



Fairfax County Internal Audit Office

Department of Finance
Grant Billings and Collections Audit
Final Report

April 2010

"promoting efficient & effective local government"

Executive Summary

Our audit focused on the billing and collection of grant expenditure reimbursements and related internal controls. We tested a sample of 20 grants in nine different agencies with expenditures ranging from \$100,000 to over \$7 million and totaling \$27.2 million for the period. The departments tested were the Health Department, General District Court (GDC), Juvenile and Domestic Relations Court (JDRC), Department of Transportation (DOT), Community Services Board (CSB), Department of Housing and Community Development, Department of Public Works and Environmental Services - Capital Facilities (DPWES - CF), Department of Family Services - Office for Children (DFS - OFC), and Department of Family Services - Adult and Aging Division (DFS - AAD). For most of the grants tested, controls over billings and collections were adequate; billings were being made timely and accurately; billings were being reconciled to FAMIS; and collections of grant revenues were received in a timely manner and deposited directly in the county's bank account through electronic payments. However, we noted opportunities where internal controls could be strengthened.

There were three departments with instances where grant billings were not performed in a timely manner.

- Department of Public Works and Environmental Services - Capital Facilities did not bill timely or adequately follow-up on billings for \$9.1 million of expenditures incurred for the Burke Center VRE Station (BCVS) grant. There was insufficient follow-up with the grantor after the initial billing for \$4.4 million of expenditures. A rebilling was not completed until eight months later. An additional billing of \$4.7 million was performed using a five month billing cycle. Both billings have been collected.
- The Department of Transportation did not bill timely for \$1.2 million of expenditures incurred for the Base Realignment and Closure (BRAC) grant. Over half (\$648,933) of the BRAC expenditures were incurred six months prior to the billing. The BRAC billing has been collected. In addition, Richmond Highway Transit Improvement (RHTI) grant expenditures incurred during the audit period, totaling \$105,979, were not billed as of July 2009.
- The Community Services Board did have documentation to support timely billing or adequately follow-up on \$401,627 of High Intensity Drug Trafficking Area (HIDTA) grant expenditures, the total incurred for the audit period. HIDTA expenditures of \$108,294, incurred prior to grant award date, required a rebilling that was not completed until ten months after the grant was awarded, and there was no evidence of adequate follow-up with the grantor. Expenditures of \$67,088 were not billed timely. Lastly, HIDTA grant expenditures of \$226,245 were not billed at all as of June 2009.

Procedural Memorandum 06-02, *Administrative Procedures for Grants or Cooperative Agreements* (PM 06-02), recommends that agencies attempt billing for grant reimbursements on a monthly basis, especially for large amounts; but no less than

quarterly, unless the grantor's billing requirements differ. None of the grants had required billing periods. Additionally, Accounting Technical Bulletin (ATB) 036 states that all agencies that generate revenue are responsible for timely collection of those revenues.

If grant expenditure reimbursements due are not billed in a timely manner or proper follow-up on uncollected billings is not performed, it could reduce the potential interest earning on cash balances and cash flow. Additionally, it may result in the grant reimbursement period expiring before monies are billed, causing a loss of revenue.

Other findings are summarized as follows:

- Four agencies did not establish accounts receivable records for all of their grant reimbursement billing, as required by county policy. One of the agencies did not have a billing and collection plan on file with the Department of Finance (DOF).
- Two agencies were reconciling grant billings to Excel spreadsheets that were not reconciled to FAMIS. The reconciliation of billings to FAMIS helps to prevent accounting errors, and detect unauthorized and improper transactions.
- A lack of sufficient segregation of duties for the accountant I position was noted at JDRC. The position received and recorded \$327,000 of grant reimbursement checks. Cash receipt and recording duties should be segregated to reduce the risk of reimbursement checks being diverted.

Scope and Objectives

This audit was performed as part of our fiscal year 2009 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of December 1, 2007, to November 30, 2008, and our audit objectives were to determine that:

- Adequate controls over the billing, collection and recording of grants expenditures existed
- Grant reimbursement funds due were billed and collected in a timely manner
- Grant receivables were being recorded

Methodology

Our audit approach included interviewing management and staff of agencies responsible for grants to obtain an understanding of internal controls over grant billings and collections. We also obtained samples of invoices, purchasing documents, and FAMIS reports for each grant selected for audit. Our audit did not examine the system controls over purchasing,

financial, and payroll applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data may have been erroneous.

