



# Fairfax County Internal Audit Office

**Department of Public Works & Environmental Services -  
Wastewater Management Services  
Revenue Collection Process Audit  
Final Report**

**August 2011**

*"promoting efficient & effective local government"*

## Introduction

The Department of Public Works and Environmental Services (DPWES) – Wastewater Management Services (WWM) collects and treats the region’s wastewater. This includes Fairfax County, the City of Falls Church, and the Town of Vienna. WWM was created by the Board of Supervisors in 1973 to perform a revenue collection function. In the 1970s, the Board of Supervisors reached an agreement with the three agencies to handle the billing, collection, and remittance of revenue for WWM. These agencies are: the Fairfax Water Authority, the City of Falls Church, and the Town of Vienna. Each of these agencies collects for their respective residents. These agencies continue to collect wastewater revenue on behalf of the county.

Once treated, the clean water is released back into the region’s waterways. Wastewater is considered all water discharged from homes and businesses through the sanitary sewer system. The sanitary system includes more than 3,330 miles of sanitary sewer lines, 65 pumping stations, and 57 flow metering stations, treating approximately 45 million gallons of wastewater per day generated from nearly 340,000 homes and businesses. The monthly billing for this service is approximately \$10.5 million, and the annual revenue collection on behalf of Fairfax County for 2010 was in excess of \$120 million.

## Executive Summary

We found that controls were in place and appeared to be operating effectively to ensure the revenue collection process was complete and accurate. Reconciliation was performed on the daily customer remittance reports and management oversight included ensuring internal controls were adhered to by all staff in securing the county revenue. However, we did find controls could be strengthened since WWM did not have formally documented internal procedures for the revenue collection process and the billing agencies were consistently late in submitting their remittances to the county. However, write-offs or refunds were accurately monitored and accounted for, there was adequate segregation of duties, and documented supervisory reviews provided effective compensating controls.

## Scope and Objectives

This audit was performed as part of our fiscal year 2011 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 from July 1, 2009, through September 30, 2010, and our audit objectives were to determine that:

- The revenue collection process was performed adequately
- Revenue owed to the county was collected and safeguarded
- Collected revenue was deposited, posted and reconciled in a timely and accurate manner
- Adjustments for write-offs and/or refund amounts were proper
- Adequate segregation of duties was in place and operating effectively
- Supervisory review was effectively conducted

## Methodology

Our audit approach included on-site visits with the WWM staff involved in the sewer revenue collection process both at the counter and from the three billing agencies. We conducted individual interviews and observed employees' work functions, reviewed the user documentation including reports, segregation of duties, deposits made to the Department of Finance, and transaction reporting entries into the Financial Accounting Management Information System (FAMIS).

We focused on the controls over the remittance process. These steps included the controls for accessing the remittance funds, operational controls implemented by management, employee job functions performed as well as the initiation and approval of financial transactions. We tested the entire population of billings for the audit period for all three agencies' remittances using automated software to verify the integrity and accuracy. We compared these amounts with WWM bank deposits. This included comparing the electronic remittance amounts from individual accounts with the totals from the remittance reports for daily, weekly, and monthly reports. These steps were taken to validate the account detail information with summary reports provided to the county. We did not identify material differences between the billing and remittance amounts; any differences identified were timing differences from past due accounts. In addition, we compared remittance reports with FAMIS postings. Our audit did not examine the system controls over the county's financial application system, FAMIS. Our transaction testing did rely on these controls; therefore, this was a scope limitation. The potential impact of this limitation on our findings was that some portion of the FAMIS transaction data that we were using may be erroneous.

In general, the process to follow the monetary trail from billing clients to remittance amounts is a clear path that can be followed to obtain an assurance that the transactions are complete and accurate. Internal audit was able to identify payments made by the due date; however, payments made after the due date were not identified with the amount billed in the reports provided by the billing agencies. This had a minimal affect on Internal Audit's ability to perform a reconciliation of billing and remittance for the period under review. However, these amounts were not considered material for the period of our review. Unpaid balances are referred to a collection agency and can result in a denial of service. Uncollected billings for 2010 amount to \$305,922 for all three combined agencies, which amounts to .254% of the 2010 annual revenue collected. Therefore, not being able to trace payments made after the due date was a minor scope limitation that did not have a material affect on our objectives.

# Findings, Recommendations, and Management Response

## 1. Policies and Procedures

WWM did not have thorough or formally documented internal procedures for the revenue collection process. Though staff had prepared some of their own procedures, management had not reviewed and/or formally authorized these procedures. Lack of documentation for department specific procedures increases the potential for inconsistent work processes causing errors, omissions, and control weaknesses. It also limits the ability of management to ensure all objectives for the revenue collection process are consistently met.

**Recommendation:** We recommend WWM develop, document, and implement procedures for their departmental specific processes for the revenue collection process associated with the three billing agencies as well as the Government Center front counter, and the Herry Building sewer revenue collection sites. These procedures should include, but not be limited to processes for reconciling remittances, the frequency of the remittance, and the staff position title responsible for performing the review.

**Management Response:** We agree that while some internal procedures exist, we are lacking formally authorized revenue collection procedures and need to develop specific procedures for each of our revenue sources. We have decided to update existing procedures upon the implementation of FOCUS. The revised procedures will be forwarded to Internal Audit for review in the December 2011 or January 2012 time frame.

## 2. Late Remittances

Two of the three billing agencies were consistently late in submitting their remittances to the county. The original agreement between Fairfax County Government, the WWM, and the three billing agencies specifies the billing time frame for remittance to the county. The City of Falls Church is scheduled to submit their remittance on a monthly basis via wire transfer while the Town of Vienna submits their remittance every three months via check. However, both agencies had been consistently late in making payments to the county. We found that for the period reviewed, July 1, 2009, through September 30, 2010, the funds were late by up to 120 days. Consequently, this resulted in a loss of interest revenue to the county. For example, if the payments were made on time and invested by the county the revenue that would have been earned would have been approximately \$20,000 more annually assuming a short term interest rate of .69%. Internal Audit reviewed short term interest rate returns with the Department of Finance. In years when interest rates are higher (such as the 5% interest rate earned during 2006) the loss to the county could be substantially greater as a result of the delays in payments.

**Recommendation:** We recommend WWM communicate and implement a clear payment timeline for all three billing agencies to ensure timely collection and remittance efforts. This will provide a specific date when payments are to be sent to the county and the grace period if any deemed necessary. Provisions should also be made to collect interest earnings lost due to delays in payments.

**Management Response:** We agree that both the City of Falls Church and the Town of Vienna failed to submit timely remittances while they were implementing their new billing systems. This was an isolated occurrence. We continually spoke to them about this and currently both jurisdictions are remitting on time.

Our billing agent agreements have no expiration dates. After the implementation of FOCUS, we will initiate a re-negotiation of these agreements to include specific due dates for remittances from each billing agent. We will also attempt to negotiate inclusion of a provision for charging interest on late remittances. Anticipated completion date is expected to be mid-to-later part of 2012, depending on how the implementation of FOCUS and the re-negotiations of the agreements proceed.

It must be noted that our current billing agents are our neighboring jurisdictions, who provide billing service to us at cost with no profit margin. Also, our customers are receiving one bill for both water and sewer services.