Internal Audit Report

Arlington Community Access Corporation d/b/a Arlington Independent Media

Report Date: November 14, 2024

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TRANSMITTAL LETTER

November 14, 2024

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Pursuant to the contract and related statement of work for Arlington County, Virginia (County), we hereby present this internal audit report over the use of the County's operating and capital funding to Arlington Community Access Corporation, d/b/a Arlington Independent Media (AIM). Our report is organized in the following sections:

Executive Summary	This section includes a background summary of the function, the objectives and approach, and a detailed description of the observation(s) noted during this audit.
Background	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
Objectives and Approach	The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.

As described in our objectives and approach outlined on pages 28 through 30 of this report, the observations noted are based on our analysis of the processes, documents, records and information requested and provided to us by the County and AIM. This internal audit focused on evaluating whether AIM used County funding for operating and capital expenditures, as intended.

We would like to thank the staff and all those involved in assisting RSM US LLP with this internal audit.

Respectfully Submitted,

RSM US LLP

EXECUTIVE SUMMARY

Background

Arlington Community Access Corporation d/b/a Arlington Independent Media (AIM), a nonprofit, is Arlington's public access TV channel, community radio station, and a media training provider. The County provides ongoing operating budget support to AIM, from the General Fund, as well as capital grant funding for specific projects eligible under the Federal Communications Commission (FCC) Public, Educational, and Governmental (PEG) access channels funding.

From January 2022 to March 2024, the County provided $2.0 million in operating and capital funding to AIM. On December 16, 2023, the County entered into a *Grant Agreement for Use of Public, Educational, and Governmental Funds* with AIM, which gave the County the right to audit AIM's books and records, and detailed other requirements around the proper segregation of general ledger accounts related to capital grant funding provided by the County.

Operating and capital grant funding provided by the County		
Category		**Amount**
Operating funding	$	952,303
Capital grant funding		1,049,490
Total operating and capital grant funding	**$**	**2,001,793**

The County had concerns over (1) whether AIM was spending the operating and capital funding on associated operating and capital costs, particularly as submitted in AIM's PEG capital funding requests and (2) the adequacy of AIM's cash management processes due to multiple cash flow crises in a short period. The audit confirmed that AIM did not utilize all of the capital funding for the requested items (See Observation 2) and that AIM's financial processes and internal controls were inadequate (See Observations 3, 4, 5, and 6).

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings allow for the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider when determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk.

Objective and Scope

The audit period for this review is January 1, 2022 through March 31, 2024. As part of our review, we conducted discussions with the County to better understand their processes and procedures surrounding operating and capital funding. We did not have access to AIM personnel that were employed at the organization during the audit period for this review, but did request certain books and records from current AIM personnel to assist in our work. The scope of the review included:

(1) Reviewing the pertinent Grant Agreement, franchise agreements, and any other relative statues/regulations and/or correspondence provided by the County.

(2) Reviewing any policies and procedures provided by AIM to gain an understanding of its processes and controls over the funding provided by the County.

(3) Obtaining and reviewing documentation available to test that the costs/invoices included in AIM's financial system records were supported by source documents. Our work in this area included evaluating whether operating funding provided by the County was spent on operational activities and evaluating whether capital funding provided by the County was spent on the capital activities and/or assets, as evidenced in the grant requests. We also performed an onsite physical walkthrough of AIM's facilities to verify existence of a sample of funded capital assets.

Fieldwork was performed April 2024 through July 2024, as well as in September 2024.

Number of Observations by Risk Rating *(See page 31 for rating definitions)*			
	High	Moderate	Low
Internal Audit: Arlington Independent Media	6	3	1

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations

Observation	1. Inability to distinguish between County-funded operating verses capital funding and expenditures in AIM's financial records
High	AIM comingled deposits received from both County and non-County sources in one bank account. The funding provided by the County was specifically designated for either operating costs or capital costs, totaling $2,001,793, as well as $28,957 in miscellaneous funding. (The miscellaneous funds were not in the scope of this review; refer to the Background section of this report for additional information.)

Operating and capital grant funding provided by the County		
Category		**Amount**
Operating funding	$	952,303
Capital grant funding		1,049,490
Total operating and capital grant funding	**$**	**2,001,793**
Other miscellaneous funds (out of scope)		28,957
Total funds provided to AIM by the County	$	2,030,750

Of the $2,363,351 in deposits into AIM's bank account during the audit period, the County provided $2,030,749, or 85%, of those deposits.

AIM utilized only one operating cash account in its general ledger to record transactions (cash in and cash out). Within the general ledger cash account, AIM did not utilize specific coding and/or descriptions to classify the amounts incoming or the amounts paid as operating or capital costs (or any other miscellaneous purposes).

Because cash meant for various purposes was commingled in both one bank account and in one general ledger cash account, it is difficult for the County to identify which specific expenses were spent by AIM from each specific funding source, including those paid with County operating and capital grant funding.

The Grant Agreement between the County and AIM, effective December 16, 2023, specifically states that "AIM agrees to create a dedicated General Ledger account solely for the receipt of AIM Capital Funds from Arlington County and the payment of PEG Eligible Capital Expenditures." However, even after execution of the Grant Agreement, we noted that AIM did not create separate general ledger accounts to track the receipt and payment of the capital funding provided by the County and the associated costs, which is noncompliant with the Grant Agreement for the period December 16, 2023 through the end of our audit period, March 31, 2024.

Without separate bank accounts and general ledger accounts to properly track the operating and capital funding and costs, AIM's books and records do not provide complete and accurate accounting of how operating and capital funds were spent. There is an increased risk of accidentally or intentionally utilizing the incorrect funding source(s) to pay for unallowable expenditures. The use of separate accounts

	would have facilitated improved monitoring of operating and capital spending for their intended purposes. Additionally, our review found that capital funding was not spent on approved capital expenditures. Refer to Observation 2 for additional details.
Recommendation	AIM should implement improved accounting and record-keeping policies and processes to allow for better tracking of and distinguishing between operating and capital expenditures. Further, AIM should design and implement consistent requirements around the segregation and tracking of both operating and capital funding and costs in bank accounts and the general ledger. Bank balance to general ledger reconciliations should be performed monthly for County-related accounts and provided to the County.
Management's Action Plan	**Response:** AIM's Board of Directors (AIM BOD or Board) agrees with the auditor's recommendations and has already begun implementing them. In April 2024 AIM opened a separate restricted bank account to receive funding from Arlington County (the County) to use for the payment of expenditures pre-approved by the County. The Board is actively evaluating options for accounting software with more advanced functionality for segregating and tracking capital and operating costs in the general ledger. The Board will review existing procedures and implement new procedures to ensure that staff consistently and accurately segregate and track sources of funding and use such funds exclusively for their designated purposes. **Responsible Party:** AIM Board **Target Date:** February 28, 2025 (Implementation is contingent upon AIM receiving sufficient financial support from the County to cover the cost of acquiring enhanced accounting software)

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	2. Capital funding was not spent on approved capital expenditures
High	During the audit period, the County provided $1,049,490 in PEG capital grant funding (PEG, capital funding) related to nine separate requests from AIM.

Capital request type	Description	Number of AIM requests	Funded amount
Capital in arrears	Reimbursement-based	4	$ 213,093
Advanced funding	Requested in advance of expense	5	836,397
		Total capital funding	**$ 1,049,490**

As discussed in Observation 1 above, capital, operating, and miscellaneous funding were commingled in a single bank account and general ledger account; as such, we are not able to utilize AIM's books and records to understand how it spent the County's capital funding. Instead, we compared bank account statement activity to the general ledger operating cash account activity for the audit period to evaluate the amount of County capital grant funding spent on capital expenditures versus other expenditures. We attempted to match each general ledger transaction to bank statement transactions, credit card statement transactions, and/or any invoices/receipts or other support provided by AIM, as available.

Capital costs are generally defined as one-time expenditures on the construction, enhancement, or acquisition of assets such as equipment and land that will benefit a project for more than one financial year.

