since portions of current projects have already been capitalized and depreciation started, we will only identify expenditures on these projects beginning July 1, 2018 as CIP. Any new projects coming online will be fully tracked as CIP until the project is complete.

General capital assets – During our testing of County and Schools capital assets, we noted several invoices for capital asset purchases that were expensed in the government-wide financial statements rather than being capitalized. We recommend a process be implemented to ensure personnel are consistently and correctly capturing all significant capital assets purchased during the year.

View of Responsible Officials: Schools will implement procedures to enhance the recognition of capital assets instead of expensing these items. Particularly, we will provide additional training to end user schools and departments to stress the need to correctly code capital assets to accounts that represent capital assets.

The County will stress with our project managers the need to be more diligent in using the correct accounting charge codes and for a periodic review. The County will develop a fixed asset policy and roll out training to educate project managers on properly classifying capital expenses. Until such policy/training can be developed, Department of Environmental Services will distribute a memo, with the input of the Department of Management and Finance, to reiterate fixed asset requirements and the information that should be confirmed and reviewed during requisition approvals to ensure mistakes are caught.

Housing Choice Voucher Program (HCVP)

Recertification checklists - During our program eligibility testing, we noted several instances where recertification checklists were not being completed on a consistent basis. Failure to complete the checklist could result in incomplete file documentation to support a participant's eligibility determination or an incorrect eligibility determination for a participant's Housing Assistance Payment (HAP). We recommend program management reiterate to personnel the importance of completing the checklist and monitor for compliance during their existing monitoring process.

View of Responsible Officials: Department of Human Services ("DHS") will update the Housing Choice Voucher Program's Annual Recertification Standard Operating Procedure and will retrain staff to ensure understanding and compliance. Compliance with the procedure will be incorporated into the annual monitoring process.

Documentation – During our program eligibility testing, we noted one instance where documentation was not obtained to support the current year balance of a participant's previously claimed assets. We noted that per federal program guidelines this is not a circumstance that requires the County to terminate the participant's benefits; however, based on program policies, the case worker should have documented procedures taken and judgments made in the determination. We recommend program management ensure personnel are knowledgeable of written policies and enforce and ensure policies are being followed through the existing monitoring process.

View of Responsible Officials: DHS will retrain Housing Choice Voucher staff on the existing policy and procedure governing documentation.

This communication is intended solely for the information and use of County and Schools management and is not intended to be, and should not be, used by anyone other than these specified parties.

Cherry Bekart LLP

Tysons Corner, Virginia
October 30, 2018

**Report of Independent Auditor on Compliance with
Commonwealth of Virginia’s Laws, Regulations, Contracts, and Grants**

To the Honorable Members of the County Board
Arlington County, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities, and Towns* (the “Specifications”) issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arlington County, Virginia (the “County”), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated October 30, 2018.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County’s financial statements are free of material misstatement, we performed tests of the County’s compliance with certain provisions of the Commonwealth of Virginia’s laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the basic financial statements was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The following is a summary of the Commonwealth of Virginia’s laws, regulations, contracts, and grants for which we performed tests of compliance:

Code of Virginia		State Agency Requirements
Budget and Appropriation Laws	Procurement	Education
Cash and Investments	Unclaimed Property	Children’s Services Act Funds
Conflicts of Interest	Property Taxes	Social Services
Debt Provisions		Highway Maintenance Funds
Economic Development Opportunity Fund		
Intergovernmental Revenues and Agreements		

The results of our tests disclosed instances of noncompliance with those requirements required to be reported in accordance with the Specifications, which are described in the accompanying schedule of findings and responses as items 2018-001 through 2018-004.

The County’s responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and responses. The County’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants and the results of that testing, and not to provide an opinion on the County's compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekant LLP

Tysons Corner, Virginia
October 30, 2018

Arlington County, Virginia
Schedule of Findings and Responses -
Compliance with Commonwealth of Virginia's Laws,
Regulations, Contracts, and Grants
June 30, 2018

2018-001: Non-material Noncompliance – Conflicts of Interest

Criteria:

Section 2.2-3115 of the *Code of Virginia* requires that certain local government officials and employees file a Statement of Economic Interest (“SOEI”), Financial Disclosure Statement, and Real Estate Disclosure form with the Clerk of the local governing body by February 1st or prior to assuming office or taking employment.