Findings, Recommendations, and Management Response

1. Billings and Collections

Department of Public Works and Environmental Services—Capital Facilities (DPWES-CF), Department of Transportation (DOT), and Community Services Board (CSB)

We found three instances where grant billings were not done in a timely manner or follow-up procedures were inadequate:

- a. DPWES - CF did not bill timely or adequately follow-up on billings for \$9.1 million of expenditures incurred for the Burke Center VRE Station (BCVS) grant, and for two of three billings tested for the Bus Shelters grant totaling \$84,549. There was not sufficient follow-up with the grantor for \$4.4 million of expenditures incurred from September 11, 2006, through September 28, 2007, for the BCVS grant. The grantor was initially billed for \$4.4 million on October 3, 2007, but a second billing, for the same expenditures, was not completed until June 18, 2008, eight months later. Some follow-up with the grantor was performed, but significant amounts of time passed between contacts with the grantor. The billing was collected on September 26, 2008. An additional billing for \$4.7 million of BCVS grant expenditures, incurred from November 4, 2007, through April 5, 2008, was made on April 8, 2008. This represented a billing for five months of expenditures. Adequate follow-up was noted for the \$4.7 million billing, and it was collected on June 13, 2008. The grantor billing requirements did not differ from the county's policy, requiring quarterly billing.
- b. DOT did not bill timely for \$1.2 million of expenditures incurred for the Base Realignment and Closure (BRAC) grant. The expenditures were incurred from September 1, 2007, through August 31, 2008, and the billing was not completed until December 5, 2008. Over half (\$648,933) of the unbilled BRAC grant expenditures were incurred September 2007 through May 2008, six months prior to the billing. The BRAC grant billing was collected on December 12, 2008. In addition, \$105,979 of Richmond Highway Transit Improvement (RHTI) grant expenditures, the total RHTI expenditures incurred for the period, was not billed as of July 2009. While DOT did provide some documentation of correspondence with the grantor during the period, it did not contain sufficient information as to result in a complete audit trail; and therefore, the adequacy of follow-up efforts could not be fully determined.
- c. CSB did evidence timely billing or adequately follow-up on \$401,627 of High Intensity Drug Trafficking Area (HIDTA) grant expenditures incurred for the period of December 2007 through November 2008. The HIDTA grant was one of three grants tested for CSB. Billings totaling \$106,105 for December 2007, and January, March

and May of 2008 were tested. The grant award was approved by the grantor on March 26, 2008. HITDA grant billings tested of \$75,263, incurred prior to the grant award date, were initially billed in June 2008, but a rebilling was not performed until February of 2009, ten months after the grant was awarded. There was no documented evidence of adequate follow-up with grantor. Grant billings tested of \$30,842 were not billed until February of 2009. Information provided by CSB showed total billings of \$108,294 without adequate follow-up and total expenditures of \$67,088 not billed timely during the audit period. Grant expenditures of \$226,245, incurred from June through November 2008, were not billed as of July 2009. None of billings were collected as of July 2009. The grantor required all billings to be completed 60 days after the grant period ended. The grantor extended the period to bill 2008 expenditures on December 10, 2008.

Procedural Memorandum 06-02, *Administrative Procedures for Grants or Cooperative Agreements* (PM 06-02), states that agencies should attempt to request reimbursements for grant expenditures monthly, especially for large dollar amounts, but no less than quarterly, unless the grantors billing requirements differ. PM 06-02 also requires agencies to monitor outstanding billings to ensure timely collection.

If grant expenditure reimbursements are not billed in a timely manner or proper follow-up on uncollected billings is not performed, it could result in a loss of potential interest earning on county cash balances and a reduction in the county's cash flow. Additionally, it may increase the risk of the grant collection period expiring before reimbursements are billed, causing a loss of revenue.

Recommendation: We recommend the agencies complete all grant billings for expenditure reimbursements in a timely manner and properly follow-up on uncollected billings to minimize delays in collections, as required by PM 06-02. Any delays in the processing or collection of billings, caused by the grantor, should be documented.

Management Response: Each of the departments in the above finding have provided responses which include action plans for correcting deficiencies and ensuring future compliance. An itemized listing of these individual departmental responses is included in Attachment A.

