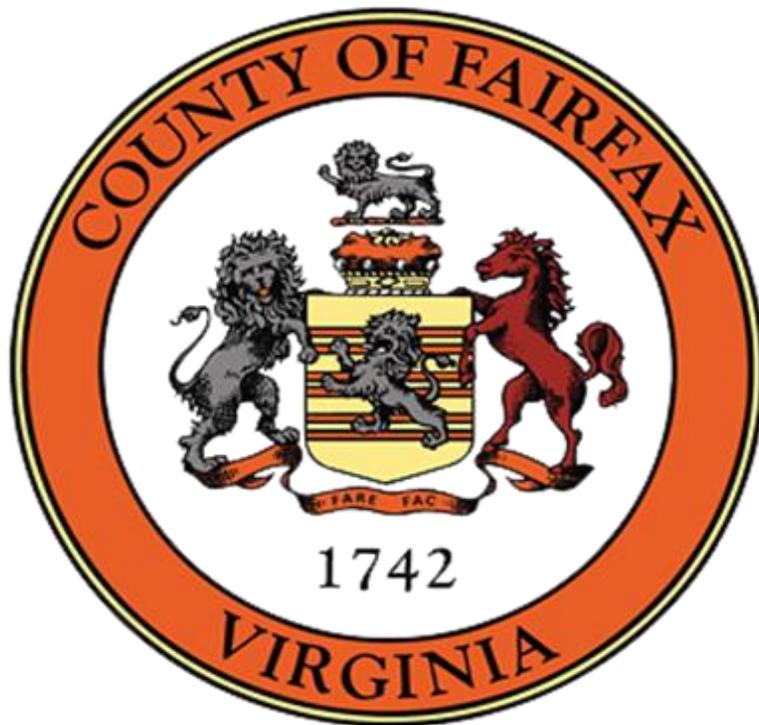


# COUNTY OF FAIRFAX, VIRGINIA OFFICE OF FINANCIAL AND PROGRAM AUDIT

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**June 2019**

**Quarterly Report**

**FAIRFAX COUNTY BOARD OF SUPERVISORS  
AUDITOR OF THE BOARD**

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Fairfax County  
Office of Financial and Program Audit



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**ABSTRACT**

Working under the guidance and direction of the Audit Committee, the Auditor of the Board provides an independent means for assessing management's compliance with policies, programs and resources authorized by the Board of Supervisors. Further to this process, efforts are made to gain reasonable assurance that management complies with all appropriate statutes, ordinances and directives.

This agency plans, designs, and conducts studies, surveys, evaluations and investigations of County agencies as assigned by the Board of Supervisors or the Audit Committee (AC). For each study conducted, the agency focuses primarily on the County's Corporate Stewardship vision elements. The agency does this by developing, whenever possible, information during the studies performed which are used to maximize County revenues or reduce County expenditures.

To assist the Office of Financial and Program Audit (OFPA) with executing the responsibilities under our charge, members of the Fairfax County Board of Supervisors (BOS) submit study recommendations of which the findings and management responses are included in published studies. This process is utilized to provide the constituents, BOS and management reasonable assurance that fiscal and physical controls exist within the County.

Additionally, this agency conducts follow-up work on prior period studies. As part of the post study work conducted, we review the agreed upon managements' action plans. To facilitate the process, we collaborate with management prior to completion of studies. Through this collaboration, timelines for the implementation of corrective action and status updates are documented for presentation at the upcoming Audit Committee Meetings.

The results of studies may not highlight all the risks/exposures, process gaps, revenue enhancements and/or expense reductions which could exist. Items reported are those which could be assessed within the scheduled timeframe, and overall organization's data-mining results. The execution of the OFPA's studies are facilitated through various processes such as; sample selections whereby documents are selected and support documentation is requested for compliance and other testing attributes. Our audit approach includes interviewing appropriate staff and substantive transaction testing. OFPA staff employs a holistic approach to assess agencies/departments whereby the review is performed utilizing a flow from origination to closeout for the areas under review.

There are several types of studies performed by OFPA, e.g.; operational, financial, compliance, internal controls, etc. To that end, it is important to note; OFPA staff reserves the option to perform a holistic financial and analytical data-mining process on all data for the organization being reviewed where appropriate. This practice is most often employed to perform reviews for highly transactional studies.

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**FAIRFAX COUNTY RENTAL PROGRAM STUDY**

**OVERVIEW AND UPDATES**

The results of this study may not highlight all of the risks/exposures, process gaps, revenue enhancements and/or expense reductions which could exist. Items reported are those which could be assessed within the scheduled ***timeframe, and overall organization's data-mining results***. The execution of the ***Office of Financial and Program Audit (OFPA's) studies*** are facilitated through various processes such as; sample selections whereby documents are selected and support documentation is requested for compliance and other testing attributes. There are several types of studies performed by OFPA, e.g.; performance, operational, financial, compliance, etc. To that end, it is important to note; OFPA staff reserves the option to perform a holistic financial and analytical data-mining process on all data for the organization being reviewed where appropriate. This practice is most often employed to perform reviews for highly transactional studies.

The purpose of this study was to execute a performance review on the Fairfax County Rental Program (FCRP) managed by the Department of Housing and Community Development (DHCD) on behalf of the Fairfax County Redevelopment and Housing Authority (FCRHA), a political subdivision of the Commonwealth. The FCRP fund is a non-appropriated and an FCRHA fund. This study included (***but not limited to***) reviews of; unit rent setting, property & inventory management, billings/receivables/collections, contractor maintenance, etc. The period of review for this study was FY 2018. OFPA with the assistance of DHCD compiled FY 2018 FCRP statistical data in the table below:

<b>FY18 FAIRFAX COUNTY RENTAL PROGRAM OPERATIONS</b>	
<i>Department of Housing and Community Development</i>	
<b>Data Metrics</b>	<b>Stats (Note 1)</b>
<i>No. of County Rental Properties</i>	38 (Note 2,3)
<i>No. of County Rental Units</i>	1,475
<i>No. of Participants in Program</i>	5,716
<i>No. of Assets Acquired</i>	9
<i>No. of Assets Disposed</i>	5
<i>Operating Expenses</i>	\$2,435,454
<i>Average Operating Costs Per Property</i>	\$52,945
<i>Rental Revenues</i>	\$3,637,888
<i>Average Rental Revenue Per Property</i>	\$79,084.52
<b>Note (1): Data provided by DHCD.</b>	
<b>Note (2): 33 properties managed by FCRP, 5 properties managed by Third-Parties.</b>	
<b>Note (3): 46 rental properties (8 group homes excluded from compilation).</b>	

The FCRP follows guidelines set by the Department of Housing and Urban Development (HUD) for the purposes of determining whether a family is eligible to rent an FCRP unit. FCRP utilizes the HUD Average Medium Income (AMI) percentages when determining maximum rents that can be charged to tenants participating in the program. Actual rental rates vary in how they are

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formulated as some are flat rents, and others are income based and are calculated using the tenant's adjusted gross income, family size and AMI percentage.