Condition:

During our testing of fifty-six (56) County and School Board members, County constitutional officers, and other County officials and personnel required to complete the forms, we identified three (3) instances where forms were not timely filed and seven (7) instances where the forms were not accurately completed.

Cause:

The County relies on each member, officer and official to completely and timely provide the required forms.

Effect:

Non-compliance may result in action by the Commonwealth.

Recommendation:

We recommend the County continue to remind each individual required to complete these forms and of their responsibility for accuracy in completing and timely filing the forms with the Clerk. We further recommend the Clerk’s office review the forms for completeness.

View of Responsible Officials:

County: With regards to a new hire that filed late, the County has revised the offer letter and assignment change templates for required filers to include the language that on or before the first day of employment, the State and Local Statement of Economic Interest form must be completed. We are also requiring new impacted hires to sign a form acknowledging they are a required to file on or before their first day and annually thereafter. The County has taken the steps to re-train Human Resources Liaisons and provided materials with updated information on the timing requirements. With regards to incomplete and missing forms, the County will include additional instructions for completing the form and staff will improve the thoroughness of reviewing each form upon receipt. The County will store the forms electronically to improve organization and reduce the potential for misplaced/misfiled forms.

Schools: We will continue to remind each individual School Board member to complete these forms and of their responsibility for accuracy in completing and timely filing the forms with the Clerk. The Clerk will also be requested to review the forms for completeness.

2018-002: Non-material Noncompliance – Social Services Annual Review of Access

Criteria:

Per Section 3-15 of the Specifications, each government’s local security officer should be annually reviewing each Arlington County Department of Human Services (DHS) employee’s access to each DHS application with the individual employee’s supervisor to ensure that the access is properly aligned with their stated job responsibilities.

Condition:

Of the twenty (20) employees’ access forms selected for testing, none were reviewed within the last year and system access for eighteen (18) employees did not agree to the access request forms on file.

**Arlington County, Virginia
Schedule of Findings and Responses -
Compliance with Commonwealth of Virginia's Laws,
Regulations, Contracts, and Grants
June 30, 2018**

Cause:

The DHS currently only requires Computer Access Request Forms be completed and signed by a supervisor when there is a change in system access for an individual. Based on our testing, this policy is not being followed as intended.

Effect:

Non-compliance may result in action by the Commonwealth.

Recommendation:

We recommend DHS review established Computer Access Request Forms policy and either implement a process to ensure it is being followed or revise the policy to require completion of the forms annually.

Views of Responsible Officials:

DHS will develop and implement a DSS Computer Systems Access procedure that addresses the annual systems review requirement for DSS employees.

2018-003: Non-material Noncompliance – Social Services Information Security Policy

Criteria:

Per Section 3-15 of the Specifications, all DHS employees, contractors, vendors, volunteers and work experience personnel shall receive security awareness training, to occur upon initial hiring or prior to accessing the Virginia Department of Social Services (VDSS) systems.

Condition:

We identified three (3) employees who had not timely completed the security awareness training.

Cause:

Based on inquiry of DHS management, this was a matter of management oversight.

Effect:

Non-compliance may result in personnel inadvertently compromising systems or sensitive data.

Recommendation:

We recommend DHS implement a process to ensure all employees timely complete this training.

Views of Responsible Officials:

DHS will develop and implement a DSS Security Awareness Training procedure that addresses the monitoring and tracking of completion of the required annual security awareness training for DSS employees.

2018-004: Non-material Noncompliance – Social Services Terminated Users

Criteria:

Section 63.2 of the *Code of Virginia* requires that the local DHS remove access privileges for terminated users from all systems they were authorized to use within three working days of employment termination.

Condition:

In our testing of five (5) terminated users, four (4) did not have their access removed within three days.

Arlington County, Virginia
Schedule of Findings and Responses -
Compliance with Commonwealth of Virginia's Laws,
Regulations, Contracts, and Grants
June 30, 2018

Cause:

Terminated employees were not timely communicated to the local security officer to allow for removal within three working days.

Effect:

Non-compliance may result in action by the Commonwealth.

Recommendation:

We recommend DHS implement a process to remove access privileges for terminated users within three days.

Views of Responsible Officials:

DHS will develop and implement a DSS Employee Termination procedure that addresses the termination of systems access within three days of termination for DSS employees leaving the organization in accordance with Section 63.2 of the Code of Virginia.