



# Fairfax County Internal Audit Office

**Architectural Review Board  
Financial Processes Audit  
Final Report**

**January 2006**

*"promoting efficient & effective local government"*

# Executive Summary

The Architectural Review Board (ARB) was created by the Fairfax County Board of Supervisors in 1969 to administer the Historic Overlay District provisions in the County's zoning ordinance, and to advise the Fairfax County Board of Supervisors on properties that warrant historic preservation through the creation of new historic districts, developer proffers or easements. In this regard, the County supports these activities by making an annual financial contribution to the ARB, as approved by the Board of Supervisors.

Our audit found that the ARB did not have a set of bylaws to govern its operation, or any documented policies or procedures for the financial management of the organization. As a result, there was a significant lack of separation of duties over the financial processes. The treasurer was responsible for the entire financial process, which reduced the reliability of the financial information and allowed an environment to exist where funds could be misappropriated without detection. However, through our review of accounting records, bank statements, budget schedules, available board minutes, and other supporting documentation, it appears that the expenditures incurred for FY 2005 were reasonable and in accordance with the ARB's budget request, as approved and appropriated by the Fairfax County Board of Supervisors. Expenditures appeared to be within the intent of the County's zoning ordinance creating the ARB.

Our review also noted that basic financial information was not reported to the ARB in the form of a financial report or included in the minutes of the meetings, and minutes were not prepared for several meetings. In addition, the annual budget request, prepared by County staff, was not reviewed by the ARB prior to its submission to the Department of Management and Budget (DMB). Since the ARB does not have annual independent audits performed, submitting copies of the monthly minutes would provide DMB with a more detailed view of ARB financial issues, activities, and expenditures.

## Scope and Objectives

This audit was performed as part of our Fiscal Year 2006 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period from July 2004 to June 2005. Our objective was to determine that the Architectural Review Board, 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 were sufficient and reasonably supported by bank statement activity, receipts, invoices, and financial information contained in the board's minutes
- Determining that the expenditures were for only purposes intended and allowed by the County

# Methodology

Our audit approach included interviewing, via conference call, both the treasurer and the chairman of ARB to obtain a description of the financial processes. We used an internal control questionnaire to assess the controls over the processes of receipting, purchasing, disbursements, bank reconciliations, accounting records, and the financial statements. We also requested and obtained budget schedules, bank statements, accounting records, and other supporting documentation in order to perform a cursory review of the board's transactions. Our review of transactions did not rely on controls, as the treasurer had the sole custody and authority over initiating, approving, recording, and reconciling transactions. The potential impact of this circumstance on our findings was that some aspect of the financial information may have been erroneous and remained undetected.

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. Financial Management Procedures

The Architectural Review Board (ARB) did not have bylaws or other formally adopted written policies or procedures regarding financial management. This general condition has resulted in the following areas of concern:

- Lack of periodic financial reporting to the board, and no year-end review of financial information by the board
- Lack of defined duties and responsibilities for the treasurer position and the treasurer had the sole responsibility of initiating, depositing, disbursing, recording, and reconciling all of the financial transactions of the organization
- Lack of periodic review of financial transactions and other financial processes such as the preparation of budget schedules
- Lack of approval thresholds for the treasurer, above which a second approver would be required
- Lack of a records retention policy

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 information.

**Recommendation:** We recommend that the Architectural Review Board adopt bylaws pertaining to financial management. The bylaws should define the duties and

responsibilities of the treasurer, and require sound financial management practices to include:

- Financial reporting to the board, at least on a quarterly basis, and a year-end review of the financial and budget information by the board.
- Procedures for receipting, purchasing, disbursements, bank reconciliations, accounting records, financial statements, and records retention. 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 board's bank balances and review the propriety of transactions.
- Level and type of approval required for financial transactions.

**Management Response:** The Board has formed a bylaws committee to address the audit recommendations, with complete adoption of bylaws by June 2006.

## 2. Minutes of Meetings

There were no minutes available for five of the twelve meetings selected for review, and the minutes that were reviewed did not include basic financial information. The lack of timely completed board minutes could make it more difficult for County staff to plan, coordinate, and execute the board's initiatives. In addition, this could lead to the public's perception of a lack of transparency regarding the deliberations of the board and with no official record of meetings; disputes could arise regarding past actions and decisions.

**Recommendation:** The minutes of board meetings should be prepared in a timely manner, and they should be reviewed and approved by the board at the following meeting. If financial reports are not prepared, then basic financial information should be included in the minutes, in lieu of a report. This information should include the financial issues discussed; monthly bank balances and year-to-date revenue and expenditure data; and motions passed for approval of material expenditures and other major transactions. Copies of minutes should be provided to the County's Boards, Associations & Committees (BAC) Coordinator and to the Department of Management and Budget with the annual budget submission.

**Management Response:** Drafts of all outstanding minutes have been provided to all Board members. The backlog of incomplete and unapproved minutes should be current and approved by January 2006.