

# **AUDIT COMMITTEE ACTIVITY REPORT**

**FY2019 (July 1, 2018 – June 30, 2019)**

Prepared by the Audit Committee for the Executive Committee and Presentation to the Full Commission

**Report Date:** September 18, 2018

## **FY19 Audit Committee Members:**

- Casey Anderson (7/1/2018 – 1/16/2019)
- Elizabeth Hewlett (1/17/2019 - 6/30/2019)
- Norman Dreyfuss
- Dorothy Bailey
- Benjamin Williams
- Lori Depies

## INTRODUCTION

The Audit Committee (AC or Committee) operates independently from the management of the Maryland-National Capital Park and Planning Commission (M-NCPPC or Commission). The AC serves as a forum, in which auditors and other interested parties may identify and discuss concerns related to financial reporting and internal controls.

The Annotated Code of Maryland, Land Use Article, Subtitle 4 Audit Committee, §15-401-§15-405, governs the establishment and function of the Audit Committee (e.g. membership, terms, qualifications, and powers).

The AC consists of four (4) voting members and one (1) nonvoting member. Commissioner Norman Dreyfuss (Montgomery County) served as Audit Committee Chair throughout FY19. Commissioner Dorothy Bailey (Prince George's County) accepted the AC Chair position effective July 1, 2019. Other Committee members include Mr. Benjamin Williams, public member representing Prince George's County, and Ms. Lori Depies<sup>1</sup>, public member representing Montgomery County. The Commission Chair<sup>2</sup>, serves as the nonvoting member.

Maryland-National Capital Park and Planning Commission (M-NCPPC) Practice No. 1-31, *Organization and Functions of the Audit Committee*, provides additional guidance on the Committee's requirements. The Practice requires the AC to submit the following annual reports:

- A written report that addresses how the Committee discharged its duties and met its responsibilities.
- A summary of significant audit findings as prepared by the Inspector General.
- Evaluation of the adequacy of internal controls; the agency's adherence to financial regulations/policies; and any other significant concerns/complaints that were filed with or identified by the Audit Committee.

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<sup>1</sup> Ms. Depies was appointed on May 30, 2019 as public member of the Commission's Audit Committee for the balance of Ms. Karen Tobat's term ending September 30, 2019.

<sup>2</sup> Each calendar year, the Commission Chair and Vice Chair positions rotate between the County Planning Board Chairs. For FY19, Chair Casey Anderson served on the AC July 1, 2018 – January 16, 2019 and Chair Elizabeth Hewlett served on the AC January 17, 2019 – June 30, 2019.

## **DISCHARGE OF DUTIES**

### Audit Committee Meetings and Communications

The Audit Committee is required to hold at least four meetings during each year to discuss proposed audits and investigations. The AC held four (4) general meetings in FY19:

- September 26, 2018 – Prince George’s County Department of Parks and Recreation Administration Building
- December 19, 2018 - Montgomery County Regional Office Building
- March 12, 2019 – Conference Call
- June 11, 2019 – Conference Call

### External Auditors

The Audit Committee is responsible for appointment, compensation, retention, and oversight of the work of any external auditor engaged for the purpose of performing independent audit services, reviews or attest services.

Each fiscal year, the Office of the Secretary-Treasurer submits a Comprehensive Annual Financial Report (CAFR), in accordance with the Land Use Article of the Annotated Code of Maryland. In conjunction with the CAFR, State statute requires an annual audit by independent certified public accountants. The Commission, with agreement from the AC, selected the accounting firm of SB & Company to complete the FY19 external review (year four (4) of a five (5) year contract). The following meetings were held with the external auditors:

- July 18, 2018 – Opening meeting, FY18 Financial Audit
- December 19, 2018 – Closing meeting, FY18 Financial Audit

### Inspector General

The Audit Committee must select and appoint the Inspector General. The AC appointed Ms. Renee Kenney, Inspector General on December 20, 2017 for a four (4) year term.

Review and Approval of Internal Audit Plan

On June 12, 2018, the AC formally approved the FY19 Internal Audit Plan submitted by Ms. Kenney. Identification of specific audits included in the plan depend on many factors, including: ranking in annual risk assessment completed by the OIG, OIG resources, previous audits, on-going projects, and professional judgment.