Of the $1,049,490 in capital grant funding provided by the County, we substantiated through our testing that AIM used $513,280 for capital costs (see table at right). For the remaining $536,210 in capital grant funding, AIM did not provide documentation to support that the costs were related to capital purchases. The County provided $952,302 in operating funding to AIM, however, we substantiated $1,829,262 of operating expenditures. As such, capital grant funding may have been spent on operating expenditures, given AIM's operating expenditures exceeded the funding received for operating purposes.

Substantiated capital expenses	
Description	**Amount**
Consultants	$ 373,178
Capital equipment	83,924
Video server equipment / ongoing support	31,595
Furniture / moving expense	11,576
Router / ongoing support	8,203
Software	2,854
Capital asset improvements	1,948
Total	**$ 513,280**

<u>Capital equipment.</u>

We noted the following based on an analysis performed over capital equipment specifically:

- AIM's proposal requests for capital equipment funding included at least $414,177 that was expected to be spent on capital equipment. However, based on the documentation provided to support capital costs, we were only able to substantiate $83,924 of capital equipment purchases.
- AIM recorded $61,580 of capital equipment purchases in its general ledger capital equipment account (compared to the $83,924 we were able to substantiate), further supporting that the capital equipment purchases were not made in their entirety or recorded accurately.
- AIM rented certain equipment necessary for radio production (based on invoices and payments made to two vendors) totaling $26,875 in rental costs, which would have been considered capital equipment, if purchased.

Capital inventory.

As part of our on-site inventory procedures, we selected a sample of 15 capital assets that were included in AIM's capital funding requests submitted to the County. We were unable to locate 10 of the 15 items selected from the requests, accounting for $49,904 of the $90,615 tested. The following table outlines each of the items selected, the estimated price of the item from the AIM funding request, and whether the item was located.

Inventory samples selected from AIM proposals		
Item Description	**Cost per Quote**	**Located?**
Sony Wirecast HoW Streaming Kit with 3 Sony PTZ Cameras[1] **(Qty 4)**	$ 39,116	Yes - substitute item
Apple M1 Ultra, 4TB SSD Storage, 128GB Unified Memory **(Qty 3)**	17,397	No
Sony PXW-FX9 6K Full-Frame Camera w/ 28-135mm f/4 G OSS	13,498	No
Apple Pro Display XDR with VESA mount **(Qty 2)**	10,396	No
Forecast Consoles GC2-MR ImageMaster Edit Console	2,938	No
Prompter People Proline Plus 17" Prompter	1,943	No
Canon RC-IP100	1,900	No
Datavideo ITC-100 8-User Wired Intercom 8 Beltpacks/Headsets	1,832	No
BlackMagic HyperDeck Pro	1,595	Yes
Total value	**$ 90,615**	

1: While we did not locate the Sony Wirecast Streaming Kits, we located items new in their boxes (AIDA PTZ cameras and control panels), which, based on multiple industry websites, are sold in the same category as the referenced item selected for testing, but at lower prices.

AIM's PEG capital funding requests

Additionally, below are email excerpts from AIM employees related to potential receipt of PEG capital funding that may have included operating costs:

	• In an email dated January 23, 2023, from the AIM CEO to two contractors, the CEO states the following: *"I. Prior Expense Request - This is all PEG funds. I don't think we include [NAME] as a consultant since she will be our long-term office coordinator. I broke the consultants down into the type of work that they have performed. I also included the cleaning lady but I forgot her name/company name. I'd like us to go back and record her payments from July 2021."* The above email goes on to say: *"II. Current expense request for the period February 2022 to June 2022 – This can be only be requested out of PEG funds, as our operating expenses are determined every Spring for the next FY. *Can we come up with an amount to ask for interior design of the podcasting spaces, the new offices at Green Valley and finalizing our office space in Clarendon. ** For [NAME] and [name redacted] we can make an estimation together of what they will cost."* • On January 29, 2023, in an email response to the e-mail above, a contractor said to the AIM CEO: *"Lastly [CEO], rent is not a capital expense, it is an operating expense. What we could do is overestimate build-out cost to cover rental."* The response, dated January 29, 2023, from CEO to contractor stated: *"Under PEG, rent when characterized as a lease purchase, can be considered a capital expense. [portion redacted]… That being said, we can ask for it as operating expenses right now. [portion redacted]* In an email response dated January 29, 2023, from a contractor to the CEO: *"Okay; I included that total, just named it something else".* Based on the language utilized in the emails referenced above, it appears that AIM management and the identified contractors were actively discussing how to characterize certain costs that could potentially be classified as capital expenditures.
Recommendation	Similar to Observation 1, we recommend that AIM implement separate bank accounts and GL accounts to distinguish between operating and capital funding. Additionally, AIM should implement improved processes to track capital expenditures, in accordance with the Grant Agreement. Furthermore, AIM should implement controls surrounding the management and oversight of capital assets and inventory, as specified in our recommendation related to Observation 10. Additionally, the County should consider implementing oversight controls (e.g., required monthly reporting) to review AIM's financial records and reports and to confirm that funding is being spent in accordance with the agreed upon terms and conditions. The Grant Agreement is now effective (as of December 16, 2023) and states "In the event that AIM does not use the AIM Capital Grant for Eligible Capital Expenses, AIM will be responsible for returning the AIM Capital Grant spent on non-Eligible Capital Expenses to Arlington

	County... In addition, AIM, within 30 days of the County's request, will also be responsible to reimburse the County for any reasonable costs of the County's examination, including, but not limited to, the services of external audit firm and attorney's fees." As such, the County should consider pursuit of reimbursement of the capital funding not spent on substantiated capital expenditures.
Management's Action Plan	**Response:** As of March 2024, AIM has no paid staff. None of the former employees with fiduciary and oversight responsibilities have current ties to the organization and none of them participated in the execution of this audit or preparation of this response. AIM's current recovery efforts are conducted by volunteers who believe in the mission of the organization and are committed to continuing AIM's services to the community. AIM's all-volunteer board does not have the institutional knowledge necessary to understand fully how AIM's previous staff exercised oversight and controls over capital and operating funds provided by Arlington County to AIM. Nor should the AIM Board and other volunteers supporting the organization be held accountable for inadequate controls and oversight noted by the auditor. The Board acknowledges and recognizes the observations of the auditor, and commits to working with the County to implement and adhere to all appropriate spending and accounting procedures. The AIM Board of Directors assumed full management responsibilities for the organization upon termination of all AIM employees in March 2024. As noted above in response to Observation #1, AIM's Treasurer established a new separate bank account in April 2024 for the receipt of financial assistance from the County. Since then, AIM has only received limited funding to cover pre-approved critical operating expenses. The AIM Treasurer provided the County with supporting documentation evidencing that the designated County funds were used only for these limited and pre-approved expenses. The AIM Board commits to continuing this practice, agrees to deliver timely and accurate financial reports to the County, and welcomes additional County guidance and oversight in these financial matters. As noted above, the Board is also reviewing alternative accounting software to improve the tracking of the funds provided by Arlington County, specifically by segregating capital and operating funds, maintaining a comprehensive and accurate inventory of fixed assets, and adopting and enforcing a workflow for asset acquisition, invoice approval, and the processing of payments. Additionally, the AIM Board has has begun recruiting qualified volunteers to conduct an inventory of its fixed assets. Lastly, the Board is actively seeking volunteers with proper financial management credentials and experience to assist with bookkeeping, recordkeeping, and the implementation of financial controls. If AIM is unable to recruit qualified volunteers for these critical positions AIM will most likely have to pay for such services, which would require sufficient financial assistance from the County. **Responsible Party:** AIM Board **Target Date:** February 28, 2025 (contingent on financial support from the County and recruitment of qualified volunteers)

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	3. Costs not supported as valid business expenses
High	Of the $2,844,968 in expenditures in the operating general ledger account during the audit period, AIM did not retain and provide source documentation to support $414,763 in costs incurred on AIM credit and debit cards, via check, wire transfers, and peer-to-peer payment apps (i.e. Venmo) and, therefore, we could not conclude that they were incurred in compliance with AIM policy or were valid business expenses. Given the high volume of transactions, we have categorized the expenditures in the following table:

Costs not supported as valid business expenses	
Category	**Total**
Miscellanous expenditures[1]	$ 135,955
Unsubstantiated consultant fees	94,933
Transactions unable to agree to bank statement[2]	55,822
Restaurants, bars, clothing stores, auto service, jewelers, etc.	29,787
Travel expenditures (i.e. airfare, hotels)	19,687
Payments to employees outside of payroll	18,254
Checks made out to cash	17,534
Amazon and Party City purchases (no receipt provided)	9,866
Payments to the CEO outside of payroll	9,030
Venmo, Apple Cash, and Stripe payments	8,841
Loan payment	5,478
VISA payments	4,278
Grocery stores	4,119
ATM withdrawal	550
Donation to Gunston Middle School	500
Pharmacies	128
Total	**$ 414,763**

1: The miscelleneous expenditures category contains costs reviewed in the general ledger that do not contain sufficient vendor names and/or descriptions to categorize the cost.