There are **46** properties in FCRP. DHCD internally manages **33**, **8** properties are group home managed by the Community Services Board (CSB), and the remaining **5** are managed by Third-Party contractors. These Third-Party contractors manage all functions related to the property to include; billing, rent collection, maintenance, repairs, accounting related functions, etc. DHCD pays management fees to the third-party contractors on a monthly basis. These management fees paid are based on the contracted rate percentage and revenues collected each month.

OFPA obtained several sources of data from DHCD to select samples and perform substantive testing. Testing was performed on several areas to include; property maintenance and accounting, procurement and inventory functions, program pricing and analysis, third-party contract oversight, etc. Some testing results are provided in **Appendices A-C**.

For every study performed, OFPA endeavors to perform benchmarking to similar jurisdictions, private industry and/or other areas. At the time of this study, no benchmarking data related to this study was available from DHCD or through research. Benchmarking and Cost Benefit Analysis re: County versus Outside Providers, may be performed at a later date as standalone studies.

OFPA performed several onsite visits & interviewed DHCD staff to understand the nature of the operations related to the FCRP functions. We have identified observations and recommendations based on this review. The areas identified for potential enhancements are detailed in further in this document.

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**OBJECTIVES AND RESULTS**

<b>Business Objectives</b>	<b>Study Assessments</b>
FCRP 3 <sup>rd</sup> Party Contactor Net Revenue Support & Oversight	<b>Needs Improvement</b>
FCRP Operating & Capital Reserves	<b>Needs Improvement</b>
Contractor Invoice Charges Oversight	<b>Needs Improvement</b>
Rental Revenue Maximization	<b>Needs Improvement</b>

<b>Performance Summary</b>
<b>Performance Enhancements Opportunities</b>
<ul style="list-style-type: none"><li>• Obtain net revenue remittance support &amp; perform audits for Third-Party managed FCRP properties.</li><li>• Implement a FCRP Operating/Capital Reserve replenishment strategy for internally managed properties.</li><li>• Reconcile contractor invoices to charges and/or contracts.</li><li>• Perform rental rate analysis, with the goal of maximizing rental revenues.</li></ul>

**OBSERVATIONS AND ACTION PLANS**

The following table(s) detail observation(s) and recommendation(s) from this study along with management's action plan(s) to address these issue(s).

**FCRP 3<sup>RD</sup> PARTY CONTRACTOR NET REVENUE SUPPORT & OVERSIGHT**

**Risk Ranking**

**MEDIUM**

DHCD oversees the FCRP, some properties are managed by third-party contractors. The third-party contractors manage **5 out of 46** total properties within FCRP. These contractors oversee several functions to include; billing, rent collection, maintenance, repairs, etc. On an annual basis, the third-party contractors remit high-level reports to DHCD that list aggregate property expenses, revenues collected and net revenue. While these reports are remitted, no detailed support for the net revenue is provided to DHCD staff for reconciliation. The support for remitted funds is maintained by the third-party contractors. **Additionally, the property financials are managed off-book utilizing the third-party contractors' software, not FOCUS.** Third-party contractors are often used in this capacity, based on reviews performed by OFPA. To that end, we continue to impress upon the respective County agencies the importance of this change where departments must obtain support for revenue and expenditures and the net revenue/loss remitted.

We also reviewed the FCRP's (**3<sup>rd</sup> party managed**) collections and expenditures audit frequency which revealed an absence of the self-managed audit processes. No prior period self-performed audit review/documentation was presented during study fieldwork. Our review of a sample of the FCRP's (**3<sup>rd</sup> party management contractors: Drucker and Falk LLC, Edgewood Management Corporation and Quantum Property Management Corp.**) executed vendor contracts revealed right-to-audit language. Based on our review, audits/reconciliations of the remittances to support is not performed. The FY18 total third-party collected revenue is **~\$24M**. Without support/audits performed for gross revenues and netted expenses, the accuracy of remitted **net revenue** cannot be verified.

**Recommendation**

We recommend that DHCD liaise with the respective third-party property management contractors to obtain remittance support for a sample of properties going-forward as available by the executed vendor contract. This support should be obtained to facilitate the oversight of the; revenue collections, off-book accounting, and to gain reasonable assurance of the accuracy of the **remitted net revenue**.

Following receipt of third-party contractors' net revenue support, OFPA recommends that DHCD perform periodic self-managed audits (**on a sample basis in a timeframe deemed appropriate utilizing existing DHCD staff**) of the gross revenues and netted expenses, to confirm the accuracy of remitted **net revenues**.

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**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Thomas Fleetwood (DHCD, Director)		<a href="mailto:Thomas.Fleetwood@FairfaxCounty.gov">Thomas.Fleetwood@FairfaxCounty.gov</a>
Amy Ginger (DHCD, Dep. Dir. Operations)	<b>Part 1:</b> June 30, 2020 (or earlier)	<a href="mailto:Amy.Ginger@FairfaxCounty.gov">Amy.Ginger@FairfaxCounty.gov</a>
Seema Ajrawat (DHCD, Director or Finance)	<b>Part 2:</b> June 30, 2021	<a href="mailto:Seema.Ajrawat@FairfaxCounty.gov">Seema.Ajrawat@FairfaxCounty.gov</a>

**MANAGEMENT RESPONSE:**

DHCD concurs with the OFPA recommendation. It is important to note that DHCD understands the need for audits and has personnel resource constraints that present a challenge relative to conducting regular audits. In FY 2020, DHCD will periodically, on a sample basis, ask third-party management contractors to provide remittance support for revenues and expenditures to gain a reasonable assurance of the accuracy of remitted net revenues to DHCD.

DHCD will also seek to determine how resources can be obtained to conduct self-audits. With resources, DHCD/or hired contractors can perform periodic, sample based, self-managed audits of the third-party transactions and detailed records to audit and confirm the accuracy of financial data that is provided. Third party management companies follow accounting practices in accordance with Fairfax County and governmental accounting requirements, using industry standard software for property management. Ideally, if funding resources allow, DHCD can require a periodic external contracted financial reviews of the third party financial data, annually, in the form of a “financial compliance review” which is submitted as a report to DHCD giving assurance of remitted net revenues and financial figures; this will give further assurance before figures are consolidated in the overall financial audit report for the FCRHA.