The original FY19 Audit Plan included the following performance audits:

<b>Audits</b>	<b>Status</b>
Treasury Operations, Finance Department	Completed
Group Insurance Fund	In Progress
Capital Improvement Program (CIP) - Change Orders	Postponed <sup>3</sup>
Commission Telework Program	Completed
Sole Source Contracts/Competitive Bid Waivers	Completed
Officer Issued Weapons/Inspections and Assignment (Prince George's County Division)	In Progress
Selection and Recruitment (Commission-wide)	In Progress
Park Police Overtime (Montgomery and Prince George's County Divisions)	Completed
Infor V10 Upgrade, Pre-Implementation Audit	Completed
Commission-wide IT Spend	Postponed <sup>4</sup>
Commission Vulnerability & Patch Management	Substituted Audit <sup>5</sup> /Completed
Commission Firewall Security and Administration	Postponed <sup>6</sup>
Prince George's County Facility Audits	Completed (3) <sup>7</sup>
Montgomery County Facility Audits	Completed (1) <sup>8</sup>

In addition to the planned performance audits, the audit plan must also include adequate hours and resources for fraud, waste, and abuse (FWA) investigations, and other non-audit services. The audit plan included 1,930 hours for FWA investigations, and 1,406 hours for management advisory services.

<sup>3</sup> The OIG planned on completing a detailed follow-up audit of the CIP Audit completed by the Maryland Office of the Legislative Auditors for Prince George's County Department of Parks and Recreation (DPR). DPR management has asked that the follow-up be completed in the fall, 2019.

<sup>4</sup> During the audit opening meeting, facilitated by the OIG, it was determined, to ensure relevant, timely information, that the audit period include FY19 actuals, which will not be available until August 2019.

<sup>5</sup> Montgomery County Data Center, Co-Location was identified as a substitute audit. Original risk area to be covered by independent security assessment (see footnote 6 below).

<sup>6</sup> Prior to initiating the Firewall Security and Administration Audit, the Office of the Chief Information Officer contracted with an independent third party to complete a Commission-wide security assessment. To prevent duplication of efforts, the OIG agreed to complete a follow-up of the independent assessment. The follow-up audit was postponed to allow for completion of the external assessment.

<sup>7</sup> Stephen Decatur Community Center, Fort Washington Forrest Community Center, Palmer Park Community Center.

<sup>8</sup> Cabin John Maintenance Yard.

## Internal Audits and Investigations Completed in FY19

The Audit Committee, Executive Committee, and Commission Officers receive copies of all issued audit reports.

Type of Audit	Number Completed in FY19
Performance Audits	11
Fraud, Waste, and Abuse Investigations	13
Referrals to Law Enforcement	3
Follow-Up Reviews	21
Management Advisories and other Non-Audit Services	9
Miscellaneous Reviews	16

**Performance Audits** - Performance audits provide objective analysis to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, and facilitate decision making. Performance audits are typically planned for and approved by the Audit Committee. In FY19, 4 Performance audits covered Commission-wide activities, 3 covered Montgomery County facilities or programs, and 4 covered Prince George’s County facilities or programs. There were 40 audit recommendations agreed to by management in total.

The Office of the Inspector General conforms to *Generally Accepted Government Auditing Standards* (GAGAS) or the “Yellow Book” for the completion of all performance audits. These professional standards are issued by the United States Government Accountability Office.

**Fraud, Waste, and Abuse Investigations** - In cases where fraud, waste, or abuse is suspected, the Office of the Inspector General has responsibility to investigate the matter in accordance with Commission Practice 3-31, *Fraud, Waste, & Abuse*. Eight (8) of the 13 investigations resulted in a conclusion of fraud, waste, or abuse. None of the investigations resulted in material loss to the Commission.

The OIG conforms to *Principles and Standards for Offices of Inspector General* or the “Green Book” for the completion of fraud, waste, and abuse investigations. These professional standards are issued by the Association of Inspectors General.

**Referrals to Law Enforcement** - The OIG initiated three additional investigations that were referred to law enforcement for investigation when it appeared the actions may warrant criminal charges. Two have been closed and did not result in any charges or loss to the Commission. One investigation is currently on-going.

**Follow-Up Reviews** – The OIG is responsible for completing follow-up reviews for all high and medium-risk audit recommendations. For FY19, the OIG completed 21 follow-

up reviews, which included 94 audit recommendations. Upon completion of the follow-up testing, the OIG was able to conclude 82 of the audit recommendations reviewed were satisfactorily resolved, 8 were partially resolved as some action was taken, and 4 were unresolved.

**Management Advisories** - Management advisories are usually the result of a special request from management to review a specific procedure or function. Management advisory reporting is ad-hoc and the reports are designed to meet the needs of management. Management advisories are completed as non-audit services (i.e. not subject to GAGAS standards).

