

# **AUDIT COMMITTEE ACTIVITY REPORT**

**FISCAL YEAR 2021 (July 1, 2020 – June 30, 2021)**

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

**Report Date:** September 15, 2021

## **FY21 Audit Committee Members:**

- Dorothy Bailey, Audit Committee Chair, Vice-Chair Prince George's County Planning Board
- Partap Verma, Commissioner, Montgomery County Planning Board
- Benjamin Williams, Prince George's County, Public Member
- Lori Depies, Montgomery County, Public Member

### Ex Officio Non-Voting Members

- Casey Anderson, Chair, Montgomery County Planning Board (\*)
- Elizabeth Hewlett, Chair, Prince George's County Planning Board (\*)

*\*Rotates with the appointment of Commission Chair*

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## 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 Dorothy Bailey (Prince George's County) served as Audit Committee Chair throughout FY21. Other Committee members included Commissioner Partap Verma (Montgomery County), Mr. Benjamin Williams, public member representing Prince George's County, and Ms. Lori Depies, public member representing Montgomery County. The Commission Chair<sup>1</sup>, serves as the nonvoting member of the Committee.

Commission Practice No. 1-31, *Organization and Functions of the Audit Committee and Office of the Inspector General*, 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.
- 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.
- A summary of significant audit findings as prepared by the Inspector General.

This Annual Report is being submitted to satisfy these requirements.

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<sup>1</sup> Each calendar year, the Commission Chair and Vice Chair positions rotate between the County Planning Board Chairs. For FY21, Chair Casey Anderson served on the AC July 1, 2020 – January 19, 2021 and Chair Elizabeth Hewlett served on the AC January 20, 2021 – June 30, 2021.

## **DISCHARGE OF DUTIES**

### 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 FY21 external review. The AC meets with the external auditor for pre-audit planning and audit closeout. During FY21, the AC meet with SB & Company on the following dates:

- February 17, 2021, the AC met with SB & Company to discuss the results of the FY20 financial statement audit (e.g. audit closing meeting).
- July 26, 2021, the AC met with SB & Company to assist in pre-audit planning for the FY21 financial statement audit.

The Department of Finance issued a competitive procurement for the Commission's external auditing services in January 2021. SB & Company was awarded a three-year contract covering FY21 – FY23, with two 1-year options. The AC supports the award to SB & Company.

### Office of the 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 4-year term with renewal options.

On June 08, 2020, the AC formally approved the FY21 Internal Audit Plan submitted by the Inspector General. The Audit Plan included performance audits, fraud, waste, and abuse investigations, management advisories, and follow-up reviews.

The Audit Committee is required to hold at least four meetings during each year to discuss proposed audits and investigations, including significant audit findings/recommendations. The AC held 4 meetings in FY20 with the Inspector General:

- September 08, 2020
- December 8, 2020
- March 9, 2021
- June 8, 2021

The Office of the Inspector General issued their FY21 Annual Report to the Audit Committee and Commission Officers on July 13, 2021. The Report provided an overview of OIG operations, summary of all issued reports, and a summary of major audit concerns and high-risk recommendations. The Report also included the OIG's statement on the effectiveness of the Commission's internal control system and processes. Excerpts from the OIG's report are provided below.

## **SUMMARY OF SIGNIFICANT AUDIT FINDINGS**

### Major Audit Concerns

(Per the Office of the Inspector General's FY21 Annual Report)

If the overall control environment for the unit or process being audited requires management's immediate attention, details of the deficiencies are included in the "Major Audit Concerns" section of the report. For FY21, four (4) out of 14 performance audits included major audit concerns.

- The OIG completed a construction contract audit for the **Peppermill Community Center** (PGC-001-2021). The Peppermill renovation/construction Contract was bid as a Guaranteed Maximum Price (GMP) contract. Per the Design-Build Institute of America (DBIA), a GMP contract is a hybrid contract combining the cost reimbursement features of a cost-plus contract with the cost certainty of a lump sum (firm fixed-price) contract. GMP contracts require additional effort to manage as the parties (owner and Contractor) are required to keep track of all related expenses. For line items subject to cost-plus reimbursement, the contractor must provide the owner (e.g. Commission) with detailed invoices that validate the costs of the labor, equipment, subcontractors, and material.

The OIG concluded amounts paid to the Contractor for reimbursable costs (costs other than the fixed fee amounts) could not be verified to actual costs incurred by the Contractor. Management agreed in theory with OIG's conclusions, but stated their approach to evaluating invoices associated with Design/Build projects followed industry standards. However, management did also state they always seek to improve its contract management processes and that the recommendations of the audit appear reasonable. Management agreed to implement OIG's recommendations on an up-coming project as a test case. The OIG accepted managements response.

- The OIG completed a comprehensive review of **Prince George's County Department of Parks and Recreation's three golf courses** (Paint Branch Golf Complex, Enterprise Golf Course, and Henson Creek Golf Course) (PGC-008-2021). The purpose of the audit was to identify opportunities to strengthen internal controls, improve operational efficiencies and help ensure compliance with

Commission policies and procedures. The OIG identified numerous opportunities to strengthen internal controls at all golf courses. When considered individually, the recommendations mitigate low, medium, and high operational risks. However, given the number of recommendations, and the limited improvement in managerial oversight, lack of managerial oversight was presented as a major audit concern.