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**FCRP OPERATING & CAPITAL RESERVES**

**Risk Ranking**

**MEDIUM**

A review of the FCRP Operating & Capital Reserves, uses/contributions over the past four years revealed various levels of uses/contributions. This is due to these funds being used to support operating/personnel costs which exceeded revenues. This issue is specific to internally managed FCRP properties as 3rd Party managed properties have contract compliance directives around the management of reserves. The table below lists the drawdowns/replenishments of reserves for the FCRP program from FY16-FY19:

FCRP Operating Reserve Balances (Uses)/Contributions				
	FY16 Actuals	FY17 Actuals	FY18 Actuals	FY19 Budget
<i>Net Operating (Uses)/Contributions</i>	(\$176,565)	(\$54,836)	\$35,618	(\$167,398)

Per DHCD staff, for fiscal years with operating losses, FCRP Operating Reserve funds are utilized to cover the delta. As provided by DHCD, the Operating/Capital Reserve balance at FY18 end was ~\$5.3M. At the time of this study, no formalized/documented replenishment target/strategy exist. DHCD staff did agree with OFPA that the implementation of a reserve replenishment strategy would assist in ensuring funds are readily available when needed for both capital and operating needs.

**Recommendation**

OFPA recommends that consideration is given to developing; a replenishment strategy, target reserve balance and an annual contribution to the reserve balance (*as deemed appropriate by DHCD management*). These process enhancements should assist staff in ensuring funds exist should they be needed for FCRP properties operations or capital needs.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Thomas Fleetwood (DHCD, Director)		<a href="mailto:Thomas.Fleetwood@FairfaxCounty.gov">Thomas.Fleetwood@FairfaxCounty.gov</a>
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**MANAGEMENT RESPONSE:**

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The majority of DHCD properties, which include all Third-party managed properties, Rental Assistance Demonstration (RAD) properties and Partnership properties, have reserves and annual reserve replenishment requirements in place although these properties were not within the scope of this audit review. FCRP currently has a reserve of approximately \$5.3M for both operating/capital needs that may arise. DHCD is in the process of converting many of its internally managed FCRP properties into third party management and oversight to gain efficiencies. The latter strategic direction for the FCRP program is to gain cost and program efficiencies to improve the net financial results of the FCRP program so that reserve contributions can occur for internally managed properties. DHCD will develop a policy to set aside 1-2% of annual rental revenues as Operating/Capital Reserve but will seek to consultant guidance and will request a benchmark study on the amount of set-aside that is acceptable as an industry standard. A documented replenishment strategy and policy will be created for the FCRP internally managed program and properties.

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**CONTRACTOR INVOICE CHARGES OVERSIGHT**

**Risk Ranking**

**MEDIUM**

We reviewed contractor invoices submitted to FCRP for property maintenance. Upon receipt, these invoices are approved by DHCD staff for disbursement. Based on interviews, the process of approving these disbursements; include project managers review of the contract terms/pricing and job completion. The contract details needed to verify the labor hours, labor rates, contract rates and material costs were not provided for review when these expenditures are approved. To perform our testing, OFPA performed a side-by-side process review with a project manager to review a sample of **6** contractor invoices. Our testing revealed that **3 out of 6** or **50%** of invoices could not be reconciled to the contracted rates. The testing results are detailed below:

FY18 CONTRACTOR REPAIRS INVOICE ASSESSMENT							
Invoice Sample							
Vendor Name	Doc No.	Doc Date	Repair Costs on Invoice	Repair Costs Per Contract	Diff	Contractor Invoice Maintained by DHCD	Comments
Boland Trane	8500347203	7/6/2018	\$870.00	<i>Note (1)</i>	N/A	Invoice Maintained	Rate Not On Contract
Painters Touch	8500301605	8/11/2017	\$7,050.00	\$7,050.00	\$0.00	Invoice Maintained	Invoice Reconciled to Contract
JL Tree Service Inc.	8500352045	8/6/2018	\$2,000.00	<i>Note (1)</i>	N/A	Invoice Maintained	Unable To Identify Rates On Contract
J Roberts Inc	8500366052	11/1/2018	\$60,000.00	<i>Note (2)</i>	N/A	Invoice Maintained	Detailed Support For Aggregate Line Items On Invoice Not Maintained
J Roberts Inc	8500379107	2/27/2019	\$51,770.00	\$51,770.00	\$0.00	Invoice Maintained	Invoice Reconciled to Contract
J Roberts Inc	8500346119	7/1/2018	\$36,900.00	\$36,900.00	\$0.00	Invoice Maintained	Invoice Reconciled to Contract

*Note (1):* Unable to identify rate or not listed on contract.  
*Note (2):* Aggregate line items on invoice with no detailed support which breaks down costs.

Three contractor invoices could not be reconciled, there were several reasons such as; contracts without rates, aggregate materials & labor totals. The financial exposure for **three** unreconciled invoices (**or 50% of the sample**) is **~\$63K**. This amount represents **12.6%** of the total FY18 thru March 2019 contractor invoice charges of **~\$500K**.

**Recommendation**

OFPA recommends consideration is given to DHCD staff in compiling annual contractor rate sheets and other related tools that would provide staff approving expenditures with readily available information on the agreed contract terms. These tools could provide staff with resources to verify and approve expenditures without encumbering the process with detailed research.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Thomas Fleetwood (DHCD, Director)	September 30, 2019	<a href="mailto:Thomas.Fleetwood@FairfaxCounty.gov">Thomas.Fleetwood@FairfaxCounty.gov</a>

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**MANAGEMENT RESPONSE:**

DHCD will implement standard contractor rate sheets for all major contracts. These contract rate sheets will serve as a tool and will include a summary of contracted terms for labor hours, labor rates, contract rates, material rates and overhead. Contractor rate sheets will be updated annually, or when contracts are renewed, so that program staff who are conducting an invoice reviews can easily refer to these summarized contract guidelines before signing off for payment. This will make the process of review more efficient and will assure the correct payment is being made.

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**RENTAL REVENUE MAXIMIZATION**

**Risk Ranking**

**MEDIUM**

The purpose of the FCRP is to provide affordable housing for low-income and moderate-income constituents. We reviewed the rent setting process for FCRP properties with the objective of gaining reasonable assurance that efforts are being made by DHCD & third-party contracted property managers to maximize rental revenues. Discussed in the interviews with DHCD management was the frequency at which rates have not been raised for DHCD's (33) internally managed FCRP properties. Substantially all related FCRP rent rates have remained static for 4 years, this data is detailed in **Appendix D**. Our review revealed properties whereby losses were incurred for some properties. We also noted instances whereby FCRP reserves are being used to support operations in lieu of revenue shortfalls. There are unique complexities related to the assessment and execution of rental increases and staying in line with what the market can bare. Additionally, consideration must be given to the financial and personal positions of the constituents being served by this program. That being stated, we have recommended the following:

