

Arlington County, Virginia

*Arlington will be a diverse and inclusive world-class urban community with secure, attractive residential and commercial neighborhoods where people unite to form a caring, learning, participating, sustainable community in which each person is important*.

**Meeting Minutes for 23rd February 2023**

**Audit Committee Meeting**

***Audit Committee Members:***

*Christian Dorse, Audit Committee Co-Chair (Present)*

*Takis Karantonis, Audit Committee Co-Chair (Present)*

*Mark Schwartz, County Manager (Present)*

*Maria Meredith, Management & Finance Director (Present)*

*John Tuohy, Community Member (Present)*

*Luanne Lohr, Community Member (Present via Video Conference)*

*John Vihstadt, Community Member (Present)*

*William (Bill) Wiggins, Community Member (Present)*

***Administrative Attendees:***

*Jim Shelton, County Auditor (Present)*

*Lynne Porfiri, Chief of Staff (Present via Video Conference)*

*Mason Kushnir, County Board Deputy Clerk (Present)*

***Approval of Minutes from Prior Meeting:***

Minutes to be submitted on the 8th of June 2023 Audit Committee Meeting.

***Audit Committee Other Business:***

Reintroduction of the newly appointed County Auditor (Jim Shelton).

***Summary:***

This meeting was held for an External Audit Follow-up Work Session.

***Discussion Items:***

***Cherry Bekaert’s Partner (Mr. Churchman):*** PPT provided an overview of the audit standards, methods, and report conclusions. ***Conclusion:*** *“unmodified opinions of the County’s financial statements, with one matter related to compliance with Virginia state requirements for internal control communication – a material weakness in internal control over financial reporting related to the restatement of beginning net position of the Governmental Activities.”* Restating the County’s tax revenues to be recognized in the year levied. *This misstatement was reported to the appropriate level of management and corrected.*

“*There were no material changes to qualitative aspects of accounting practices from the prior year, no undisclosed or unapproved related party relationships or transactions, no significant unusual transactions found, no material changes made to significant estimates impacting the financial statements, and financial statement disclosures were found to be neutral, consistent, and clear.”*

“*With regards to required communications - There were no significant difficulties or disagreements in working with management, no knowledge of outside auditor consultations for contentious matters required representations from management were shared timely, no findings of fraud or illegal acts, and no concerns with the County’s ability to continue as a going concern.”*

***Question & Answer Session:***

***Audit Committee Co-Chair (Dorsey) Questions:*** Inquired about the appropriateness of the finding *“material weakness”* given no inappropriate accounting practices or procedures identified on slide six. Further to this issue, the county has been audited *(by Cherry Bekaert),* whereby this weakness was never unidentified in prior years. Another inquiry was made about the controls that could have – or should be – established to prevent it. ***Statement:*** The County’s position, if the appropriate controls were in place, this deficiency should have been identified timely and expressed as a matter of public interest. Controls should be established to prevent this or other issues from recurring.

***Audit Committee Community Member (Mr. Vihstadt) Statements:*** Management has questioned the appropriateness of defining this as a material weakness due to twenty years of consistency and transparency in its accounting practices. The county has accepted this new interpretation and made the appropriate corrections. A potential contributor to the deficiency is that the County’s financial calendar is six months offset from the calendar year. ***Questions:*** How often does the County change auditors, and for how long has Cherry Bekaert been in the County’s service? How are state or federal programs examined across different years? Could or should Cherry Bekaert have found this deficiency during the prior four audits? What discretion does Cherry Bekaert have to identify and select these areas?

***Audit Committee Community Member (Mr. Wiggins) Questions:*** Is County staffing appropriate, and did Cherry Bekaert receive timely responses to inquiries during your audit? Are there any risks on the horizon that the County should be aware of from an auditing or reporting perspective?

***Audit Committee Community Member (Ms. Lohr) Questions:*** Does a threshold exist under which a program or cluster can be audited? Are recent federal programs involving large sums of money likely to appear in next year’s audit? ***Request***: Clarification on how a substantial influx of money from recent legislation could result in auditable areas; due to risk or some other threshold.

***Audit Committee Member, Management & Finance Director (Ms. Meredith) Statement:*** Every five years the County solicits new auditors. The County is currently in a solicitation process.

***Cherry Bekaert (Mr. Churchman’s) Responses:*** Could not speak to the findings of prior audits but identified this deficiency as a matter of professional expertise, noting the deficiency has existed for over two decades. State or federal programs are selected based on regulations handed down at the federal level. Regarding staffing levels, he cannot speak to that. He also noted that responses were received timely. Regarding upcoming changes to reporting requirements, Mr. Churchman knew of no upcoming changes in financial and/or operational reporting, noting entities are analyzed whole clusters. He also clarified, a substantial influx of money from recent legislation, if it is either a Type A or a new program, with no prior audits due to the recency of the program could be considered an auditable area.

***County Auditor Discussion Items:***

***Audit Committee Community Member (Mr. Vihstadt) Questions:*** On page 5 of the County Auditor’s introduction PPT, how is the work plan distinguished from existing internal control audits and the regular course of the County Auditor’s business? What informed the areas of interest, e.g.: *(EMS services and billings, P-Card data to identify software licenses and subscriptions, fuel purchases, sales tax, development conditions, and miscellaneous GL accounts)* as potential audit areas? How are the two data scientists funded, and what is tenure? What is the status of the hiring process for the Deputy and Assistant audit positions? ***Proposal:*** Introducing Audit Committee meetings at least five times in one year, rather than once per quarter as specified in the Audit Committee Charter, and asked if that would pose any operational concerns. Use of the additional meeting would be for an update on the internal audit and financial fraud, waste, and abuse hotline.

***Audit Committee Community Member (Mr. Wiggins) Questions:*** Has the County Auditor become acquainted with the various department heads and begun the process of relationship building?

***The County Auditor Responses:*** This year’s proposed work plan is born out of prior experiences, a 10-plus year tenure in local government, and 20-plus years working overseeing audit environments. The new audit approach will focus on revenue enhancement, leakage, and cost containment. Control issues from audit fieldwork will be incorporated into the audit process. Further clarification was provided, noting a significant distinction between the current and prior audit approaches, whereby the current data-driven process will be executed by analyzing the full audit universe to draw conclusions on actuals instead of extrapolations. Regarding the Data Scientists, the Auditor informed the committee that he uses the “Handshake” platform to identify student interns based on their training. The Data Scientists are funded out of unused funds from the County Auditor’s office. They will remain with the county through May 13th, and a second group of Data Scientists will then transition in. He also informed the committee that the Deputy Auditor hiring process is underway. Secondly, he noted that an additional function of the Data Scientists would be knowledge sharing of data mining skills to the incoming Deputy and Assistant Auditors. Lastly, he communicated that relationship building has been collaborative to date.

***Audit Committee Co-Chair (Karantonis) Statement:*** The Senior Auditor position may be frozen per the proposed FY2024 budget.

***Next Audit Committee Meeting:***

*The next meeting of the Audit Committee is scheduled for* ***8th June 2023*** *@ 4:30 pm.*

*Adjournment*

Without objection, at 5:23 PM, Mr. Karantonis adjourned the 23rd of February 2023 Audit Committee Meeting.

Minutes submitted by: Mason Kushnir, Deputy County Clerk

*~END~*