2: These expenditures appeared to be possible valid business expenses based on their descriptions in the general ledger. However, we were unable to agree the expenses to outgoing payments in the bank statement or credit card statements, and therefore, could not substantiate these expenditures.

The AIM Employee Handbook states "All employees in the possession of a credit card issued by Arlington Community Access Corp will adhere to the strictest guidelines of responsibility for the protection and proper use of that card." The following excerpts are from the AIM Employee Handbook:

- Airfares are to be charged to personal credit cards and subsequently submitted for reimbursement on a monthly expense report. [Section 4.6]
    - Of the $19,687, $3,280 was airfare incurred directly on the AIM debit card with no support documented, which is not compliant with the AIM Employee Handbook.
- Credit card purchases related to Corporation vehicle use (gas, oil, etc.) under $100 do not require prior approval. Credit card purchases for vehicle use over $100 and any other business purchases over $25 must receive prior approval from your Operations Manager. [Section 4.7]
    - AIM was unable to provide expense reports or documentation of prior approval of charges to the debit and credit cards for any business purchases over $25.
- Submit all sales receipts generated by use of the Corporation credit card within 3 days to your Operations Manager. Your Corporation credit card may not be used for personal reasons. Use of the Corporation credit card is restricted to approved business-related expenses. [Section 4.7]
    - AIM was unable to provide supporting sales receipts for certain charges on the AIM debit and credit cards. Therefore, we were unable to determine that certain charges on the AIM debit and credit cards were in compliance with AIM policy or were valid business expenses.
- Any unauthorized purchases made with a credit card issued by the Corporation will be the cardholder's responsibility. You must reimburse any such purchase to the Corporation within 3 days. [Section 4.7]

We were unable to determine that certain charges on the AIM debit and credit cards were in compliance with AIM policy or were valid business expenses. Based on our review of the bank account deposits and general ledger details, miscellaneous deposits do not contain enough information to determine if employees may have reimbursed unauthorized purchases. Both debit and credit cards were issued to employees during the audit period. At least three individuals held credit cards, the Chief Executive Officer (CEO), Chief Production Officer (CPO), and Director of Community Engagement. At least two individuals held debit cards, the CEO and the CPO. The AIM Employee Handbook does not mention any guidelines for the use of company debit cards.

AIM did not have formalized policies and procedures in place over the following key business processes:

- Bank account responsibilities, to include access, purchase limits, and bank reconciliations.
- Use of debit and credit cards, including employee reimbursement requests and/or travel cost submittal

	• No requirements around documenting the business need or programmatic allowability of employee expenses. • No requirement for independent approval of employee expenses. • Recording of transactions, including proper assignment to GL accounts for reporting of expenses against funding provided. Additionally, in a letter provided by AIM from the then-current Board Treasurer, dated December 8, 2023, the Treasurer recommended that the Board act on the following recommendations related to professional development, meals, entertainment, and travel expenditures: • "AIM should suspend all spending on professional development, meals and entertainment, and travel for the remainder of FY24 unless otherwise approved by the Board. • Senior management should provide a reconciliation of all travel, meals, hotel and miscellaneous expenses incurred and paid by AIM funds for the journalism program in New York City." However, based on the transactions in the general ledger and bank accounts between December 8, 2023 and the end of the audit period of March 31, 2024, we were unable to confirm whether action was taken on these recommendations.
Recommendation	AIM should develop and implement internal controls over employee expenditures, including defining and enforcing policies and procedures over: • Segregation of duties. No single person should have control over incurring, entering, reconciling invoices, and processing payments. • Employee credit/debit card expenses. Only credit cards should be issued to employees (unless there is a specific, identified need for debit cards), with a requirement that each employee must submit a corresponding expense report, with supporting receipts and invoices, detailing the business reason for each transaction. An independent review of expense reports should be performed, including reviewing the supporting documentation and evaluating whether each transaction is a valid business expense and in compliance with the AIM Employee Handbook. • In the event that any expenditures are confirmed as personal expenses, AIM should pursue reimbursement as stated in the employee handbook.
Management's Action Plan	**Response:** AIM currently does not have any employees and does not foresee hiring paid staff in the foreseeable future. All AIM former staff credit and debit card accounts have been closed. AIM will implement procedures for invoice payments and expense reimbursements that will require each payment request to be submitted in writing with supporting documentation and business justification. Segregation of duties will be implemented to ensure the same person does not submit, approve or process payments and records them in the general ledger. Invoices and payment requests exceeding a certain dollar threshold will require approval of the AIM Admin Committee before processing.

	The AIM Board is unable to agree with the dollar amount noted by the auditor as costs not supported as valid business expenses. In response to initial draft of Observation 3, AIM board members conducted research of certain transactions identified as costs not supported as valid business expenses. For some of them, supporting documentation was found in the files and email messages of former employees that the auditors may not have reviewed. This supporting documentation was shared with the auditor for additional review. Based on this partial research, the AIM Board believes that there may be additional transactions included under this Observation that represent legitimate business expenditures, but the supporting documentation was not properly retained in the accounting system of record. AIM's current board and volunteer staff do not have the capacity, professional qualifications or financial resources, to conduct such an in-depth review. However, the Board strongly believes that such a review may resolve not only questions about unsubstantiated spending but also some of the discrepancies related to the use of County funds for capital expenses versus operating expenses noted in Observation 2. **Responsible Party:** AIM Board **Target Date:** January 31, 2025

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	4. Lack of segregation of duties over the purchasing and payment processes
High	Maintaining effective internal controls requires segregation of duties in the assigning, the authorizing and/or making purchases, receiving of goods, approving invoices, and making payments to individuals/entities. Controls were not established to require segregation of duties over the purchasing and payment processes. Based on the documentation provided, there is no independent approval of transactions prior to occurrence. Transactions were processed without evidence of segregation of duties, including lack of dual control requirements (a process requiring two individuals to authorize a transaction). For example, we found approximately $9,000 in payments to the CEO outside of the payroll process (some of which were processed through AIM's electronic payment vendor, Melio), $550 in ATM withdrawals, and approximately $8,800 in payments made through Venmo, Apple Cash, and Stripe. All of these transactions were without supporting documentation of who initiated the transaction and who independently reviewed and approved the transaction. Additionally, AIM did not provide evidence of any periodic independent reconciliation of expenditures. In our review of the bank statements for the audit period, we also identified a lack of segregation of duties for check issuances. • Based on the authorized bank signatories and the signatures on the checks, there were four (4) counter checks (blank checks available at the bank), seven (7) manual checks, and one printed check written out to the CEO that appeared to be only signed by the CEO, totaling $26,746. There were six (6) manual checks and four (4) printed checks made out to the CPO and that appeared to be only signed by the CPO, totaling $6,143. • Seven (7) counter checks were paid to the order of "cash", without documentation of the business reason or the need to make payments in cash. Of the checks made out to cash, one of the check descriptions indicated it was to reimburse the person cashing the check for a staff retreat; however, no reimbursement requests were retained and/or provided by AIM to support such reimbursement. Three of the checks made out to cash indicated a vendor name in the description; however, these vendors did not respond to our confirmation of payment requests. One check indicated it was for payroll, one check indicated it was for December lodging in New York, and the remaining check made out to cash did not have any description written in the memo line. The seven (7) checks appear to be signed and endorsed only by the CEO, based on the signature on the CEO's employment agreement and various consulting contracts. Management had signatory authority on the bank account as well as access to debit cards and AIM's checkbooks without controls in place to properly segregate between the initiation and approval functions. While the employee handbook indicated employees should be reimbursed, there were no financial accounting policies or procedures in place to require the use of reimbursement requests and independent approval prior to payment and receipt of funds by an employee. Current AIM personnel aiding in the document requests for this audit noted that reimbursement request forms could not be located at AIM and may not have been utilized during the audit period.

