FAIRFAX COUNTY, VIRGINIA

MEMORANDUM

TO: Board of Supervisors

John J. Adair

FROM: John J. Adair, Auditor to the Board
Office of Financial and Programs Auditor

DATE: September 25, 1998

SUBJECT: Quarterly Status Report on Operations

The Board of Supervisors, at its June 8, 1998, board meeting approved the concept of quarterly status reports by the Office of Financial and Programs Auditor. This report discusses our operations from June through September 1998.

During this reporting period, a joint effort involving the Chairman of the Board of Supervisors, the County Executive, the Retirement Administration Agency, the Boards of Trustees for three County retirement systems and their actuary, and our office resulted in a $708,612 saving to the General Fund.

The savings occurred as a result of a suggestion we made for an alternative method of funding a proposed supplemental 1% Cost-of-Living Adjustment (COLA) for County retirees. This COLA, which had been approved by the Boards of Trustees of the three retirement systems, had been paid in prior years from the General Fund.

Based on our suggestion, the actuary for the three retirement systems was asked to determine the impact of funding the 1% supplemental COLA from retirement system funds, rather than from the General Fund. The actuary responded that the retirement systems had adequate surpluses to fund the 1% supplemental COLA. The Boards of Trustees then approved funding the 1% COLA from retirement funds, and the Board of Supervisors, on July 27, 1998, considered the resulting information item and raised no objection to the change in funding for this COLA.

In addition to the General Fund savings, this action also reduced the amount required to fund the 1% supplemental COLA for Supplemental Retirement System employees who work for the County public schools by $132,855.

We also reviewed the impact on the General Fund of negative balances in funds participating in the County's pooled cash management program.

It should be noted that agencies with negative balances are not spending above the appropriation level approved for their funds by the Board of Supervisors. In some cases, the cash resources of a fund are not sufficient to cover expenditures at a given time. In effect, the fund "borrows" cash from the County's pooled cash in order to finance expenditures until cash revenues are made available to the fund. While no interest is earned by the fund when it is negative, the current system of allocating interest income on pooled cash does not make an offsetting adjustment for those funds with negative balances.

Since negative and positive balances are not offset before determining how much interest income an agency should receive, negative fund balances of agencies that are permitted to retain interest income can reduce the interest distributed to the General Fund and other funds with equity in the pooled cash management program. For example, we reported in June to the Audit Committee that four months of negative balances in the County's Supplemental Retirement System Fund had reduced the amount of interest earned by the General Fund by about $36,000 in Fiscal Year 1998. This amount was subsequently redistributed to the General Fund.

During the current reporting period, we found that there had been negative balances in two of the Integrated Sewer System's funds in some years, and positive balances in others, going back as far as 1990. After discussion with Integrated Sewer System personnel and staff from the Departments of Finance and Management and Budget, it was agreed that these fund balances should not be negative. Since the Integrated Sewer System funds were the last ones we reviewed, we had not completed our work at the time the deadline for this report was reached.

A new negative balances policy, developed in August 1998 by the Department of Finance, requires that Finance Department staff monitor these balances on a daily basis. Unacceptable balances will be discussed with agency officials, and restitution will be sought in cases where inappropriate negative balances cause a loss to the General Fund.

We believe the new policy, when fully implemented, will help keep negative balances in pooled cash funds to minimum levels. However, we believe further work is warranted on the Integrated Sewer System funds to determine the reasons for the negative balances, how far back in time the negative balances extend, and the impact on pooled cash funds.

We also recommend that consideration be given to expanding our review of negative balances at the Department of Housing and Community Development. As discussed in this report, most of the negative balances in the funds of this Department are primarily the result of having to wait for grant reimbursements. We believe it may be beneficial to review these funds in more detail to determine whether some of the negative balances could be reduced using alternative cash management policies.

This report also discusses our audit hotline and the operations of two County fraud units, located in the Department of Family Services and the Department of Housing and Community Development. Our audit hotline has received more than 110 calls since inception, but only one involving a fraud allegation. It appears that one reason for this is that the County has at least two other hotlines receiving fraud allegations, located in the fraud units discussed in this report

The report will be made available to the public upon receipt by the Board of Supervisors and the Audit Committee.

TABLE OF CONTENTS

PAYMENT OF 1% COLA FROM RETIREMENT SYSTEM SAVES GENERAL FUND $708,612 IN FISCAL YEAR 1999

Fairfax County retirees and beneficiaries, who are receiving benefits from the Police Officer, Supplemental, or Uniformed Retirement Systems, are eligible to receive two types of Cost-of-Living Adjustments (COLAs) each year. The base COLA is the lesser of 4% or the Consumer Price Index (CPI) for the 12 months ending on March 31 of the previous year. For the period ending March 31, 1998, the CPI for the Washington Metropolitan area was 0.8%. This COLA is funded by the retirement systems.

