



# Fairfax County Internal Audit Office

**History Commission  
Financial Processes Audit  
Final Report**

**July 2005**

*"promoting efficient & effective local government"*

## Executive Summary

The Fairfax County History Commission was created by the Fairfax County Board of Supervisors in 1969. The commission's function is to advise the County government and to promote public interest in all matters bearing on the history of Fairfax County. In this regard, the County supports these activities by making an annual financial contribution to the History Commission, as approved by the Board of Supervisors.

Our review noted a significant lack of separation of duties over the History Commission's financial processes. The treasurer was responsible for the entire financial process, which reduced the reliability of the financial information prepared and allowed an environment to exist where funds could be misappropriated without detection. However, through our review of accounting records, bank statements, commission minutes, and other supporting documentation, it appears that the amounts reported for income received and expenses incurred for FY 2004 were reasonable and in accordance with the intent of the Board of Supervisors' resolution creating the commission. Specific areas where financial control and reporting processes should be strengthened follow:

- Bank reconciliements were performed by the treasurer, who was responsible for processing and recording all financial transactions of the organization. These reconciliements were not documented, nor were they independently reviewed by anyone to ensure that accuracy and validity of each transaction.
- Sales revenues from publications sold by the History Commission were not remitted to the County in a timely manner, nor was there any separation of duties regarding the receipt and processing of the funds. Sales totaling \$11,117 for the period of July 2002 through June 2004 were held and not deposited until October 2004.
- History Commission board minutes reported bank balance totals that were not in agreement with the actual amounts in the commission's checking and savings accounts.

In addition, we noted that annual budget submission requests to the Department of Management and Budget (DMB) only included a general description of activities. Since the commission does not have annual independent audits performed, submitting copies of the monthly minutes would provide DMB with a more detailed view of commission financial issues, activities, and expenditures.

## Scope and Objectives

This audit was requested by the Fairfax County Chief Financial Officer and was conducted in accordance with generally accepted government audit standards. The audit covered the period from July 2003 to June 2004. Our objective was to determine that the History Commission, in receiving public funds, was practicing adequate financial management over its activities and programs. This audit objective was addressed by:

- Determining that an adequate system of internal control was in place over the processing, recording, and reporting of financial activity
- Determining that the accounting records and the fund statement issued was reasonably supported by bank statement activity, receipts, invoices, or the commission's minutes

## Methodology

Our audit approach included interviewing the treasurer of the History Commission to obtain a description of the financial process. We used internal control questionnaires to address the controls over the processes of receipting, disbursements, purchasing, accounting records, and the financial statements. We also requested and obtained financial statements, accounting records, and other supporting documentation in order to perform limited testing of the commission's transactions. Our transaction testing did not rely on controls, as the treasurer had the sole custody and authority over the transaction recording and reporting of the commission's financial position. Therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of the financial information may have been erroneous.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive, and the Board of Supervisors, and reports are available to the public.

## Findings, Recommendations, and Management Response

### 1. Separation of Duties over Transactions and Reporting

The treasurer of the History Commission was charged with the sole responsibility of initiating, depositing, disbursing and recording all of the financial transactions of the organization. In addition, the treasurer was performing bank reconciliations, but they were not formally prepared, reviewed or retained. The responsibilities of the treasurer of the History Commission are stated in its by-laws. Section 4, paragraph C, states, "The Treasurer shall receive, disburse and record all monies of the Commission. The Treasurer shall have custody of the financial records, shall submit a statement of accounts as the Commission shall specify, and shall make them available for audit." The bylaws do not take into account consideration for a system of checks and balances over the financial process.

An adequate separation of duties or compensating controls over the financial processes of transacting, recording, and reporting reduces the possibility that a material error could occur and not be detected in a timely manner. An effective system of internal control allows for greater reliability upon the reported financial position of the organization.

**Recommendation:** We recommend that the History Commission’s by-laws be updated to require sufficient internal controls over financial processes. Establishing procedures over the revenue receipt, expense payment, and accounting functions would strengthen reliability over financial information prepared and submitted. Should staffing size prevent a complete separation of duties, it is recommended that bank reconciliations be performed monthly by someone independent of the treasurer in order to independently verify the commission’s bank balances and review the propriety of transactions. An independent review of the receipt and accounting for revenues should also be performed. The achievement of separation of duties and an adequate internal control structure may be accomplished through assigning some of the financial processing duties that are all currently being performed by the treasurer to other commission members.