	Additionally, in a letter provided by AIM from the then-current Board Treasurer, dated December 8, 2023, the Treasurer recommended that the Board act on the following recommendations related to segregation of duties: • "Senior management should present any spending over $75 to be reviewed by the Treasurer unless payments are for payroll or prior budgeted contractual obligations. • Surrender all credit and debit cards." However, based on the transactions in the general ledger and bank accounts between December 8, 2023 and the end of the audit period of March 31, 2024, we were unable to confirm whether action was taken on these recommendations.
Recommendation	AIM should implement and enforce segregation of duties between the following duties: authorizing and/or making purchases, receiving of goods, approving invoices, and making payments to individuals/entities. Checks written to AIM personnel should be signed by a different authorized signer than the payee, and documentation retained as to the reason for the check.
Management's Action Plan	**Response:** The AIM Board will formalize and document the segregation of duties policies and establish clear payment approval thresholds, as previously described in response to Observation #3. These measures will help ensure that AIM maintains a robust internal control environment, preventing errors, misuse of funds, and conflicts of interest. **Responsible Party:** AIM Board **Target Date:** January 31, 2025

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	5. Lack of internal controls over third party agreements
High	Based on a review of the transactions in the general ledger for the audit period, we estimate that at least $893,380 was spent with 49 different third parties during the audit period. Of the $2,844,968 in expenditures in the operating general ledger account during the audit period, $893,380 (31.4%) are consultant fees. However, at the time of report issuance, AIM could only provide contracts for 12 of the 49 third parties. For the 12 third party contracts reviewed, five (5) included a flat fee per month payment schedule, without requirements over the number of hours worked on behalf of AIM, specific milestones, or deliverables. The five (5) flat fee clauses are included below: (1) "The Client shall be responsible to pay to the Consultant for Services in the amount of $6,500 monthly" (2) "[*redacted*] will be available for 7-10 hours/week from April 1 – October 31, 2022 at a rate of $1650.00/month" (3) "The Client shall be responsible to pay to the Consultant a retainer for Services in the amount of $4,166 monthly at the hourly rate of $200 per hour, not to exceed 20 hours per month. The retainer shall be payable in advance and due and payable upon the signing of this Agreement, and is non-refundable." (4) "The Client shall be responsible to pay to the Consultant for Services in the amount of $2,500 monthly." (5) "The Client shall be responsible to pay to the Consultant for Services in the amount of $2,640.00 monthly at the hourly rate of $33.00 per hour, not to exceed 80 hours per month." AIM was unable to provide any deliverables or work products related to the third party contracts reviewed. Additionally, we found that for Capital in Arrears reimbursements, there were two consultants that utilized the exact same phrases in their invoices: • "…monitoring the health of gear, servicing equipment, updating, replacing, and installing cable equipment and systems" • "…in on-call duties for providing after-hours and weekend support."

Based on the scope of work in each of the consultants' contracts, it does not appear that the above tasks were included in their scope:

Consultant #1 Consulting Agreement, Effective Date 8/1/2022	Consultant #2 Consulting Agreement, Effective Date 2/22/2022
I. Works in conjunction with the AIM-TV Broadcast Lead, and under the direction of the Director of Multimedia, to: A. Streamline and synergize radio programming and activities to enhance cable and live-stream video broadcasting; B. Develop a robust and diverse schedule of programs that appeal to and reflect community interests; C. Maintain and update policy handbooks as needed to better reflect or clarify FCC and other broadcasting regulations and AIM policy; D. Produce sponsorship acknowledgements, PSAs, promos and other station related broadcasted content; E. Assist volunteer producers in video and audio production; II. Program daily radio schedule, monitor active playlists, troubleshoot automation issues and fine tune transitions throughout the day. III. Manage and grow sponsorship and underwriting programs for WERA and AIM-TV; IV. Coordinate regular fundraising events with staff and volunteers.	I. Schedule AIM TV programming; II. Review and find new programs to add to the channels; III. Develop a robust and diverse schedule of programs that appeal to and reflect community interests; IV. Maintain and update policy handbooks as needed to better reflect or clarify FCC and other broadcasting regulations and AIM policy; V. Follow up with current cable content creators on obtaining fresh content; VI. Assist with updating website and other branding materials and resources as needed; VII. Teach classes (branding, in design, illustrator);

AIM did not provide agreements for 37 of the 49 third parties identified. Without agreements, the terms and conditions of AIM's relationship with the third parties, including scope of work and payment terms, are not defined.

Recommendation

We recommend that AIM implement the following:

- Create a central repository of all consulting agreements.
- Contracts should specify that pay to third parties is based on an hourly rate for actual services performed or goods provided in order to provide clear justification for the business purpose. Further, expected work products should be included in the contracts.
- Third party invoices should contain detailed descriptions of the services performed, actual work products, hours, and rates in order to facilitate determination of whether services were compliant with the terms and conditions of the third party agreement.

Management's Action Plan

Response: At present AIM does not have any active consulting engagements. In preparation for future needs, the AIM Board will develop and implement a formal policy and procedure framework governing the engagement of consultants and other vendors. This framework will incorporate the auditor's recommendations and include:

• Written Contracts and Scopes of Work: All consultant and vendor arrangements will be documented in written agreements that clearly define deliverables, hourly rates or fees, expected work products, and performance milestones.

• Approval Process: Prior to execution, each consultant or vendor contract will be reviewed and approved by the AIM Administrative Committee to ensure that the arrangement is necessary, appropriately priced, and aligned with AIM's mission and funding constraints.

	• Monitoring and Reporting: The policy will require periodic review of consultant invoices and deliverables against agreed-upon terms. The Board will maintain a central repository of executed contracts and related documentation. By establishing these controls now, AIM ensures that any future consultant or vendor relationships are clearly defined, properly monitored, and justified from a business and financial management perspective. **Responsible Party:** AIM Board **Target Date:** February 28, 2025

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	6. Lack of internal controls in the payroll process
High	During the audit period, AIM utilized three different processing methods for payroll:

Payroll Processor	Payroll Time Period
PayChex, Inc.	January 1, 2022 - July 15, 2023
Manual checks from AIM	July 16, 2023 - October 15, 2023
ADP (Automatic Data Processing)[1]	October 16, 2023 - March 14, 2024

1: Based on review of the bank statements, the last payroll payments (for the audit period) were made to employees on February 28, 2024. For the payroll scheduled for March 15, 2024, ADP attempted to transfer the funds from AIM to employees on March 14 and March 19. However, on both occasions, the transaction did not process due to insufficient funds.

There was no documentation provided to support why payroll was processed manually by AIM during the July – October 2023 time period instead of through a payroll vendor. During this time, we noted that employees were paid net of taxes and other withholdings. However, we were unable to locate any payments made to the Virginia Department of Taxation and/or the Internal Revenue Service; as such, we were unable to confirm if AIM paid employee and/or employer income taxes during this period. Once AIM transitioned to ADP, only payroll data processed by the previous vendor, PayChex, was transferred to ADP's system; none of the manual paycheck data was provided and/or recorded by ADP for the transition period. If income taxes were not properly paid to the Virginia Department of Taxation and/or the Internal Revenue Service, penalties and/or fines could be imposed by tax authorities.

Additionally, we noted two AIM staff were paid twice for the same pay period via manual checks:

- The CEO received two manual checks for the pay period ending 7/31, both in the amount of $4,289.85 and one manual check and one printed check for the pay period ending 9/30, also in the amount of $4,289.85. However, we located a deposit on 8/3/2023 in the amount of $4,289.85 and a deposit on 12/11/2023 in the amount of $4,289.85. Based on the information in the bank statements, we are unable to determine who made the deposits.
- Another employee received one manual check and one payment through ADP for the pay period ending 10/15, both in the amount of $1,038.60. We did not locate any deposits matching this payroll amount; as such, it appears the duplicate payment was not identified and/or reimbursed.