A supplemental1% COLA may be proposed by each system's Board of Trustees if the cost increase does not exceed the available actuarial surplus of each retirement fund as determined by actuarial valuation. The Boards of Trustees for the three retirement systems expressed their support for the supplemental1% COLA for Fiscal Year 1999. When approved by the Board of Supervisors in previous years, this 1% COLA has always been paid from the County's General Fund.

Following its past procedures RAA, on June 16, 1998, proposed a 1% supplemental COLA for retirees and beneficiaries of the three retirement systems. Since we were conducting an audit of the administration of the three retirement systems, we were aware that two events were occurring that provided an opportunity to change the funding method. First, the 1% supplemental COLA, when combined with the base COLA of 0.8%, was less than the 3% COLA assumed by the actuary, resulting in an actuarial gain that more than offset the cost of the supplemental 1% COLA. Second, the three retirement system funds were between 96.4% and 99.2% fully funded at June 30, 1997. The $400 million growth in the funds during Fiscal Year 1998 suggested that the funds were capable of paying for the supplemental COLA.

On June 19, 1998, we raised a question with the Office of the Chairman of the Board of Supervisors as to whether funding of the supplemental COLA might be better accomplished by the Boards of Trustees using retirement systems funds. At a meeting on June 23, 1998, the Chairman of the Board of Supervisors raised this question with the County Executive. Later that day, the County Executive convened a meeting with RAA officials, an official from the Department of Management and Budget, and our office. Based on discussions at that meeting, the actuary for the three retirement systems was asked to determine the impact of funding the COLA from the retirement funds, rather than from the General Fund.

On June 30, 1998, the actuary responded that the three retirement systems had adequate surpluses to fund the 1% supplemental COLA. In addition, the actuary pointed out that additional County funding increases for supplemental COLAs should only be requested in the future when the sum of the two COLAs exceeds 3% (which is one of the actuarial assumptions). Later in July, the Boards of Trustees of the three retirement systems approved funding the 1% COLA from retirement funds, and a revised proposal was submitted to the Board of Supervisors as an information item.

On July 27, 1998, the Board of Supervisors considered the information item and raised no objection to the retirement systems' funding the 1% supplemental COLA. The result of this revised decision was the avoidance of an estimated $841,467 in total County outlays in Fiscal Year 1999 (General Fund outlays of $708,612 and Other County Fund outlays of $132,855).

NEW POLICY SHOULD REDUCE
NEGATIVE BALANCES IN
POOLED CASH ACCOUNTS AND
INCREASE GENERAL FUND INTEREST EARNED

At our June 1, 1998, meeting with the Audit Committee, we discussed the issue of negative balances in several agencies' pooled cash accounts. An agency's pooled cash account represents its share of the County's total cash pool, upon which an agency may draw to pay its obligations. Under certain circumstances, negative balances in individual agency pooled cash accounts may be appropriate. However, in other instances, negative balances can reduce the amount of money the County has available to invest, or affect the distribution of the proper amount of interest to the General Fund and other funds with equity in the pooled cash.

As a result of this discussion, the Audit Committee suggested that we do more work in this area and recommend whether the County should adopt a new policy regarding negative balances in pooled cash accounts. We completed our review of negative balances in the Retirement Administration Agency and public schools funds as well as most of the funds in the Department of Housing and Community Development. We also began a review of the funds in the Integrated Sewer System. Based on our work to date, the Department of Finance has already taken action to institute controls over negative balances. The results of our work to date and actions taken by the Department of Finance are discussed in detail below.

RESULTS TO DATE

Many Fairfax County Government agencies have one or more pooled cash accounts in the Financial Accounting Management Information System (FAMIS). As of August 31, 1998, there were 85 such accounts. The County's investment objective for these pooled cash accounts is to obtain a reasonable return on investment commensurate with the primary goals of safety, liquidity, and yield.

Fairfax County's cash management policy is to consolidate all the money in agencies' pooled cash accounts with money in the General Fund, which includes tax collections and other revenue, and invest the amount that is not immediately needed to pay bills. Each day, the Department of Finance's Investment & Cash Management (ICM) staff consolidates all available cash in the County's bank accounts into a concentration account. These funds are then invested in short-term investments with maturity dates timed to provide sufficient money to pay expenses and to meet other cash needs. The gross interest earned on investments and the administrative fee to be deducted are calculated on a daily basis in order to derive the net interest earned that is distributed to each fund. The administrative fee represents the cost of investment activities allocated to each fund.

Other Department of Finance staff allocate the net interest earned to all funds with pooled cash accounts proportionately, based on each account's share of the County's and School's average daily positive cash balance. Pooled cash accounts with negative balances do not share in the net interest earned.