**Miscellaneous Reviews** - Most miscellaneous reviews were the result of unsubstantiated fraud, waste, and abuse allegations. Miscellaneous reviews are typically less in scope than a full fraud, waste, and abuse investigation and involve employee interviews and review of supporting documentation. Miscellaneous reviews do not require a formal audit report. Unlike the FWA investigations, the miscellaneous reviews are not conducted in accordance with *Principles and Standards for Offices of Inspector General*.

**Exhibit A** contains a listing of completed performance audits, fraud, waste, and abuse investigations, and management advisories.

## SUMMARY OF SIGNIFICANT AUDIT FINDINGS<sup>9</sup>

The OIG communicated 62 audit recommendations in FY19. Thirty-six (36) of the 62, or 58%, were classified as high risk. The OIG relies on the auditor's professional judgment when assigning risk ratings (high, medium, or low) to individual audit findings. A high-risk rating indicates a deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.

The high-risk audit findings identified deficiencies in the following areas/programs:

<b>Areas/Programs</b>	<b>Number of Findings</b>
Timekeeping Procedures	17
Managerial Oversight	7
Controlled Assets	4
Update Internal Policies and Procedures	2
Retail Inventory	2
Bank Reconciliations	1
Training of Personnel	1
Rental Contracts	1
Disaster Recovery	1
<b>TOTAL</b>	<b>36</b>

## EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS AND PROCESSES<sup>10</sup>

It is the opinion of the Inspector General that the internal control systems and processes for the Commission's fiscal, operational, and information technology (IT) activities and applications/systems are adequate, but there are areas for improvement in time reporting, controlled assets, and IT security awareness.

- **Time Reporting** – The OIG identified several instances where time cards were not accurately completed, and managerial oversight (e.g. review and approval) was deficient. Deficiencies were pervasive throughout the Commission and involved employees at all levels. Commission management has agreed to OIG's recommendations and is taking steps to remedy. In addition, the OIG has volunteered to complete 22 Commission wide training sessions that cover common fraud, waste, and abuse themes, including time card completion.

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<sup>9</sup> Per the Office of the Inspector General's FY19 Annual Report (July 12, 2019)

<sup>10</sup> Per the Office of the Inspector General's FY19 Annual Report (July 12, 2019)

- **Controlled Assets** – Some facilities are not completing annual inventories of their controlled assets (e.g. assets valued under \$10,000). New controlled assets are not being added to inventory listings and disposals are not adequately reported. Inadequate control over controlled assets appears to be pervasive throughout the Commission. Management is aware of the deficiencies and are taking actions to correct.
- **IT Security Awareness** – The number and complexity of phishing attempts is increasing expeditiously for government entities. A neighboring city was recently subject to a phishing/ransom attack that costs the city \$18.2 million dollars. Although, not at this extreme, the Commission has also fallen prey to several phishing attempts that involved employee direct deposits, vendor ACH payments, and requests for gift cards. Fortunately, due to our control environment (e.g. updated patches) and internal awareness, losses have been very minimal. However, this is an on-going concern, which requires continuous action. To help mitigate these threats, the OIG provided several recommendations to the Office of the Chief Information Officer (OCIO). The OCIO agreed with the recommendations and has effected a plan to implement.

The Audit Committee concurs with the OIG's conclusion on the effectiveness of the internal control system.

## **OTHER CONCERNS AND COMPLAINTS**

As part of our reporting requirements, the AC is required to advise the Commission Chair and Vice-Chair of any Committee concerns arising from any audit/investigation reports. No additional concerns were raised in FY19.

## **CONCLUSION**

The Audit Committee would like to thank the Commission's Chair, Vice-Chair, Commissioners, management, staff, and the Office of the Inspector General for their continued efforts to strengthen public accountability and to improve the effectiveness, productivity, and efficiency of Commission operations.

The Audit Committee would also like to thank Commissioner Norman Dreyfuss for his dedicated service to the Commission, Montgomery County Planning Board, and the Audit Committee. Commissioner Dreyfuss' 9 ½ year tenure on Montgomery County's Planning Board ended in July 2019. Beginning in March 2014, while serving on the Planning Board, Commissioner Dreyfuss volunteered to serve on the Audit Committee, he accepted the responsibilities of Audit Committee Chair in November 2017 and concluded his term on the Audit Committee on June 30, 2019.