During the audit period, AIM utilized three different payroll processing methods, including a period of manual check issuance, which may have resulted in inadvertent duplicate payments to employees. Manual calculations are prone to mistakes, which can lead to incorrect payments to employees and/or incorrect tax withholdings, as evidenced by the duplicate payments made.

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Recommendation	We recommend that AIM verify that the proper employer payroll taxes were paid in 2023 during the manual payroll check period. Furthermore, due to the insufficient funds associated with the payroll scheduled for March 15, 2024, AIM should verify that the salaries reported to the IRS for 2024 are complete and accurate. We recommend that AIM design and implement internal controls for the payroll process. These controls should include: • A formalized review over the payroll run prior to payroll being processed • Segregation of duties between (1) the individual who prepares the payroll run and (2) the individual who reviews and processes the payroll run • A separate individual should perform a payroll reconciliation on a regular cadence (i.e. monthly) • Restrict access in ADP to limit the number of individuals who are able to process a payroll run
Management's Action Plan	**Response:** AIM does not have any current employees. As the organization returns to a solid financial footing that allows it to hire paid staff, the Board will implement industry best practices and controls as recommended by the auditor, including the segregation of duties, access restrictions, and payroll approval. AIM volunteers faced the same difficulties that the auditors faced in accessing or verifying information about payroll payments and related tax withholdings during the July to October 2023 period. In addition, the current AIM Board will require the assistance of seasoned tax-accounting professionals to investigate potential tax-reporting deficiencies and their remediation, as well as making sure that AIM can fully comply with 2024 payroll and tax reporting requirements with respect to former employees and contractors. The AIM Board has been unable to identify volunteers with the requisite qualifications to perform these tasks and will require financial assistance from the County to procure such services and to pay any salaries and benefits owed to employees as well as amounts due to federal and state tax authorities. **Responsible Party:** AIM Board **Target Date:** TBD, contingent upon securing necessary financial support from Arlington County and professional expertise.

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	7. Lack of contract oversight by the County
Moderate	Related to the $1,049,490 in capital grant funding provided by the County to AIM, there were two ways that AIM requested capital funding from the County:

Capital funding breakdown by type for audit period			
Capital request type	Description	Number of AIM requests	Funded amount
Advanced funding	Requested in advance of expense	5	836,397
Capital in arrears	Reimbursement-based	4	$ 213,093
		Total capital funding	**$ 1,049,490**

Advanced funding capital requests: AIM submitted proposals and the County paid AIM based on quotes and estimates in advance of AIM incurring the expenses. It is our understanding that the County did not request, nor did AIM provide, any reporting and/or payment support to the County to validate that capital funds were spent by AIM in accordance with the proposals.

Capital in arrears requests: AIM submitted capital reimbursement requests for expenses already incurred. Payment was made by the County on these requests after documentation to support the expenses was provided by AIM and reviewed by the County.

In our review of the support received for the Capital in Arrears payments, the documentation reviewed by the County was limited to invoices, without documentation of the receipt of equipment and payment by AIM of the invoice. We were able to substantiate $178,419 of the Capital in Arrears payments utilizing invoices, AIM's bank statements, and AIM's general ledger. We were unable to agree $25,786 of the costs to outgoing payments in the bank statements or general ledger.

Payee Description	Amount Not Substantiated	Reason
Consultant	$ 12,498	We were unable to locate a corresponding outgoing payment in the bank statements or in the general ledger for three payments.
Video specialist	6,590	An invoice was provided, but we were unable to locate a corresponding outgoing payment in the bank statements or in the general ledger.
Security contractor	6,698	A quote was provided, but we were unable to locate a corresponding outgoing payment in the bank statements nor in the general ledger.
Total	**$ 25,786**	

Note: It is possible the above payments were made, but were labeled or recorded under different names and/or incorrectly. However, the County did not obtain and/or retain proof of payment from AIM, which is a leading practice.

Additionally, we were unable to substantiate that $8,888 of expenses fell under the definition of capital expenditures. Below is a detailed breakdown of the items that were not substantiated.

Amounts reimbursed by County that do not appear to be capital expenditures		
Payee Description	**Amount Not Substantiated**	**Reason**
Arlington County	$ 3,937	Reviewed invoice from AIM to the County for "production equipment". No details were provided on what equipment was purchased by AIM and/or if this equipment fell under capital funding already provided to AIM.
Consultant	1,250	The County reimbursed a consultant invoice for $2,500 in capital in arrears. However, the invoice included $1,250 of capital cost and $1,250 in operating costs within the invoice details. Therefore, $1,250 should not have been reimbursed as capital in arrears.
Employee Timesheet	3,701	Four timecards for the same employee were provided to the County, but the timecards do not appear to be from a payroll system and are not considered capital expenditures.
Total	**$ 8,888**	

The County did not establish proper grant oversight and monitoring practices to require AIM to provide detailed support for use of funding. Without documentation provided to the County to support the amounts spent on the advanced approved capital expenditures, the County could not verify that funding was spent as approved to limit the misuse of PEG grant funds and putting AIM at risk of expenses being disallowed and requiring repayment.

Recommendation

We recommend that the County:

- Develop and implement detailed grant oversight and monitoring procedures, including how the County will enforce the requirements of the Grant Agreement.
- Create a standard set of documents that are required to be submitted and reviewed for each funding request, which could be in the form of a checklist. Documents that should be included in the standard package are as follows: (1) the intended use for the funding requested, including specific purchases of capital equipment, (2) the source of the information for any estimates or quotes included in the proposal, (3) explanation for why the funding is needed and what it will be used for.
- Maintain the right to audit AIM's use of the grant funding.
- Provide training for County staff on the newly implemented oversight procedures.

Management's Action Plan

Response: Regarding the County's direct relationship with AIM, the County agrees with the recommendation to implement additional oversight and monitoring procedures for grant compliance if additional County funding is provided to AIM and will continue to maintain its right to audit. On December 16, 2023, the County entered into a Grant Agreement for Use of Public, Educational, and Governmental Funds with AIM, which gave the County the right to audit AIM's books and records, and detailed other requirements around the proper segregation of general ledger accounts related to capital grant funding provided by the County.

	Regarding the County's funding of non-profits and compliance review in general, the County's standard practice is for written agreements (e.g. contract, grant agreement and / or memorandum of understanding / agreement) to be in place that include compliance requirements, such as right to audit, reporting, and review of funding requests to include supporting documentation. The County's Internal Audit staff also conducts non-profit agreement compliance reviews as part of its risk-based internal audit workplan. As part of the FY 2025 Internal Audit Plan, DMF is commencing a risk-based and resource-based vulnerability assessment of oversight and compliance for agreements provided to non-profits. This assessment is expected to be completed by the Summer 2025. This assessment will evaluate the written agreements between the County and non-profits to ensure consistency of terms so that the County's interests are being protected. The assessment will also look at the appropriate risk-based approach to future inclusion of non-profit compliance review as part of the internal audit workplan and / or ad hoc reviews based on the following criteria: ○ What is the percentage & dollar amount of the non-profit's budget that comes from the County? ○ Does the non-profit receive independent financial audits? ○ What is the history of audit findings & compliance with County processes? ○ What is the turnover trend for management and governing boards? ○ Have County staff responsible for oversight noticed issues regarding reporting, communication, program / service delivery? ○ To the degree possible to determine, what is the strength of the non-profit's accounting system? It is important to note that the County is not responsible for all governance and financial management activities of non-profits; rather, those functions are the responsibility of the non-profit's governing body. Additionally, most non-profits received funding from a variety of non-County sources. The proposed plan described above is intended to ensure appropriate oversight of use of County funds, and where issues are identified, provide recommendations to the non-profit and County to improve processes as needed. **Responsible Party:** Department of Management and Finance, Director **Target Date: September 30, 2025**