**Commission Response:** The Chair will appoint an audit committee per the History Commission bylaws excluding the Chair, Vice-Chair and Treasurer. The functions of the audit committee will include, but not be limited to:

- Review and determine the appropriateness of all expenditures
- Ensure that all receipts were accurately deposited in a timely manner
- Review reconciliation of bank statements to support records completed by the treasurer, tracing transactions to actual bank records
- Verify that checks have been issued in sequential order
- Determine the accuracy of official reports made by the treasurer at meetings

One member of the audit committee will perform a monthly review to be documented and retained of bank statements, cancelled checks, deposit receipts, check registers, posting to the Commission’s books and bank statement reconciliations.

In addition, the commission has adopted a policy whereby the treasurer will have check writing authority up to \$500. For checks over \$500, signature of two of three people will be required, with the three people being the Chairperson, Vice-Chairperson, and Treasurer.

A required retention period of 20 years has been established that will include retention of all bank statements, cancelled checks, bank registers, invoices, receipts and summaries of expenses, correspondence, minutes, monthly bank statement reconciliations, and a spreadsheet version of the “checking” account register back to July 1, 1993.

## **2. Collections from Publication Sales**

A review of the History Commission’s publications deposit schedule revealed that the History Commission remitted \$11,117 to Fairfax County on October 18, 2004. The sales of these publications covered the period between July 6, 2002, and June 10, 2004.

The County Attorney’s Office issued a statement on the retention of publication sales by the History Commission dated November 5, 2002. This statement specifies that, “the

urban county executive form of government used by the County provides that all monies received by any county officer shall be paid promptly into the hands of the Director of Finance.” [Va. Code Ann. 15.2-829 (LNMB) ] Accordingly, the commission may not retain funds collected from the sale of historical publications. Delayed remittance from the sale of publications places the History Commission in a position of non-compliance with the County as it pertains to the provision of the state code.

**Recommendation:** The commission should remit the collection of publication sales funds to the Director of Finance of Fairfax County in a timely manner, to ensure compliance with state code.

**Commission Response:** A timeline for depositing receipts has been established and set at 30 days.

### 3. Accuracy of Meeting Minutes

During FY 2004, the balances reported in the History Commission minutes were not in agreement with the commission’s prior month-end checking and savings bank balances. In each instance, the bank totals were lower than what was reported in the minutes, by amounts ranging from \$3,695 to \$12,611. The amount reported in the minutes included a plugged figure for County contributions that did not match the actual savings account balances.

**Recommendation:** The bank balances reported at the monthly History Commission meetings should be the actual statement balances for checking and savings. In addition, the reporting should separately indicate the amount of revenues deposited but not yet remitted to the County, as well as any revenues that have not yet been deposited.

**Commission Response:** The Treasurer will prepare and maintain a monthly financial statement, including what the commission has on hand (balance recorded), monthly transactions, and actual expenses versus budget.

Annually, the Treasurer will provide an end-of-year summary financial report at the September History Commission meeting.

### 4. Submission of Signed Board Minutes

The History Commission provides the Fairfax County Department of Management and Budget with a financial package and a general description of activities when submitting its annual budget request. The commission’s monthly board meeting minutes for the fiscal year budget submission have not been provided in these submissions. These minutes detail specific actions and motions passed, along with information regarding the description of transactions.

The History Commission is not subject to routine independent audits of its financial activities. The monthly meeting minutes, however, provide information regarding financial issues, the commission’s monthly bank balances, and motions passed for

major expenditures. This information could serve as an additional source of disclosure of the organizations activities in lieu of an independent audit report. It would allow DMB to better determine that activities are being performed consistent with the intent of the Board of Supervisor's resolutions.

**Recommendation:** We recommend that the History Commission provide current fiscal year minutes to the Department of Management and Budget when submitting its annual budget request. This will help to ensure a more fully documented disclosure of its activities. In addition, the minutes should be signed by the chairperson of the commission in order to support validation and authentication of its contents.

**Commission Response:** As part of the annual budget process, the commission will provide DMB with copies of their fiscal year meeting minutes which will be signed by the chairperson.