**Exhibit A**  
**FY19 Completed Audits, Investigations, and Advisories**

CW – Commission Wide Audits  
 MC – Montgomery County Audits  
 PGC – Prince George’s County Audits

**Performance Audits**

Audit Number	Audit Name	Date Final Report Issued	Report Findings (risk level)		
			H	M	L
CW-002-2019	Infor v10 Pre-Implementation Audit*	11/1/2018	0	0	0
CW-003-2019	Competitive Bid Waivers	12/27/2018	0	1	0
CW-005-2019	Telework Program	1/25/2019	2	3	0
CW-010-2019	Treasury Operations	1/25/2019	1	1	0
MC-001-2019	Data Center Co-Location	6/27/2019	1	2	1
MC-002-2019	Cabin John Maintenance Yard	9/20/2018	0	2	2
MC-004-2019	Montgomery County, Park Police Department, Overtime Audit	6/30/2019	6	1	0
PGC-002-2019	Stephen Decatur Community Center	1/9/2019	1	1	0
PGC-006-2019	Fort Washington Forest Community Center	2/8/2019	0	0	0
PGC-013-2019	Palmer Park Community Center	8/26/2019	3	0	1
PGC-015-2019	Prince George’s County, Park Police Department, Overtime Audit	8/26/2019	7	4	0
<b>11 Completed Audits</b>	<b>Total Number of Findings (40)</b>		<b>21</b>	<b>15</b>	<b>4</b>

\*Management was unable to provide the requested information necessary to complete audit. As such, the OIG was unable to complete full audit testing. A limited audit report was issued.

**Exhibit A  
FY19 Completed Audits, Investigations, and Advisories**

**Fraud, Waste, and Abuse Investigations**

Audit Number	Audit Name	Report Date	ICR*		
			H	M	L
CW-006-2019	[REDACTED] Timekeeping Procedures	12/3/2018	3	1	0
CW-007-2019	[REDACTED] Timekeeping Procedures	12/3/2018	2	0	0
CW-008-2019	[REDACTED] Timekeeping Procedures	12/3/2018	1	0	0
MC-003-2019	[REDACTED] Forgeries	9/5/2018	0	0	0
MC-005-2019	[REDACTED] Purchase Card	4/17/2019	0	0	0
PGC-005-2019	[REDACTED] Controlled Assets	9/24/2018	2	1	0
PGC-007-2018	[REDACTED] Conflict of Interest	1/7/2019	0	0	0
PGC-008-2019	[REDACTED] Inventory Controls	3/18/2019	3	1	0
PGC-009-2019	[REDACTED] Petty Cash	2/4/2019	0	1	1
PGC-011-2019	[REDACTED] Timekeeping Procedures	2/15/2019	1	1	0
PGC-012-2019	[REDACTED] Alternation of Invoices	6/13/2019	2	0	0
PGC-014-2019	[REDACTED] Purchase Card	3/27/2019	0	2	0
PGC-017-2019	[REDACTED] Vehicle Disposal	4/8/2019	0	0	0
<b>13 Investigations</b>	<b>Total Number of Recommendations (22)</b>		<b>14</b>	<b>7</b>	<b>1</b>

\* For most fraud, waste, and abuse investigations, the OIG issues a supplemental internal control report (ICR) which identifies opportunities to strengthen internal controls.

**Exhibit A**  
**FY19 Completed Audits, Investigations, and Advisories**

**Management Advisories**

<b>Audit Number</b>	<b>Advisory Name</b>	<b>Advisory Request</b>	<b>Report/Communication Date</b>
CW-001-2019	Infor v10 Deliverables	Ensure functional business needs related to the ERP system upgrade are met.	10/02/2018
CW-011-2019	Procurement Governance	Evaluate the Commission's purchasing governance model to help ensure all competitive purchases comply with Commission policies and procedures, while promoting efficient operations.	Waiting on mgmt. response to OIG recommendation before final promulgation.
CW-012-2019	FY19 Retail Inventory	Witness a sample of inventory counts at the request of the external auditor.	Summary provided to external auditors.
MC-006-2019	██████████ Contractors, Inc.	Review actions leading up to an apparent breach of a Contractors internal network.	06/24/2018
PGC-001-2019	Unauthorized Employment	Review actions supporting the placement of an unauthorized employee.	10/29/2018
PGC-003-2019	International Travel	Review international travel expense reimbursements to assist management in policy development.	09/17/2018
PGC-004-2019	██████████ Program	Review Program administration.	10/23/2018
PGC-010-2019	████████████████████	Assess possible conflict of interest with the vendor and a Commission employee; assess reasonableness of quoted price for services.	01/16/2019
PGC-018-2019	████████████████████ ████████████████████ Petty Cash	Requested by management due to prior fraudulent actions of employee.	05/18/2019
<b>9 Advisories</b>			