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	8. Bonuses paid without documentation to support accomplishment of requirements
Moderate	The AIM employee handbook does not indicate that employees are eligible for bonuses. The handbook only states, "the performance improvement process is a means for increasing the quality and value of your work performance. Your initiative, effort, attitude, job knowledge, and other factors will be addressed. You must understand that a positive job performance review does not guarantee a pay raise or continued employment. Pay raises and promotions are based on numerous factors, only one of which is job performance." During the audit period, the following bonuses were paid to the CEO: • $35,000 paid, via PayChex. The CEO’s 2022/2023 Employment Agreement, which commenced on September 1, 2022, allows for a $30,000 lump sum bonus payment to be paid by separate check on Feb 1, 2023, with this amount subject to remittance back to AIM if the prior fiscal year budget does not balance on July 1, 2023. No documentation was provided to support that an analysis was performed after July 1, 2023. In our search for such documentation to evaluate whether the bonus requirements were met, we found email correspondence in January 2023 from the CEO stating the following “It’s technically due to me (and guaranteed) on Wednesday. I’m working with [NAME] in figuring out when we can get an infusion of cash before April 1st so that I can take my bonus ASAP. If not, [NAME] and I discussed me taking it piecemeal”. We were provided a 2023 PayChex Payroll Journal report with requested check dates of 1/1/23 – 12/31/23, which was utilized in this analysis. The report only includes summary data for the year, as such we could not determine the date(s) of the $35,000 bonus payment(s). Additionally, based on the CEO’s 2022/2023 Employment Agreement, it appears the payment for the bonus was $5,000 more than the bonus in the agreement. • $18,750 paid on January 18, 2024, via wire transfer. The CEO’s 2023/2024 Employment Agreement, which commenced on July 1, 2023, states that the executive will receive a bonus of $25,000, spread over 4 quarters, $6,250 each quarter, so long as revenue is at least as high as that reported in the budget approved by the Board in July 2023, and if actuals fall below, then a pro-rata sum may be applied. The bonus was not paid quarterly as outlined in the employment agreement and instead was paid as a lump-sum for 3 quarters ($6,250 x 3 quarters). There was no documentation available to support the requirement that revenue be at least as high as that reported in the budget approved by the board in July 2023. If actuals fall below forecast, a pro-rata sum may be applied.” Additionally, this bonus was also paid after a letter of concern had been received by the Board, from the Treasurer, that indicated no bonuses should be paid. • In addition, the CEO was paid $25,000 on February 16, 2024, via wire transfer. The description "Bonus” is seen the bank statement and the Melio wire transfer receipt, without any documentation to support the reason for or approval of this bonus. Ten

	days later, on February 26, 2024, AIM received a wire transfer from a business affiliated with the CEO, with the same address, in the same amount of $25,000, which appears to be a reimbursement of the bonus. There was a lack of segregation of duties since wires were not performed under dual control, with a separate initiator and approver required. Documentation was not created or retained to support the evaluation of objectives being met to warrant payment of the bonuses. The bonus was paid to the employee, even though the bonus requirements were not met.
Recommendation	We recommend that AIM retain documentation around all bonus payments, including any analysis performed to confirm that all bonus requirements were met prior to payout.
Management's Action Plan	**Response:** As previously noted, since March 2024, AIM's operations have been carried out exclusively by volunteers, with no paid employees or contractors. Given the current financial constraints, AIM does not anticipate hiring paid staff in the near future. The Board will therefore defer updates to performance management and compensation policies until AIM achieves a more stable financial position and can realistically consider employing staff again. At that time, the Board will review and revise policies and procedures to ensure they align with industry best practices, the auditor's recommendations, and AIM's long-term sustainability. **Responsible Party:** AIM Board **Target Date:** TBD, dependent on financial recovery and future staffing plans.

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	9. Inaccurate coding of general ledger transactions
Moderate	Throughout our review of the general ledger, we noted inconsistencies and potential errors in the general ledger coding of transactions. The following are some of the examples identified: • A payment to CareFirst Blue Cross Blue Shield, for healthcare benefits, was coded as “AIM Insurance Fees: Commercial Property Liability” • A charge at Valiant Paris, a clothing store in Miami Beach, Florida, was coded as “AIM Staff Expenses: Other Employee Benefits” • A charge at Ladan Holistic Spa in Falls Church, Virginia, was coded as “Equity”. • A charge at Screwtop Wine Bar in Arlington, Virginia, was coded as “AIM Office Operations: Membership Dues and Publ” • A charge at Record Room, a bar in Queens, New York, was coded as “PEG Expenses: PEG-Media Programming” • A payment to Vonage Business, a business phone provider, was coded as “AIM Occupancy Expenses: Electricity” • A payment to Spinitron, a playlist provider, was coded as “AIM Office Operations: Meals and Entertainment” • A payment to Public Storage, AIM’s self-storage location, was coded as “AIM Occupancy Expenses: Office Rent” • A $15,000 PLACE grant (income) from the County was coded to account 40110 PEG Funds. It is unknown why AIM did not maintain accurate books and records. Inaccurate records can result in incorrect financial statements, which can mislead stakeholders about the financial health of the organization. Additionally, poor record-keeping can make it easier for accidental or intentional errors to go undetected.
Recommendation	We recommend that AIM perform a comprehensive review of all financial records to identify discrepancies and areas of inaccuracy. Once identified, we recommend that the necessary adjustments are made, including correcting entries and reconciling accounts. Additionally, we recommend that AIM enhance their internal controls over journal entries, to include reviews and approvals of entries, and reconciliations of general ledger to bank statement, to help prevent and/or detect potential errors in the books and records.
Management’s Action Plan	**Response:** The AIM Board agrees with the auditor’s recommendations. The Board acknowledges that the review and correction of accounting records, potential restatement of annual financial reports, and revision of various regulatory filings is an extensive undertaking. Similar to the Board’s response to Observation #6, the organization currently does not have volunteers with the requisite qualifications to perform the entirety of these tasks. AIM will require financial assistance from the County to procure such services as well as any subsequent audit of revised financial statements. **Responsible Party:** AIM Board **Target Date:** TBD, contingent on receipt of County financial assistance

ARLINGTON VIRGINIA

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

Observation	10. Asset inventory list not maintained and lack of physical safeguarding of assets
Low	We performed on-site inventory walkthroughs and procedures to verify the existence of capital assets and to validate whether capital assets were being tracked and accounted for. Based on a physical verification of a sample of selected capital assets, we were unable to successfully locate certain selected capital assets (details below). Additionally, we found that AIM was not maintaining a complete and accurate inventory list, as capital asset purchases that we were able to substantiate from the audit period were not included in AIM's inventory records.

Purchases to Floor: We selected a sample of 10 capital assets that we had substantiated as being purchased during the audit period. We were unable to locate four (4) of the 10 capital assets selected, which demonstrates a lack of physical safeguarding of assets.

Inventory List to Floor: Of the 10 items selected (sampled) from AIM's inventory list, we were unable to locate one (1) capital asset, which demonstrates a lack of physical safeguarding of assets. The majority of the equipment on AIM's inventory list was outdated and potentially obsolete, which further indicated that the inventory list was not properly maintained.

The following table outlines each of the items selected, what method was used to select the item, the estimated price of the item, and whether the item was located or not.

Inventory samples selected from AIM purchases and inventory list			
Selection Method	**Item Description**	**Price**	**Located?**
Purchases to Floor[1]	Canon XA50 UHD 4K30 Camcorder with Dual-Pixel Autofocus (Qty 3)	$ 6,480	Yes
Purchases to Floor[1]	amaran P60x Bi-Color LED Panel 3-Light Kit (Qty 2)	1,337	Yes
Purchases to Floor[1]	Sony a7 IV Mirrorless Camera with 24-105mm f/4Lens Kit	3,896	Yes
Purchases to Floor[1]	MacBook Pro 16" Laptop - Apple M1 Pro chip - 16GBMemory - 1TB SSD (Latest Model) - Space Gray	2,699	No
Purchases to Floor[1]	Mixed Signal xNode for VX (2001-00300)	1,875	No
Purchases to Floor[1]	12.9-inch iPad Pro Wi-Fi 256GB - Silver	1,199	No
Purchases to Floor[1]	MacBook Air with M2 chip - Midnight	1,199	No
Inventory List to Floor[2]	Camera Hitachi Z-HD5000 (Qty 2)	35,000	Yes
Inventory List to Floor[2]	Camera Hitachi Z-HD6000	35,000	Yes
Inventory List to Floor[2]	Pedestal Vinten Osprey (Qty 3)	15,000	Yes
Inventory List to Floor[2]	HDMI Distribution Amplifier Extron DTP HD DA4 Series	3,800	No
Inventory List to Floor[2]	Recorder RodeCaster Pro II	699	Yes
Inventory List to Floor[2]	FM Radio Monitoring Receiver-DEVA Broadcast-Model DB404	3,200	Yes
Inventory List to Floor[2]	Mixer Board Axia Radius Console	5,500	Yes
	Total	**$ 116,884**	

1: For Purchases to Floor, the price is based on the corresponding receipt/invoice.
2: For Inventory List to Floor, the price is based the value listed in AIM's inventory list. However, this value was based on when the asset was new and the asset most likely is not worth the same amount at present day. Additionally, these assets may not have been purchased with County funds.