Department of Parks and Recreation management agreed with all audit recommendations and continue to make improvements to strengthen oversight and operations.

- The OIG completed two IT Audits in FY20, the objective of these two audits was to assess the Commission’s overall vulnerability management practices and to follow-up on recommendations included in prior external security assessments. Both audit reports contained major audit concerns.

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

### High-Risk Audit Findings

(Per the Office of the Inspector General’s FY20 Annual Report)

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.

High-risk recommendations accounted for approximately 50% of total recommendations in FY21. The OIG identified [REDACTED] high-risk audit recommendations, out of 40 total recommendations.

The high-risk audit findings identified deficiencies in the following areas/programs. [REDACTED] there does not appear to be a concentration of recommendations in a single business process.

	<b>BUSINESS PROCESSES</b>							
		Management Oversight and Follow Through	Incomplete Procedures or Defined Processes	Petty Cash	Accounts Receivable	Controlled Assets	Customer Contracts	Purchase Card
	█		1					
	█		1					
MC-001-2021		1						
MC-003-2021		1						
PGC-001-2021			1					
PGC-002-2021				1				
PGC-003-2021					2			
PGC-007-2021						1	1	
PGC-008-2021		1		1				1
<b>Total High-Risk Findings</b>	█	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>

Fraud, Waste, and Abuse Investigations

(Per the Office of the Inspector General's FY21 Annual Report)

The OIG ensures public accountability by preventing, investigating, and reporting instances of fraud, waste, and abuse of Commission property or funds. 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*.

Cases are presented to the OIG through:

- the independent, anonymous Ethics and Compliance Employee Hotline;
- direct notification from Commission employees; and
- direct notification from Prince George's County and Montgomery County constituents.

The OIG completed one (1) fraud, waste, and abuse (FWA) investigation in FY21. FWA investigations are conducted in accordance with *Principles and Standards for Offices of Inspector General*.

At the conclusion of a FWA investigation, the OIG issues a formal FWA Report and a corresponding Internal Control Report (ICR). The FWA Report contains the OIG's conclusion on the occurrence of fraud, waste, or abuse. If applicable, the OIG quantifies the amount of the misappropriation. The ICR identifies opportunities to strengthen internal controls related to the irregularity.

South Germantown Cricket Field - The OIG received a confidential complaint concerning the South Germantown Recreational Park (SGRP) Cricket Field, in Montgomery County. The complaint included three (3) allegations relating to a change order (CO) and subsequent approval of an application for payment to a contractor for construction of the SGRP Cricket Field. The OIG was unable to substantiate the allegations but was able to provide management with suggestions to strengthen change order supporting documentation.

Montgomery County Department of Parks management agreed with the audit recommendation. OIG resolved the recommendation during follow-up testing.

In addition to the FWA investigation, the OIG completed 8 limited investigations. The results of each investigation are summarized in a Memorandum of Limited Investigation (LI). The LI describes specific issues or complaints received and the outcomes of the investigation.



## EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS AND PROCESSES

(Per the Office of the Inspector General's FY21 Annual Report)

It is the opinion of the Inspector General that the internal control systems and processes for the Commission's fiscal and operational activities are adequate. The OIG completed six (6) comprehensive facility audits of Community/Nature Centers within Prince George's and Montgomery Counties. Based on audit testing, it is reasonable to conclude management and staff within these facilities have a strong understanding of internal controls and work diligently at reducing risk to the Commission. In addition, the OIG completed three special audits as a result of the COVID-19 pandemic. No major audit concerns were identified in these audits. One audit, CARES/FEMA Funding did not have any audit recommendations/findings. This supports the IG's conclusion that internal controls systems and processes for fiscal and operational activities are adequate. This statement is further supported by a declining trend of completed fraud, waste, and abuse investigations.

Although improvements continue to be made, information technology (IT) security risks remain a concern for the Commission. Major audit concerns were identified in the development and implementation of comprehensive, Commission-wide security policies. As IT security threats increase in complexity and scope, Commission security protocols are defined, implemented, and monitored at a Department level, instead of a Commission-wide level, increasing the Commission's overall security risk. [REDACTED]

[REDACTED]

[REDACTED]

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

## 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. The following concerns were raised with the AC.

- September 8, 2020, Inspector General Kenney requested a meeting with the AC to discuss the Commission's process for the public promulgation of audit and investigation reports issued by the OIG. Current Commission Practice 1-31, *Functions of the Audit Committee and Inspector General* assigns this authority to the Commission's Executive Director. Ms. Kenney alleged this practice hinders independence; and the authority for public promulgation should reside with the Inspector General. Generally Accepted Auditing Standards (GAGS) do not specifically address this authority. Ms. Kenney did not raise issue with the Executive Director's final disposition of reports. The AC did not recommend

immediate changes to the current Practice, however, advised the IG to monitor the timeliness of the promulgation of audit reports and any issues with non-posting.

- The Office of the Chief Information Officer (OCIO) engaged a security consultant to complete a security assessment in October 2020. The consultant identified several top data risks, which were shared with the OIG. Subsequently, the Inspector General requested a meeting with the AC to discuss the findings of the external assessment. The OCIO submitted an action plan to the AC and OIG outlining steps to mitigate the identified issues. The OCIO's action plan appeared reasonable. The AC has requested the OIG to complete subsequent follow-up reviews with the OCIO.

## **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.