**Recommendation**

OFPA recommends that DHCD perform rental rate increase analyses on the FCRP properties to identify opportunities for revenue enhancement. If opportunities exist, DHCD should employ existing rent rating tools to implement rate adjustments where appropriate. Based on our linear analysis, we have calculated potential rental revenues utilizing; 1%, 3%, 5% and 7% increases above the current net revenue receipts below:

Potential Rent Increase Financial Effect	
<b>FY18 Actual Rental Revenues: \$3,785,236</b>	
1% Increase	5% Increase
\$37,852.36	\$189,261.80
3% Increase	7% Increase
\$113,557.08	\$264,966.52

The potential revenue garnered by implementation of rental increases would assist in closing the gap between operating costs & net revenues where exists.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Thomas Fleetwood (DHCD, Director)	<b>Part 1:</b> September 30, 2019  <b>Part 2:</b> January 31, 2020	<a href="mailto:Thomas.Fleetwood@FairfaxCounty.gov">Thomas.Fleetwood@FairfaxCounty.gov</a>

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**MANAGEMENT RESPONSE:**

DHCD initiated a review of existing rents in February 2019 with a goal of revenue maximization for internally managed properties, being cognizant of the population of low-income families and individuals that it serves. DHCD is currently determining whether properties and its individuals/families can afford rent increases to understand the cost burden and is in process of determining rent setting, potential rent increase potential and what percent/or increase can occur on an annual basis. DHCD anticipates seeking approval for the revised rent setting structure and new rental rates from the Fairfax County Redevelopment and Housing Authority (FCRHA) no later than September 2019. Upon approval by the FCRHA, DHCD will set a formalized rent policy with annual rent increases as part of the policy. Annual rent reviews and a rent policy will assure that all revenue possible to be collected for FCRP, is collected and maximized.

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**COUNTY VEHICLE REPLACEMENT STUDY**

**OVERVIEW AND UPDATES**

The purpose of this study was to execute a performance review on the County Vehicle Replacement operations performed by the Department of Vehicle Services (DVS). This study included (*but not limited to*) reviews of; vehicle acquisitions & disposals, parts inventory, maintenance, warranties, repair vs replace, etc. The period of review for this study was FY 2018. OFPA with the assistance of DVS compiled FY 2018 County Vehicle Replacement statistical data in the table below:

<b>FY18 COUNTY VEHICLE REPLACEMENT OPERATIONS</b>	
<i>Department of Vehicle Services</i>	
Data Metrics	Stats (Note 1)
<i>No. Vehicles in Fleet</i>	2,370
<i>Average Age of Fleet</i>	2013
<i>No. Vehicles Disposed</i>	267
<i>Revenue Garnered From Disposals</i>	\$430,773
<i>No. Vehicles Acquired</i>	303
<i>Operating Expenses</i>	\$22,956,908
<i>Agency Replacement Fund Contributions</i>	\$8,311,069
<i>No. of Agencies Participating in Fund</i>	33
<i>No. of Vehicles Repairs (Work Orders) (Note 2)</i>	53,722
<i>Average Maintenance Costs Per Vehicle</i>	\$1,822
<i>Gallons of Fuel Used</i>	1,627,811
<i>Note 1: Data provided by DVS.</i>	
<i>Note 2: Work Orders include both repairs &amp; preventative maintenance.</i>	

DVS is responsible for managing and maintaining the County’s vehicle fleet **excluding** the Connector Buses. DVS utilizes the M5 Fleet Management System to manage and track all maintenance (both preventative & non-preventative) for each vehicle. In addition to managing the fleet, DVS also oversees the Vehicle Replacement Fund. This fund was established to ensure monies are readily available come time of vehicles being replaced. At the time of our study, **33** agencies participate in this replacement fund. These agencies make monthly contributions to the replacement fund based on a formula established by DVS. On an annual basis, DVS reviews inflation rates and makes adjustments to the participating agencies required contributions. For every study performed, OFPA endeavors to perform benchmarking to similar jurisdictions, private industry and/or other areas. At the time of this study, no benchmarking data related to this study was available from DVS or through research. Benchmarking and Cost Benefit Analysis re: County versus Outside Providers, may be performed at a later date as standalone studies.

OFPA obtained several sources of data from DVS to select samples and perform substantive testing. Testing was performed on several areas to include; vehicle maintenance and accounting, procurement and inventory practices, etc. Some testing results are provided in **Appendices E-F**.

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OFPA performed several onsite visits & interviewed DVS staff to understand the nature of the operations related to the County Vehicle Replacement functions. We have identified observations and recommendations based on this review. The areas identified for potential enhancements are detailed in further in this document.

**OBJECTIVES AND RESULTS**

Business Objectives	Study Assessments
Vehicle Auction Sale Prices	Satisfactory
Vehicle Accident Claims Process	Needs Improvement
Part Warranty Details in M5	Needs Improvement
Aftermarket Part Warranties	Needs Improvement
Vehicle Dispositions/Sales Net Revenue Support & Oversight	Needs Improvement
Fleet Vehicle Repair vs. Replace Analysis	Needs Improvement
Direct Issue Parts Tracking	Needs Improvement

Performance Summary	
Good Controls	Performance Enhancement Opportunities
<ul style="list-style-type: none"> <li>Vehicle sale prices exceeded the estimated values approved by DVS, for the sample tested.</li> </ul>	<ul style="list-style-type: none"> <li>Submit vehicle accidents to Risk Management to be assessed through the insurance claims process.</li> <li>Increase the accuracy at which part warranty details are entered into the M5 Fleet Management System.</li> <li>Implement processes to track and assess the use of aftermarket parts for repairs with the goal of utilizing available warranties.</li> <li>Obtain Vehicle disposition/sale payment receipts &amp; perform periodic audits.</li> <li>Incorporate maintenance thresholds into vehicle replacement reviews.</li> <li>Track direct issue maintenance parts in inventory system.</li> </ul>

**OBSERVATIONS AND ACTION PLANS**

The following table(s) detail observation(s) and recommendation(s) from this study along with management’s action plan(s) to address these issue(s).

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**VEHICLE ACCIDENT CLAIMS PROCESS**

**Risk Ranking**

**MEDIUM**

During our review of maintenance performed on the County fleet, OFPA identified several repairs that were noted as vehicle accidents. For our sample reviewed, **49 out of 58** or **84%** of the repairs performed were not submitted to risk management for claim assessments. Per DVS, when accidents occur, repair estimates are developed by internal staff and are then forwarded to the Risk Management Division for claim review. OFPA worked with the Risk Management Division for the **58** accident repairs to identify if claims were processed for these instances. Per the Risk Management Division, **49** of these accidents were not reported to their office. The total dollar amount related to these repairs was **~\$120K** which was expensed from the General Fund.