Floor to Inventory List: During the on-site inventory walkthrough, we selected 10 items from the inventory storage locations. Of those, five (5) were not included on AIM's inventory list, further indicating that the list was not properly maintained.

Inventory samples selected from AIM purchases and inventory list			
Item Description	Included on Inventory List?	Included in purchases?	Included in AIM funding requests?
Raven MIT Audio Editing Display	Yes	No	No
Ross Crossover 16 Video Studio Switcher	Yes	No	No
Genelec Speakers Audio Monitors	Yes	No	No
Sanyo Monitor	No	No	No
Samsung Monitor	Yes	Yes	Yes
Genelec Speakers Audio Monitors	Yes	No	No
Canon XA55	No	Yes	Yes
360 Photo Booth, Vendor: ITOK360	No	No	No
Color Source ETC control panel lights	No	No	No
AJA KLHI5 and AJA HiBox	No	No	No

Missing inventory can lead to financial losses, particularly for AIM as a nonprofit that relies on donations and grants to fund operations. Additionally, replacing missing inventory items can be costly, especially since the items that we were unable to locate included laptops, tablets, and broadcasting gear.

Recommendation

For effective management and oversight of capital assets, we recommended that AIM implement the following:

- Maintain precise and up-to-date accounting records to identify and classify all capital assets.
- Establish clear segregation of duties for managing capital assets. This includes assigning different responsibilities for asset acquisition, maintenance, and disposal to prevent conflicts of interest and enhance internal controls.
- Conduct annual or periodic physical inventories of capital assets. This practice helps verify the existence and condition of assets, ensuring that records are accurate and updated.

Implement procedures for adding new assets as they are purchased and removing assets from records when they are disposed of, which will keep the inventory list updated with the current status of all assets.

Management's Action Plan

Response: AIM board members and other qualified volunteers are in the process of conducting a comprehensive inventory of the organization's fixed assets located at two Arlington County facilities. Once completed, the results of this inventory will be used to update AIM's accounting records and inform accurate tax reporting. Although AIM does not presently plan or have the resources to acquire additional capital assets, the Board will develop and formalize asset management procedures based on the auditor's recommendations.

	These procedures will include maintaining up-to-date asset inventories, conducting periodic physical verifications, and ensuring appropriate segregation of duties for asset acquisitions and disposals. **Responsible Party:** AIM Board **Target Date:** February 28, 2025

Background, Objectives and Approach

Background

The County Board of Arlington County (Board) is a franchising authority in accordance with Title VI of the communications Act (see 47 U.S.C. § 522(10)) and is authorized to grant nonexclusive cable franchises pursuant to the County Cable Television Ordinance, Chapter 41.2 of the code of the County of Arlington, Virginia.

Under Certificates of Public Convenience and Necessity for Cable Television ("franchise agreements"), the Board granted rights to operate certain cable services within the County to Verizon Virginia Inc. (Verizon), dated June 22, 2006, and Comcast of Potomac, LLC (Comcast), dated December 10, 2016. Under Article 6.1.1 of both franchise agreements, Verizon and Comcast are required to set aside dedicated public access channels. Public access channels are defined as being for noncommercial use by the general public, including groups and individuals, and which are available for such use on a non-discriminatory basis. Under Article 6.2.1 of both franchise agreements, Verizon and Comcast provide annual grant funding to the County to be used in support of the production of local PEG programming.

Arlington Independent Media is listed as a PEG channel in Exhibit C of the Verizon franchise agreement and in Exhibit B of the Comcast franchise agreement.

Arlington Independent Media

Arlington Independent Media (AIM), a nonprofit, is Arlington's public access TV channel, its community radio station, and a media training provider. Since AIM is listed as a provider of a public access channel under the franchise agreements for both Version and Comcast, AIM is eligible for a portion of the PEG capital grant, at the sole discretion of the County. In addition to certain PEG capital funding awarded to AIM, the County has also provided ongoing operating budget support to AIM from the General Fund. During the audit period, AIM received $952,303 in operating funding and $1,049,490 in capital grant funding from the County.

The County also provided other miscellaneous funding to AIM in the amount of $28,957 during the audit period, including emergency broadcast funding, WERA rent support, and the PLACE Grant. These other miscellaneous funds were not in the scope of this review, and we did not evaluate whether this funding was spent for their intended purposes. The below table is a summary of the funding provided by the County to AIM during the audit period:

Category	Amount provided to AIM by the County
Operating funding	$ 952,303
Capital grant funding	1,049,490
Total operating and capital grant funding	**2,001,793**
Other miscellaneous funds	28,957
Total funds provided to AIM by the County	$ 2,030,750

BACKGROUND, OBJECTIVES AND APPROACH

Background (continued)

As of December 16, 2023, the "Grant Agreement between Arlington County and Arlington Independent Media for Use of Public, Educational, and Governmental Funds" (Grant Agreement) was executed, which outlines certain requirements over the use and reporting of the PEG capital funding provided by the County. Prior to December 16, 2023, there was no formal agreement in place between the County and AIM.

Defining Capital Expenses

Under the Grant Agreement, the capital grant funding provided to AIM (AIM Capital Grant) "is only to be used for capital purposes by AIM which generally includes the acquisition of PEG access equipment and renovation or construction of PEG access facilities." It further states "AIM agrees that the AIM Capital Grant is only to be used for PEG Eligible Capital Expenses as defined in the FCC [Federal Communications Commission] Orders. Eligible Capital Expenses shall also mean any future definition the FCC or the United States Congress provides in any future order, legislation or law. Eligible Capital Expenses does not include any Operational Expenses."

We noted that the FCC's Third Report and Order – MB Docket No. 05-311, effective August 1, 2019 (FCC Order), which was provided to us by the County for use in this internal audit defines capital cost as follows:

> "…the term "capital cost" … *[portion redacted]* is a cost associated with the acquisition or improvement of a capital asset. Applying that interpretation, we conclude that the exclusion for capital costs… could include equipment that satisfies this definition, regardless of whether such equipment is purchased in connection with the construction of a PEG access facility."

Defining Operating Expenses

Operating expenses are costs that a business incurs to run its core operations and generate revenue. They are short-term costs that are incurred regularly, unlike capital expenditures, which are long-term investments in assets.

The Grant Agreement states "Operational Expenses include but is not limited to salaries, rent, utilities, and other payments required to sustain the operation of the organization. Operational Expenses are also defined by generally accepted accounting principles (GAAP) as established by the Financial Accounting Standards Board (FASB) or the Government Accounting Standards Board (GASB)."

Capital Funding Requests

There were two ways that AIM requested capital funding from the County:

- Advanced funding capital requests: AIM submitted proposals and the County paid AIM based on quotes and estimates in advance of AIM incurring the expenses. It is our understanding that the County did not request, nor did AIM provide, any reporting and/or payment support to the County to validate that capital funds were spent by AIM in accordance with the proposals.

BACKGROUND, OBJECTIVES AND APPROACH

Background (continued)

- Capital in arrears requests: AIM submitted capital reimbursement requests for expenses already incurred. Payment was made by the County on these requests after documentation to support the expenses was provided by AIM and reviewed by the County.

Capital funding breakdown by type for audit period			
Capital request type	Description	Number of AIM requests	Funded amount
Advanced funding	Requested in advance of expense	5	836,397
Capital in arrears	Reimbursement-based	4	$ 213,093
		Total capital funding	**$ 1,049,490**

Books and Records

AIM utilizes QuickBooks general ledger software. Based on our understanding, there were several consultants during the audit period that were performing the accounting function. During the audit period, AIM had two bank accounts at Main Street Bank. One bank account was used for all deposits and disbursements. The other bank account was solely used to transfer money back and forth to the main bank account. The County wired payments to AIM's main bank account, and then AIM would utilize the funds for expenditures. The signers on the bank account were the Chief Executive Officer (CEO), the Chief Production Officer (CPO), and the Board Secretary.