After the amount of interest to be allocated to each account is determined, the interest is posted to the pooled cash accounts according to an Investment Committee policy. This policy prescribes the funds that get to keep the interest and the funds whose interest goes to the General Fund. Funds that are allowed to keep the interest include those that have sources of income other than County funding, such as the Retirement Administration Agency, the Department of Housing and Community Development and the Integrated Sewer System. Each of these agencies has incurred negative balances in one or more of its funds.

<u>Retirement Administration Agency</u>

We first noticed that agencies run negative balances in their pooled cash accounts during our review of the Fairfax County Retirement Administration Agency (RAA). While reviewing the pooled cash account balances, we discovered that the Supplemental Retirement System's balances were negative from August through most of December 1997. The negative balances ranged from several hundred thousand dollars to over $4 million.

In effect, RAA was using cash belonging to other funds, including the General Fund, to pay Supplemental Retirement System expenses rather than transferring some of its $1.2 billion in Supplemental Retirement System assets from other investments to its pooled cash account. This occurred because the Department of Finance did not have a procedure to deal with negative balances. RAA's use of others' funds reduced the amount available for ICM staff to invest. We calculated that as a result, $36,000 of interest was not earned by the County's Pooled Cash Account. After we pointed out the impact of its actions, RAA subsequently notified the Department of Finance on June 2, 1998, that an adjustment should be made to reduce the interest earned by the Supplemental Retirement System. While a number of funds were affected, the Department of Finance, for administrative ease, will make an adjusting entry that will result in the lost interest being repaid to the General Fund in conjunction with County's annual audit.

We subsequently learned that other County agencies ran negative balances in some of their pooled cash accounts. The agencies with the largest negative balances were the Department of Housing and Community Development (DHCD), the Department of Public Works and Environmental Services (DPW&ES) Sewer Funds, and the Public Schools. Our discussions of the Public Schools' negative balances determined that they were not inappropriate. The Public Schools had established two new accounts that were split away from a consolidated account to better control income and expenses. The accounts had negative balances for a short period because expenses were recorded against the accounts before the accounts' positive balances were transferred from the consolidated account. Accordingly, we are reporting in detail only on the results of our work regarding the DHCD and Integrated Sewer System.

<u>Department of Housing and Community Development</u>

The DHCD provides housing opportunities for low-and moderate-income residents in Fairfax County and assists in the revitalization of County neighborhoods. The consolidated housing and community development program includes numerous activities which support Fairfax County Redevelopment and Housing Authority rental housing, housing for the elderly/group homes, loans for homeownership and home improvement, tenant assistance, community development, community revitalization, and the development and administration of these programs.

The Fairfax County Housing and Community Development program is funded through local, Federal and State governments, General Obligation bonds, and private sector sources. During FY 1999 Federal funding is expected to be over $32 million or 55.1 percent of the total funding received. The County's share of the funding from General Fund is expected to provide about $5 million or 8.5 percent.

When we began work at DHCD, we learned that DHCD had average negative balances in 9 of its 19 pooled cash accounts totaling about $7.6 million between November 15 and the end of December 1997. As of August 31, 1998, the total negative pooled cash account balances had risen to about $14.5 million. The reason that several of these accounts had and will continue to have negative balances is that they are operated on a reimbursement basis. That is, DHCD pays expenses from the County's pooled cash fund for a variety of programs funded either partially or in their entirety by Federal or other sources, and periodically seeks reimbursements that are subsequently provided to the pooled cash fund.

The largest negative balance ($2.5 million) was in Fund 142, the Community Development Block Grant Fund. A DHCD official informed us that this Fund is always negative because DHCD uses the County's funds to pay CDBG program expenses and then submits monthly reimbursement requests to the U.S. Department of Housing and Urban Development (HUD). Reimbursement requests are based on amounts recorded in the County's FAMIS system. Although HUD regulations governing the CDBG program permit grantees, such as Fairfax County, to request advances of Federal funds prior to paying program expenses, the regulations require that these funds be expended within a minimal period of time following their receipt. HUD has defined this as a three-business-day period, measured from the receipt of Federal funds to the issuance of checks for program expenses. DHCD informed us that it has been operating on a reimbursement basis since at least 1977 because the three-business-day standard is difficult to meet and it lacks resources to monitor expenses on a daily basis.

Other large negative balances were carried in Funds 966 and 968. Fund 966, which had a $1.9 million negative balance, is the Federal Section 8 Rental Assistance Fund. Under this program, DHCD pays landlords at the first of each month a portion of the housing costs for people eligible for subsidized housing. Quarterly, DHCD submits requisitions to HUD for Section 8 funds in advance of expenditures. However, HUD does not release each month's funds until the first of that month. In order to provide subsidy payments to landlords by the first of each month, the Section 8 subsidy checks are issued at the end of the prior month, before the Federal funds are received.