**Recommendation**

We recommend that parties involved in the accident claims process (potentially **DVS, DOF, Agencies Served**) liaise to enhance the accident claims process. This endeavor should be designed to gain assurance that **all** accident repairs are assessed for insurance coverage and payout, going-forward. Additionally, we recommend that DVS input claim numbers on the related work orders in the M5 system. The addition of the claims number in the Work Order/M5 will assist Risk Management and DVS in monitoring claims through the claims process, approvals/rejections, remittances, etc. An additional benefit to this process enhancement is, the reduction of agency fund expenditures related to accidents whereby these costs will be expensed through the Risk Management Division claims process.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Mark Moffatt (DVS, Director)	August 1, 2019	<a href="mailto:Mark.Moffatt@FairfaxCounty.gov">Mark.Moffatt@FairfaxCounty.gov</a>
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Chris Pietsch (DOF, Director)		<a href="mailto:Christopher.Pietsch@FairfaxCounty.gov">Christopher.Pietsch@FairfaxCounty.gov</a>
Randy Jouben (DOF, Risk Manager)		<a href="mailto:Randy.Jouben@FairfaxCounty.gov">Randy.Jouben@FairfaxCounty.gov</a>

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**MANAGEMENT RESPONSE:**

Agencies are responsible for promptly reporting vehicle accidents to the Department of Finance (DOF), Risk Management Division. However, DVS and the DOF are in the process of liaising to include accident reporting in the County Fleet System, M5. Reports would be available to DOF as an additional control. The sample reviewed by OFPA identified differences in codes used by technicians responsible for repairing vehicles and some instances were noted where items listed as accidents were not accurate and; therefore, would not be handled by Risk Management.

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**PART WARRANTY DETAILS IN M5**

**Risk Ranking**

**MEDIUM**

Our review of warranty details (*based on a sample of maintenance parts*) revealed instances whereby warranty information for was not entered into the M5 Fleet Management System. The M5 database can be used to maintain warranty information for maintenance parts in designated fields.

Of the 6 parts reviewed, **6 or 100%** of these parts were populated in M5 without warranty details. We also reviewed the warrantability of these parts with the Department of Procurement and Material Management (DPMM) and DVS, both agencies confirmed the existence of warranties for these parts.

**Recommendation**

We recommend that the part warranty data entry process is reviewed to enhance the identification of warranties and to improve the accuracy of warranty inputs in M5 going-forward. Imbedded in the M5 functionality is a warranty trigger, the enhanced data entry process and warranty trigger would increase the use of manufactures' warranty and reduce the use of County general fund dollars.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Mark Moffatt (DVS, Director)	July 1, 2019	<a href="mailto:Mark.Moffatt@FairfaxCounty.gov">Mark.Moffatt@FairfaxCounty.gov</a>
Marguerite Guarino (DVS, Deputy Director)		<a href="mailto:Marguerite.Guarino@FairfaxCounty.gov">Marguerite.Guarino@FairfaxCounty.gov</a>

**MANAGEMENT RESPONSE:**

Part warranties are entered in M5 after a contract is established or renewed. The sample reviewed by OFPA identified some instances where warranty information was not included. DVS is working closely with the team responsible for entering part warranties and will ensure it is done on all new contracts immediately.

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**AFTERMARKET PART WARRANTIES**

**Risk Ranking**

**MEDIUM**

Our review of aftermarket parts used for non-preventative maintenance repairs revealed, **6** out of **10** or **60%** of these parts are potentially under manufacturers' warranty. These parts are purchased with procurement cards, this process limits warranty trackability. Trackability is limited under this process as the information needed to trace these parts back to the manufacturer is not readily available. **To that issue, the financial exposure due to warranties not taken could not be datatized for reporting at the time of this draft issuance.** Part vendors under County contracts provided the following information re: part warranties at the date of manufacture stamped on the product, examples are; control sirens (3 years). This list is not exhaustive, merely illustrative.

**Recommendation**

DVS should explore opportunities within the existing reporting mechanism to track aftermarket part procurements, use, and warranties. This information should be used by staff to take advantage of warranties where available to reduce the use of County/agency funds.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Mark Moffatt (DVS, Director)	July 1, 2019	<a href="mailto:Mark.Moffatt@FairfaxCounty.gov">Mark.Moffatt@FairfaxCounty.gov</a>
Marguerite Guarino (DVS, Deputy Director)		<a href="mailto:Marguerite.Guarino@FairfaxCounty.gov">Marguerite.Guarino@FairfaxCounty.gov</a>

**MANAGEMENT RESPONSE:**

An aftermarket part warranty flag can be used in M5. Starting July 1, 2019, staff will select the warranty flag for aftermarket parts purchased for non-preventative maintenance.

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VEHICLE DISPOSITIONS/SALES NET REVENUE SUPPORT & OVERSIGHT

Risk Ranking

MEDIUM

Included in our testing was a fiscal and physical review of DVS managed vehicle disposals. We endeavored to reconcile sales documentation to monies received (*for disposals*). The vehicles sold at auctions by County contracted vendors generate net revenues which the County receives. Based on our review, it appears that the supporting documentation provided to DVS by the vendor are spreadsheets of vehicle sales. Information not provided includes; payment receipts which do not include enough information to vouch the net revenue for the sale. Further to this section of the study, OFPA liaised with DPMM to obtain some documentation generated at the point of sale for a sample of auctioned vehicles. Of the five auctioned vehicles reviewed, two screenshots of data entry information (which was not source related was provided). Three payment receipts were also provided, which were source information, but did not detail enough information to vouch the accuracy of the net revenue generated from the sale. DVS staff did inform OFPA that they have had internal discussions re: obtaining additional support from the vendor but no process is in place at the time of this study. Without additional support (e.g. detailed payment receipts), staff is unable to reconcile sold prices to the amounts (*net revenues*) remitted by the vendor. Revenues remitted are net of towing, commission, buyer fee, management fee, etc. **Additionally, the expense and revenue financial activity is managed off-book utilizing the third-party contractors' software, not FOCUS.** Third-party contractors are often used in this capacity, based on reviews performed by OFPA. To that end, we continue to impress upon the respective County agencies the importance of this change.

DVS compares revenue entries in FOCUS to the vendors' report of sold vehicles (which is an unprotected excel spreadsheet), but sold amounts are not vouched to the related payment receipts. In this instance our vendors are provided access to the County's assets and records, resulting in the competency of our review being performed as an after-event process. This practice increases the importance of complete information for effective oversight. The number of vehicles sold in FY18 was **267** with related sales net revenues of **~\$431K remitted w/out payment receipts.**

Recommendation

We recommend that DVS liaise with the contracted auction vendors to develop a process of additional support (e.g. detailed payment receipts) being provided for vehicles sold going-forward. This information should be incorporated in the reconciliation/net revenue validation process to aid staff in gaining reasonable assurance of the accuracy of the net revenues being remitted to the County.

