

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arlington County, Virginia (the County) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit we became aware of other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below. We previously provided a written communication dated November 3, 2016, on the County's internal control. This letter does not affect our communication dated November 3, 2016.

RECONCILIATION OF CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM - SCHOOLS

For four VNAV "Snapshot" monthly contribution reconciliations reviewed, we noted that the VNAV "Snapshot" was not reconciled to the Arlington County Public Schools' payroll system. This was noted during our examination of the 2016 census data submitted to the Virginia Retirement System. The Virginia Auditor of Public Accounts Specifications for Audits of Counties, Cities and Towns states that the information in an entity's payroll system should reconcile to the information in VNAV through the use of the VNAV "Snapshot." We recommend that an individual at the Schools is assigned to periodically reconcile the Payroll records to the Snapshot.

Management's Response

APS has made reconciliation of the VRS snapshot information a top priority. The process of reconciling the VRS data is a labor-intensive one that has included a change in business practices related to VRS deductions. APS does have an individual designated to review the monthly snapshot and reconcile the data, and will continue to refine and improve the process moving forward.

FIXED ASSETS – COUNTY

We noted several fixed assets which were capitalized in FY16 but were completed in previous fiscal years. The balances were listed as CIP as of the prior year end, therefore the adjustment would have only been a reclassification between CIP and Depreciable Capital Assets, and would have no impact on the Total net Capital Assets. Unrecorded depreciation expense and accumulated depreciation is deemed immaterial to the financial statements as a whole for the current and prior years. We also noted an instance where the County improperly capitalized CIP expenses related to a project that was cancelled. The County made an adjusting journal entry to

correctly expenses the costs related to that project. We recommend the County assess the processes and procedures related to the capitalization of fixed assets.

In addition, we noted that in reviewing the detail of CIP invoices for the fiscal year, the County staff do not perform an in-depth review of the data to record retainage payable. We noted a few instances of retainage not be identified and classified as such. The review should be more thorough to ensure that all retainage payables are included in the list.

Management's Response

In the last couple of years, the County has made a concerted effort to review older CIP projects to obtain in service dates so the assets can be transferred to Depreciable Capital Assets. The County will continue this effort so its possible similar transactions may be identified during this effort.

The County will ensure that cancelled projects are expensed at the time of cancellation in the future.

Currently the County coordinates with County departments and reviews the County financial system to identify purchase orders (POs) that may have contract retainage. In FY16, the Department of Environmental Services implemented a capital project tracking system called e-Builder. This system will include information on contract retainage. As more and more projects are added to e-Builder the ability to identify contract retainage will improve. This system will also improve the County's ability to identify in service dates of completed projects allowing projects to be reclassified between CIP and Depreciable Capital Assets timely.

DEFERRED REVENUE – SCHOOLS

We noted one instance where Arlington County Public Schools (ACPS) was not able to produce a cash receipt input form for one of the items in our deferred revenue testing. ACPS noted that the item selected was a carry-over balance and did not have a definitive paper trail. We recommend ACPS assess the procedures related to documentation retention of tracking deferred revenue.

Management's Response

APS changed procedures for processing summer school fees in FY 2016. These fees are now deposited directly to school bank accounts and the schools transfer the funds by check to APS regularly. APS will review the procedures in place and make appropriate adjustments so that complete documentation of these items of deferred revenue are received and retained.

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Arlington County, Virginia's written responses to the matters identified in our audit were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

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

Clifton Larson Allen LLP

Arlington, Virginia
November 3, 2016