2. Grant Receivables

Juvenile and Domestic Relations Court (JDRC), Department of Family Services -Office For Children (DFS-OFC), Department of Family Services - Adult and Aging Divison (DFS-AAD), and Department of Transportation (DOT)

Four agencies in our sample were not recording receivables in FAMIS for billings of the grants tested. In addition, DOT did not have a billing and collection plan on file with the Department of Finance (DOF). PM 06-02 requires departments to set up a receivable for all billable grant reimbursements. County agencies that generate billable revenues are also required to develop, implement and update billing and collection plans in

accordance with Accounting Technical Bulletin 036 (ATB 036) and have them approved by DOF.

Unrecorded receivables can result in understated receivable balances, inaccurate financial reporting and decreased accountability for effective accounts receivable management. The agencies should document their policies and procedures to ensure that controls are consistently applied and to maximize efficiency in training new staff. Undocumented policies and procedures could lead to confusion, poor controls, and inefficient operations during periods of high employee turnover, staff reductions, or key personnel taking extended or unexpected leave. This increases the risk for uncollected funds.

Recommendation: We recommend the agencies record receivables for all billings for grant expenditure reimbursements as required by PM 06-02 and ATB 036. DOT should develop a billing and collection plan and submit it to DOF for approval, as required by ATB 036. Since the Department of Administration for Human Services (DAHS) performs the billing for DFS-ADD grant expenditures, the recording of receivables should be coordinated with DAHS to ensure timeliness, accuracy and efficiency. If the receivable recording process is inefficient, the agencies should work with DOF for alternative methods or obtain a wavier from DOF.

Management Response: Each of the departments in the above finding have provided responses which include action plans for correcting deficiencies and ensuring future compliance. An itemized listing of these individual departmental responses is included in Attachment A.

3. FAMIS Reconciliation

General District Court (GDC), Department of Family Services-Adult and Aging Division (DFS-AAD)

Two agencies in our sample of nine were not reconciling grant billings to FAMIS expenditures. Both agencies were reconciling billings to Excel spreadsheets that were not reconciled to FAMIS. The spreadsheets included accrued grant expenditures not recorded in FAMIS.

Accounting Technical Bulletin 10020, *Reconciliation of Financial Transactions* (ATB 10020) requires all county departments to ensure the integrity of financial transactions posted to the county's financial systems by performing monthly reconciliations to FAMIS in accordance with reconciliation plans developed by departments and approved by the Department of Finance. The reconciliation of billings to FAMIS helps to prevent accounting errors, and detect unauthorized and improper transactions related to revenues collected and accounts receivables.

Recommendation: We recommend agencies reconcile grant billings to FAMIS expenditures on a monthly basis as required by ATB 10020. Grant billings for accrued expenditures should be recorded in FAMIS. If assistance is needed, the agencies should meet with DOF for guidance on recording accrued expenditures in FAMIS.

Management Response: Each of the departments in the above finding have provided responses which include action plans for correcting deficiencies and ensuring future compliance. An itemized listing of these individual departmental responses is included in Attachment A.

4. Separation of Duties

Juvenile and Domestic Relations Court (JDRC)

We noted a lack of sufficient segregation of duties for the accountant I position at JDRC. The position assigned duties included the billing, recording, reconciliation and collection of grant reimbursements for the Intervention, Prevention and Education (IPE) grant. The position received and recorded \$327,000 of grant reimbursement checks received for the audit period.

County financial policies require agencies to develop systems of internal controls so no individual person is responsible for the collection and accounting for monetary receipts. The effect of the noted lack of segregation of duties is the possibility that reimbursement checks could be stolen and not detected.

Recommendation: We recommend that JDRC comply with the county's requirement for separation of duties over the cash receipts process. There should be more than one person responsible for the accounting and collection of monetary receipts. JDRC should consider making arrangements with the grantor and DOF to receive electronic payments which would prevent the accountant I position from receiving checks.

Management Response: JDRC now receives most of its grant reimbursements by electronic payment. However, on the few occasions when monetary receipts are received by check, JDRC will have someone other than the accountant I position receive the check. Documentation was submitted showing that we now receive grantor reimbursements for the IPE grant through ACH transfer.

Grant Billings and Collection Audit Individual Agency Management Responses

Finding #1 – Billing and Collections

DPWES/Capital Facilities: DPWES–CF will follow-up on uncollected billings by sending a list of outstanding balances to the grantor every 90 days and document contact with the grantor using e-mail or a telephone log. DPWES-CF will bill for grant expenditure reimbursements no less than quarterly, but will request an exception from the Department of Finance to bill for some Virginia Department of Transportation expenditures less frequently to allow the billings for those amounts to be performed more efficiently based on the grantor’s procedures. The estimated completion date is March 31, 2010.