With the payment receipts requested above, we recommend that DVS perform periodic reviews of payment receipts to sold vehicle documentation (**on a sample basis in a timeframe deemed appropriate utilizing existing DVS staff**). This process enhancement will provide DVS reasonable assurance that the County is being made whole for the sale of vehicles.

**Fairfax County  
Office of Financial and Program Audit**

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Mark Moffatt (DVS, Director)	Complete	<a href="mailto:Mark.Moffatt@FairfaxCounty.gov">Mark.Moffatt@FairfaxCounty.gov</a>
Marguerite Guarino (DVS, Deputy Director)		<a href="mailto:Marguerite.Guarino@FairfaxCounty.gov">Marguerite.Guarino@FairfaxCounty.gov</a>

**MANAGEMENT RESPONSE:**

The importance of a Bill of Sale or payment receipt from the auction vendor was discussed with DVS during the audit. Effective May 22, 2019, DVS staff received access to and training on the auctioneers database. DVS has the ability to download a certified copy of the Bill of Sale/Purchase order, bidder information and reassignment form. DVS is using the information to confirm payments from the auctioneer match the Bill of Sale and Focus.

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**FLEET VEHICLE REPAIR VS. REPLACE ANALYSIS**

**Risk Ranking**

**MEDIUM**

During our review, we noted older vehicles in the County's fleet for which repairs continued to be performed. DVS staff currently performs cursory reviews of fleet reports from the fleet management system, M5. While this process exists, analytics and maintenance thresholds have not been incorporated. OFPA identified other agencies (City of Minneapolis & USPS) whereby analytics and maintenance thresholds appear to have been effectively executed as part of their repair vs replace analysis for those agencies' fleets. An analysis utilized by the City of Minneapolis is as follows; for vehicle maintenances & repair costs exceeding **30%** of the salvage value, consideration should be given to vehicle replacement. OFPA performed this analysis utilizing the **30%** maintenance threshold on a sample of County vehicles below:

FY18 Vehicle Repair vs. Replace Sample (M&R 30% Threshold vs SV)										
Asset No.	Unit No.	Vehicle Year	Vehicle Make	Vehicle Model	In-Service Date	Useful Life	Extrapolated Mileage <i>Note (1)</i>	M&R	NADA Guide Value <i>Note (2)</i>	M&R % of NADA Guide Value
7000656	5801	1999	Chevrolet	S10-Pickup	5/10/1999	5	87196	\$1,108.26	\$4,000.00	28%
7005794	6295	2003	Ford	F350	3/13/2003	5	71259	\$5,571.80	\$4,450.00	125%
7006360	4368	2006	Chevrolet	Malibu	7/20/2006	6	89791	\$1,630.17	\$2,062.00	79%
7002483	6654	2008	Ford	F350	11/1/2007	8	155643	\$12,495.44	\$6,475.00	193%
7005600	5372	1993	Dodge	Caravan	2/4/1993	2	20535	\$641.48	\$2,075.00	31%
7005564	5117	1999	GMC	Safari Van	7/30/1999	5	83177	\$2,211.15	\$2,675.00	83%
7006948	4095	2008	Chevrolet	Impala	5/5/2008	6	99245	\$2,746.47	\$2,575.00	107%
7005770	6644	2002	GMC	3500	12/18/2002	5	99665	\$10,655.32	\$4,875.00	219%

*Note (1):* Total mileage extrapolated based on in-service date actuals.  
*Note (2):* Average Vehicles Values from NADA Database.

Based on the sample of vehicles reviewed and utilizing a **30%** Repair vs. Replace Threshold, **7 out of 8** vehicles should be considered for replacement.

DVS staff agreed that an enhancement such as this to the current process could be beneficial for repair vs replace decisions. This analysis could be performed for fully depreciated vehicles to determine if it is cost beneficial to retain in the County fleet.

**Recommendation**

We recommend that DVS consider enhancing the current process to include analytics and maintenance thresholds (e.g. 30%) review for fully depreciated vehicles. This analysis could be performed on fully depreciated vehicles (*based on a timeframe deemed appropriate by DVS management*). This enhancement could assist in managing the fleet maintenance costs.

**Fairfax County  
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**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Mark Moffatt (DVS, Director)	July 1, 2019	<a href="mailto:Mark.Moffatt@FairfaxCounty.gov">Mark.Moffatt@FairfaxCounty.gov</a>
Dan Gonzalez (DVS, Deputy Director)		<a href="mailto:Daniel.Gonzalez@FairfaxCounty.gov">Daniel.Gonzalez@FairfaxCounty.gov</a>

**MANAGEMENT RESPONSE:**

Starting July 1, 2019, when a vehicle that is ten model years or older is scheduled for a repair and/or maintenance service, DVS will review and consider all repair costs before performing the work. Repair costs that exceed 30 percent of the salvage value of the vehicle may result in the consideration of a vehicle replacement.

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**DIRECT ISSUE PARTS TRACKING**

**Risk Ranking**

**MEDIUM**

During our onsite visit at the DVS West Ox Rd maintenance facility, OFPA identified an area of the parts warehouse where direct issue parts (*special orders*) were waiting return to the respective vendors. These items can be returned for several reasons, to include; no longer needed, wrong part, etc. Inquiries as to how these return items are tracked revealed, parts are not being tracked on the inventory register or through any other mechanism. Further to this study, when parts are removed from the designated area no inventory relief process exist. Given the nature of the tracking process related to these items, no quantification related to exposure could be compiled.

**Recommendation**

While we are not aware of theft related to the direct issue parts, we recommend that DVS implement a tracking process for these items. This tracking mechanism should account for all direct issue parts waiting for return. The tracking report/mechanism should list the relevant data points associated with the current inventory tracking process. This tracking enhancement should provide reasonable assurance that all DVS parts can be properly accounted.

**Action Plan**

Point of Contact	Target Implementation Date	Email Address
Mark Moffatt (DVS, Director)	October 31, 2019	<a href="mailto:Mark.Moffatt@FairfaxCounty.gov">Mark.Moffatt@FairfaxCounty.gov</a>
Marguerite Guarino (DVS, Deputy Director)		<a href="mailto:Marguerite.Guarino@FairfaxCounty.gov">Marguerite.Guarino@FairfaxCounty.gov</a>

**MANAGEMENT RESPONSE:**

Direct issue parts or special orders are required when a repair requires a part that is not stocked by DVS. Direct issue parts are ordered by the Parts Management Team and billed directly to the work order. The parts are tracked on an internal spreadsheet until they are received by the technician at the DVS Parts Counter. DVS will review options in M5 that may enable the Parts Team to enhance the process.