AIM had at least two debit cards, which were issued to the Chief Executive Officer (CEO) and the Chief Production Officer (CPO). In 2022, AIM had a VISA credit card, which was issued to at least one person, the former Director of Operations who left AIM around April of 2022. In 2023, AIM opened an AMEX credit card, in which there were at least three credit cards issued to the CEO, CPO, and the Director of Community Engagement.

During the audit period, AIM utilized three different processing methods for payroll, which are summarized in the table below:

Payroll Processor	Payroll Time Period*
PayChex, Inc.	January 1, 2022 - July 15, 2023
Manual checks from AIM	July 16, 2023 - October 15, 2023
ADP (Automatic Data Processing)	October 16, 2023 - March 14, 2023

**relative to the audit period*

Background, Objectives and Approach (Continued)

Objectives and Approach

Objectives

The objective of this internal audit review was to determine whether AIM used County funding for operating and capital expenditures, per the type of funding provided by the County.

The audit period for this review is January 1, 2022, through March 31, 2024. The scope of this review also includes the Grant Agreement between Arlington County and Arlington Independent Media for Use of Public, Educational, and Governmental Funds (Grant Agreement), dated December 16, 2023.

Approach

Our approach to the audit execution consisted of the following phases:

Planning

The first phase of this audit consisted primarily of inquiry and walkthroughs, to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following was performed as a part of this phase:

- Reviewed the pertinent Grant Agreement, Version and Comcast franchise agreements, FCC Orders, and any other relative statutes/regulations and/or correspondence provided by the County.
- Initiated a planning call with County personnel to gain an understanding of the County's relationship with AIM, funding sources related to AIM, and any other relevant matters concerning the audit. As part of this process, we obtained certain payment and budget data/information, and relevant correspondence with AIM from the County.
- Conducted a kick-off call with current AIM Board members to explain the audit and gain an understanding of what systems AIM utilized (accounting, payroll, etc.) and what documentation may exist related to the operating and capital funding received from the County. We did not have access to AIM personnel that were employed at the organization during the audit period for this review, so we relied upon the books and records that were provided by the current AIM Board members.
- Requested preliminary data for use in the audit, including, but not necessarily limited to:
    - Chart of accounts, identifying the revenue/expense accounts;
    - Population of general ledger transactions for the audit period, to include revenues received from all sources, and disbursements made for operating and capital purposes;
    - Any financial reports, grant requests, and/or other pertinent information submitted to the County during the audit period;
    - Internal budget and/or management reports utilized by AIM; however, these were not able to be provided;
    - AIM's financial statements;

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

- Any policies and procedures in place around AIM's accounting, construction, asset/inventory control procedures, etc. We noted that the only policies and procedures able to be located were AIM's employee handbook and AIM's contract policy.

Fieldwork

The purpose of this phase was to evaluate whether the operating and capital funding provided by the County was used in accordance with the definitions outlined above. Our fieldwork testing utilized sampling and other audit techniques to meet our audit objectives outlined above. Procedures included, but were not limited to:

- Reviewed any policies and procedures provided by AIM to gain an understanding of its processes and controls over the funding provided by the County.
- Tested that the costs/invoices included in AIM's financial system records and/or grant requests are supported by source documents. Our work in this area included:

  Operating Costs

  - evaluated whether operating funding provided by the County was spent on the operational activities;
  - obtained an understanding of how operating expenditures were tracked in AIM's financial books and records, and whether costs were comingled with other capital and/or operating costs;

  Capital Costs

  - evaluated whether capital funding provided by the County was spent on the approved activities and/or assets, as evidenced in the grant requests;
  - obtained an understanding of how capital expenditures were tracked in AIM's financial books and records, and whether costs were comingled with other capital and/or operating costs;
  - performed onsite physical walkthroughs of AIM's facilities to evaluate the existence of a sample of capital assets.

  Throughout the report, we utilize the word "substantiated". For the purpose of this review, "substantiated" means that we were able to agree the transaction to at least two data sources and that the transaction appeared to be for a valid business purpose. Reference Exhibits 1 and 2 for a summary of the documentation utilized.

- As specific issues or areas of concern occurred during this review, other procedures outside the original scope and budget were performed as agreed upon by the County and RSM. Additional procedures included:
  - Reviewed the bank account statements and calculated the total deposits during the audit period; compared against the funding provided by the County to confirm how much additional funding AIM received that was not from the County;
  - Reviewed the general ledger to evaluate the amount of funding spent on consultant fees;

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

- Reconciled AIM's funding requests against AIM's inventory list and receipts/invoices from known purchases;
- Reviewed the CEO and CPO's employment agreements;
- Reviewed the AIM Board meeting minutes from the audit period;
- Reviewed summary payroll and W-2 reports.

Fieldwork Limitations

During the review, the audit was impeded by the following fieldwork limitations:

- We were unable to interview any personnel from AIM that were employed during the audit period.
- We relied upon the new Board Treasurer to locate and provide all the requested documentation. The Board Treasurer joined AIM in 2024 and was not a part of the AIM Board during the audit period. As a result, there is no guarantee that the documentation we were provided is exhaustive.
- The capital, operating, and miscellaneous funding were comingled in a single bank account and general ledger account; as such, we are not able to track how AIM spent the County's funding. As a result, we reviewed the bank account statements and general ledger in totality to calculate approximate totals for the amount of funding spent on what appeared to be capital expenditures versus operating expenditures. During our review, we relied on the general ledger to review the transaction-level detail. Then, we matched the transactions from the general ledger to the bank statements, credit card statements, and any provided invoices/receipts.

Reporting

At the conclusion of this audit, we vetted the facts of this internal audit with the County and with AIM. The draft report was submitted both to the County and to AIM for review. An exit meeting was held with the County and AIM to formally review and discuss the draft report and modify accordingly.

ARLINGTON
VIRGINIA

Risk Ratings

Observation Risk Rating Definitions	
Rating	**Explanation**
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately.

Exhibit 1: Substantiated Capital Expenditures

	Payments to AIM	To substantiate the following capital expenditures, we utilized the listed documentation							Total of Substantiated Capital Expenditures
		Invoice, Transaction List by Vendor, Bank Statement, and GL	Transaction List by Vendor, Bank Statement, and GL	Invoice, Bank Statement, and GL	Invoice, AMEX Statement, and GL	Transaction List by Vendor and AMEX Statement	GL and Bank Statement	Quote and VISA Statement	
2022	$ 234,493	$ 17,081	$ 254	$ 48,490	$ -	$ -	$ 25,073	$ -	$ 90,897
2023	381,438	160,537	225	-	-	1,134	411	-	162,307
2024	220,466	80,416	-	-	1,240	-	-	-	81,656
Capital in Arrears	213,093	176,013	-	-	-	-	-	2,406	178,419
Total	$ 1,049,490	$ 434,046	$ 479	$ 48,490	$ 1,240	$ 1,134	$ 25,484	$ 2,406	$ 513,280

Exhibit 2: Substantiated Operating Expenditures

	Payments to AIM	To substantiate the following operating expenditures, we utilized the listed documentation						Total of Substantiated Operating Expenditures
		Invoice, Transaction List by Vendor, Bank Statement, and GL	Other Supporting Document*, Transaction List by Vendor, Bank Statement, and GL	Invoice, Bank Statement, and GL	Transaction List by Vendor, Bank Statement, and GL	Invoice and GL	Bank Statement and GL	
2022	$ 381,579	$ 229,257	-	$ 18,799	$ 115,336	$ 2,690	$ 508,567	$ 874,648
2023	444,079	199,843	$ 7,140	-	134,478	-	446,216	787,677
2024	126,645	30,978	2,320	-	29,705	574	103,360	166,937
Total	$ 952,303	$ 460,077	$ 9,460	$ 18,799	$ 279,519	$ 3,264	$ 1,058,143	$ 1,829,262

**Other Supporting Document includes lease agreements and engagement letters with specific fees outlined.*

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