Department of Transportation: The delays in the BRAC invoice processing were at the request of and in agreement with the grantor. Reimbursement invoices were submitted in October 2007 and again in May 2008, but were not processed by the grantor. In contacting the grantor, we were notified of a planned revision to the reimbursement invoicing format requiring more detailed information and were told to hold off submitting additional reimbursement requests until the new format was completed. To ensure compliance with Procedural Memorandum 06-02, DOT will submit a request for reimbursement within 90 days after eligible expenses are incurred by the county and maintain adequate documentation when exceptions occur. The Richmond Highway grant is utilized by DOT and DPWES with each department having separate billing and reporting requirements. A miscommunication between the two departments resulted in a reimbursement billing delay. Since then changes in how the grant is monitored and reimbursements are processed have been made. DOT worked with Department of Human Resources to develop reports to capture multi-department personnel service data by grant and in-kind position hours running the report by department, index, job number, and position number. These reports became available in April 2009 to all county departments facing a similar situation of multiple department grant reporting. These new reports allow for a more timely submission of expenditures/invoices to grantors. To ensure compliance with Procedural Memorandum 06-02, DOT will submit requests for reimbursement within 90 days after any eligible expenses are incurred by the county.

Community Service Board (CSB): The University of Maryland is the intermediary for the award and payment of HIDTA grant funds. As such, the University of Maryland did not accept and/or pay invoices to reimburse the CSB until (a) new federal grant contract allocation was fully processed through the Office of National Drug Control Policy; and (b) a prior federal grant contract allocation was closed out and funds were exhausted. This is particularly significant in that the grant period in question crossed two different federal HIDTA allocation years, which also crossed two fiscal years of the county.

There were repeated interventions by CSB fiscal and program management with the grantor, as the accounts receivable aged. Although they were undocumented, most interventions were through telephone conversations and face-to-face meetings. Additionally, there were e-mail correspondences that were deleted. During this period, the CSB fiscal staff also researched the treasury/accounts payable process of the University of Maryland that assisted the county's Department of Finance with insufficiently described wire transfers from that payer.

As of November 2, 2009, only \$12,104 of the \$401,627 in grant expenditures had not been paid by the University of Maryland. Reconciliation of the HIDTA grant periods in question should now be completed.

Finding #2 – Grant Receivables

Juvenile Domestic Relations Court: Juvenile Domestic Relations Court will immediately begin to record receivables for all billings for grant expenditure reimbursements.

Department of Family Services/Office for Children (DFS-OFC): Because of the less than 24-hour timeframe from cash drawdown request to receipt of revenue, DFS-OFC has requested an exemption to PM 06-02 from the DOF for the Head Start and Early Head Start grants. For the federal Head Start and Early Head Start grants, DFS-OFC is the grantee and receives funding directly from the U.S. Department of Health and Human Services (DHHS). DFS-OFC requests drawdowns of federal cash for these grants on a quarterly reimbursement basis. Once DFS-OFC submits a request for the drawdown of federal cash, the revenue is received via wire by the county the next business day, with less than 24 hours typically elapsing from the time of the federal cash drawdown request to the actual receipt of the wire.

For all other grant billings, which are not on the same quick reimbursement timeline as Head Start and Early Head Start, DFS-OFC will continue to work with DAHS to record receivables in FAMIS.

Department of Transportation (DOT): In January 2009, DOT began posting accounts receivable (AR) documents in FAMIS. Prior to this, DOT manually submitted accounts receivables reports to Finance. DOT will develop a billing and collection plan as required by ATB 036 and will submit it to DOF for approval within next six months.

Department of Family Services – Adult Aging Division (DFS - AAD)/Department of Administration for Human Services (DAHS): As of July 2009, accounts receivables for grant expenditure billings were being recorded in FAMIS to bring the agency in compliance with the May 30, 2009, PM 06-02.

Finding #3 – FAMIS Reconciliation

General District Court (GDC): GDC will revise their current reconciliation procedures to include documentation of their reconciliation of grant billings to FAMIS expenditures. Additionally, they will record Office Depot expenditures in the manual

grant budget ledger with supporting documentation at the time of receipt but not report them to the grantor until they are posted to FAMIS.

Department of Family Services – Adult Aging Division (DFS - AAD)/Department of Administration for Human Services (DAHS): DAHS now uses DFS - AAD FAMIS expenditure data to prepare monthly reports to the grantor and the reports are reconciled to FAMIS on a monthly basis in accordance with ATB 10020.