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**APPENDICIES**

**APPENDIX A**

FY18 DHCD Property Acquisitions Testing									
Sample Attributes				Testing Attributes					
Asset No.	Property Address	Fund	Acquisition Date	Acquisition Price	Original Recorded Value	Diff	Properly Expensed	Recorded in FA Register	Comments
1002740	7314 Bath St. Springfield VA 22150 (RPJ Proper	810-C81159	7/1/2017	\$155,000.00	\$155,000.00	\$0.00	Properly Expensed from Fund 810-C8100	Recorded	Supporting Documentation Complete
3001846	7314 BATH STREET, SPRINGFIELD VA 22150 BUILDING	810-C81159	1/16/2018	\$422,609.00	\$422,609.00	\$0.00	Properly Expensed from Fund 810-C8100	Recorded	Supporting Documentation Complete
3001856	2491 Fox Trot Terrace (MIDS Acquisition Fund)	810-C81160	1/16/2018	\$288,271.20	\$288,271.20	\$0.00	Properly Expensed from Fund 810-C81160	Recorded	Supporting Documentation Complete
3001850	ADU, 13953 Endeavour Dr, Herndon, VA 20171	810-C81161	11/22/2017	\$156,637.60	\$156,637.60	\$0.00	Properly Expensed from Fund 810-C81161	Recorded	Supporting Documentation Complete
3001851	ADU, 13955 Endeavour Dr, Herndon, VA 20171	810-C81161	1/16/2018	\$156,637.60	\$156,637.60	\$0.00	Properly Expensed from Fund 810-C81161	Recorded	Supporting Documentation Complete

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**APPENDIX B**

<b>FY18 DHCD RENTAL PROPERTY TRANSFER-IN TESTING</b>								
<i>Asset Sample</i>		<i>Testing Attributes</i>						
<b>Asset No.</b>	<b>Capitalization Date</b>	<b>FA Register Value</b>	<b>FA Acquisition Price</b>	<b>Diff</b>	<b>Support Documentation</b>	<b>Useful Life</b>	<b>Depreciation To Date</b>	<b>Current Value Recorded</b>
3001846	6/19/2015	\$422,609.00	\$422,609.00	\$0.00	Support Complete	20	\$70,194.11	\$352,414.89
3001850	11/22/2017	\$156,637.60	\$156,637.60	\$0.00	Support Complete	20	\$12,400.48	\$144,237.12
3001851	1/16/2018	\$156,637.60	\$156,637.60	\$0.00	Support Complete	20	\$11,095.16	\$145,542.44
3001852	1/16/2018	\$156,637.60	\$156,637.60	\$0.00	Support Complete	20	\$11,095.16	\$145,542.44
3001853	1/16/2018	\$156,637.60	\$156,637.60	\$0.00	Support Complete	20	\$11,095.16	\$145,542.44
3001854	1/16/2018	\$156,637.60	\$156,637.60	\$0.00	Support Complete	20	\$11,095.16	\$145,542.44
3001855	7/1/2017	\$271,248.27	\$271,248.27	\$0.00	Support Complete	20	\$25,029.35	\$246,218.92
3001856	7/1/2017	\$288,271.20	\$288,271.20	\$0.00	Support Complete	20	\$26,600.13	\$261,671.07

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**APPENDIX C**

FY18 FCRP Group Home Testing				
Group Home Sample		Testing Attributes		
Property Name	No. of Units	Annual Operating Costs	Annual Reimbursement to DHCD	Diff
Bath Street Group Home	8	\$4,902.13	\$4,902.13	\$0.00
Dequincy Group Home	5	\$6,350.00	\$6,350.00	\$0.00
First Stop Group Home (1)	8	\$51,845.00	\$51,986.49	\$141.49
Leland Group Home (1)	8	\$1,264.00	\$1,610.83	\$346.83
Minerva Fisher Group Home (2)	12	\$75,702.00	\$128,773.00	\$53,071.00
Mount Vernon Group Home	8	\$6,436.00	\$6,436.00	\$0.00
Patrick Street Group Home	8	\$9,454.00	\$9,454.00	\$0.00
Rolling Road Group Home	5	\$1,691.00	\$1,691.00	\$0.00

**Note (1):** Overages de minimis. (PFAW)

**Note (2):** The \$53k overage in revenues is due to property loan pay-off and related financial support from VA Dept of Health. The \$53K is held in escrow for capital maintenance of the property.

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**APPENDIX D**

FY18 FCRP Rental Increases				
Internally Managed Properties Revenue				
FCRP Properties	Last Rent Increase Date Note 3	FY18 Net Operating Income/(Loss)	FY18 Net Profit/(Loss) Note: 1	Diff
FCRP Program	4 Years	\$3,785,236.00	\$35,618.00	\$35,618.00
3rd Party Managed Properties Revenue				
FCRP Properties	Last Rent Increase Date	FY18 Net Profit/(Loss) Note: 2	FY18 Net Profit/(Loss) Budget Note: 2	Diff
Crescent Apartments	1st July 2018	\$320,380.00	\$ 417,829.00	(\$97,449.00)
Hopkins Glen	1st July 2018	\$502,551.11	\$ 525,282.08	(\$22,730.97)
Little River Square	1st July 2018	\$249,094.00	\$ 223,464.00	\$25,630.00
Mt Vernon Gardens	1st July 2018	\$159,495.00	\$ 113,515.00	\$45,980.00
Wedgewood Apartments	1st July 2018	\$5,608,120.00	\$ 5,707,881.00	(\$99,761.00)
<b>Total</b>		<b>\$6,839,640.11</b>	<b>\$6,987,971.08</b>	<b>(\$148,330.97)</b>

**Note 1:** FCRP Rental program operated at a loss FY16 - FY17 and a gain in FY18 based on data provided by DHCD.

**Note 2:** The FY18 FCRP gain was used to by DHCD to fund the Balance for Reserves.

**Note 3:** Information based on initial interview and fieldwork with DHCD.

FCRP Properties	Last Rent Increase Date	Comment
Fox Mill	<i>Included in table above. Rent increase data in the FY18 Internally Managed table above.</i>	<i>3rd Party Managed as of 1st July 2018</i>
ParcReston		
Springfield Green 5		
McLean Hills		
Bryson at Woodland Park		
Westbriar		

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**APPENDIX E**

<b>FY19 DVS PART INVENTORY TESTING - Inventory to Register (As of 4/4/2019)</b>								
<i>Asset Attributes (Selected Sample)</i>			<i>Inventory to Register</i>				<i>Other Testing Attributes</i>	
Item No.	Description	Avg. Cost Per Part	Asset Location	Physical Count Note (1)	Register Count Note (1)	Diff (Register to Physical Count)	Direct Issue Parts (Special Order from Vendor)	Direct Issue Reconciles to Work Order
5010720R91	Turbo Charger	\$2,633.54	09-102	2	2	0	N/A	N/A
04955397RX	Turbo	\$2,562.41	09-305	1	1	0	N/A	N/A
62180328C94	Filter Housing	\$707.32	24-103	3	3	0	N/A	N/A
751650531	Oil Cooler <i>(Direct Issue Part)</i>	\$3,179.13	FRD Special Order Shelf	1	1	0	Direct Issue Part	Reconciled
3844850C4	Oil Gauge <i>(Direct Issue Part)</i>	\$73.14	FCPS Special Order Shelf	1	1	0	Direct Issue Part	Reconciled
2607764C1	Upper Arm	\$112.20	FRD Special Order Shelf	1	1	0	Direct Issue Part	Reconciled
2985659	Seatbelt Buckle	\$614.50	FRD Special Order Shelf	1	1	0	Direct Issue Part	Reconciled
228816C2	Driver Arm Vest	\$148.20	FCPS Special Order Shelf	1	1	0	Direct Issue Part	Reconciled
2606826C92	Blower Motor	\$161.49	25-201	2	2	0	N/A	N/A
2513208C92	Intake Grid Heater	\$54.54	25-101	10	10	0	N/A	N/A
261498C91	KT Motor	\$137.53	25-204	8	8	0	N/A	N/A
63176019	Radiator	\$1,894.60	DS-Blk	2	2	0	N/A	N/A
P770027411	Condenser	\$700.01	US-Blk	14	14	0	N/A	N/A
48598684257	Shocks Front	\$53.76	81-102	8	8	0	N/A	N/A
Several	All Obsolete Inventory	\$8,291.07	Obsolete Inventory Shelves	N/A	N/A	N/A	N/A	N/A

**Note 1:** Obsolete Inventory Located in Designated Area

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**APPENDIX F**

<b>FY19 DVS PART INVENTORY TESTING - Register to Inventory (As of 4/4/2019)</b>						
<i>Asset Attributes (Random Sample)</i>			<i>Register to Inventory</i>			
Item No.	Description	Avg. Cost Per Part	Asset Location	Register Count	Physical Count	Diff (Physical Count to Register)
8943757400	Switch Door	\$335.65	05-204	5	5	0
89100159001KS	Control Module Braun	\$230.69	06-202	2	2	0
89403652KS	Lyft Cylinder w/Springs	\$468.75	06-205	3	3	0
24180007300	AC Compressor	\$526.40	07-102	9	9	0
24506200500	Pulley AC Crank	\$396.96	07-201	2	2	0
24 Bracket	Brack A/C Amtran	\$352.18	07-303	1	1	0
8961150246	Value Air Throttle	\$364.88	10-203 Note (1)	2	2	0
8962160954	Pulley	\$243.38	10-206	4	4	0
1813LP4004H	Alternator	\$1,198.00	14-102	7	7	0
18C680	Alternator	\$1,944.95	15-303	1	1	0
M110603	Starter	\$351.04	16-304	3	3	0
621882222C93	Valve Cover Basket	\$399.71	20-301	2	2	0
621818377C93	Header Air Cooler	\$460.43	20-402	5	5	0
621870328C94	Housing Air Filter	\$707.32	24-103	3	3	0
621878918C2	Kit, Valve	\$508.80	24-201	5	5	0

**Note (1):** Active inventory recorded as obsolete in the inventory register. **PFAW**

**Fairfax County  
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**LIST OF ACRONYMS**

AC	Audit Committee
AMI	Average Medium Income
BOS	Board of Supervisors
CAFR	Comprehensive Annual Financial Report
CSB	Community Services Board
CY	Calendar Year
DHCD	Department of Housing and Community Development
DOF	Department of Finance
DPMM	Department of Procurement and Material Management
DVS	Department of Vehicle Services
FCRHA	Fairfax County Redevelopment and Housing Authority
FCRP	Fairfax County Rental Program
FY	Fiscal Year
HUD	Department of Housing and Urban Development
OFPA	Office of Financial and Program Audit
Y-T-D	Year to Date

**ADDENDUM SHEET**

***OFPA (June 2019 /Agency Report and/or Debriefing)***

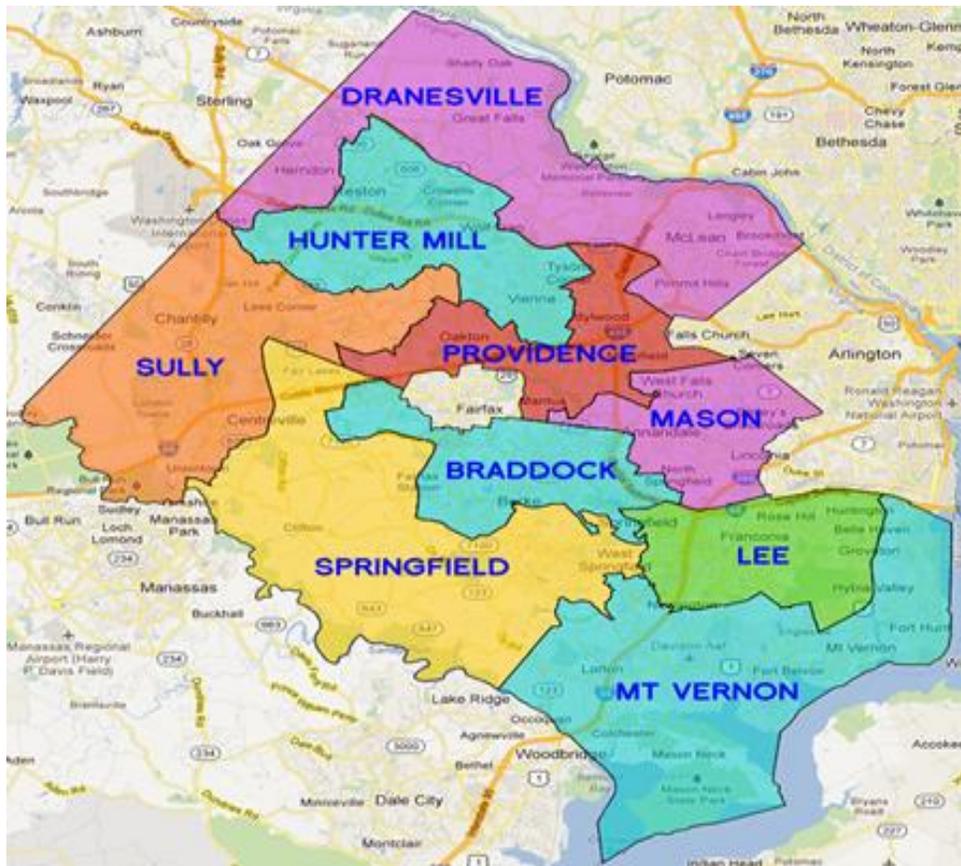
***6/18/2019***

The table below lists discussions from the Audit Committee.

<b><i>Location in Document</i></b>	<b><i>Comments</i></b>

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