Fund 968, which had a $1.9 million negative balance, is the Public Housing Projects Under Development Fund. Under this program, DHCD submits claims for costs incurred to HUD for reimbursement. A DHCD official told us that since this program is also on a reimbursement basis with HUD, the pooled cash account would carry a negative balance.

Other funds' pooled cash accounts (Funds 941 and 949) at DHCD had negative balances as well. Fund 941's negative balance was about $448,000 and Fund 949's negative balance was over $202,000.

Department of Public Works & Environmental Services

The last group of funds with negative pooled cash balances we reviewed involved the Integrated Sewer System, located within the DPW&ES. Among its many responsibilities, DPW&ES is responsible for managing and maintaining the Fairfax County Integrated Sewer System and accounting for its operations. The System includes one County-owned wastewater treatment plant, about 3,020 miles of sewer lines, 54 sewage pumping stations and 50 inter-jurisdictional sewage flow meters. Periodically, Fairfax County sells revenue bonds to raise funds for the extension and improvement of the sewer system. The ICM staff invests the proceeds of these sales and the County periodically makes debt service payments of revenue principal and interest.

For financial and budgeting purposes, the Integrated Sewer System is composed of seven separate funds under a self-supported enterprise fund structure. This structure is consistent with the Sewer Bond Resolution adopted by the Board of supervisors in July 1985.

The largest of the seven funds is the Sewer Bond Revenue Fund. Revenues recorded in this fund are transferred to the other six Integrated Sewer System Funds to finance their expenditure requirements.

We found that the pooled cash accounts in two of the funds had negative balances in some years, and positive balances in others. This pattern goes back at least as far as 1990. There appear to be several reasons that the negative balances occurred involving the timing and amount of transfers from the Sewer Bond Revenue Fund to the two funds, as well as transfers out of the funds. However, because the Integrated Sewer System Funds were the last ones we reviewed, we had not completed our work at the time our quarterly report deadline was reached.

On September 14, 1998, we met with DPW&ES, the Department of Management and Budget, the Department of Finance to discuss negative pooled cash balances in these two funds. At that meeting, it was agreed that the pooled cash balances in those funds should not be negative. We believe that the reasons for the negative balances need to be examined further. We also believe that a determination should be made as to how long the negative balances have existed and the impact of those balances on the General Fund and other pooled cash funds.

NEW POLICY FOR MONITORING NEGATIVE BALANCES AND OUR ASSESSMENT OF ITS ADEQUACY

As a result of our discussing the negative pooled cash balance problem with the Departments of Finance and Management and Budget, officials of these two Departments agreed on a new policy for monitoring negative balances in agencies' pooled cash funds. The new goal is to identify unacceptable negative balances as soon as they occur so that immediate corrective action can be taken.

To meet this goal, the Department of Finance has already changed its system of monitoring negative balances in pooled cash funds to daily rather than weekly. In addition, the Department of Finance is in the process of categorizing pooled cash funds with negative balances into one of the three categories below.

- Acceptable Negative Balances

  Funds in this category frequently have negative pooled cash balances, because often these funds draw from the General Fund and other County pooled cash in advance of a transfer from another fund or reimbursement from an outside source. Reimbursable grants are an example of this situation.

  Negative balances in this category require no immediate action, but a review of activity no less than quarterly will be conducted to identify patterns that might be useful in improving cash management.

- Unusual Negative Balances

  Negative balances in funds in this category are not normal. This situation may happen though as a result of delays in funding or posting to FAMIS accounts. Funds in this category do not retain interest earnings. However, these funds may be part of a family of funds, some of which do retain interest. In these cases, Department of Finance staff will examine activity closely to assure that a fund is not regularly running negative while maintaining positive balances in other related funds.

  Negative balances in this category call for prompt communication with the agency that has the fund. Finance staff will ascertain the reason for the negative balance and the agency action planned to eliminate the negative balance. Repeated occurrences or lack of agency corrective action will be reported to the Director of Finance.

- Negative Balances Not Acceptable

  This category of funds, which includes gift funds and funds that maintain separate cash or investments, should never have negative balances. Negative balances in these funds require immediate response. Department of Finance staff will call the agency to ascertain why this happened and what action is being taken to immediately restore the General Fund and other County pooled cash funds. The staff also will inform the Director of Finance of these situations and planned corrective actions immediately.

  As soon as the negative balance is corrected, Department of Finance staff will determine the amount of interest earnings lost to the General Fund and other agencies with positive pooled cash balances and seek restitution from the agency.

We believe that this new policy, when fully implemented, will help keep negative balances in pooled cash funds to minimum levels. These efforts will help further the County's cash management goals.

RECOMMENDATIONS

Even though a policy has been developed for monitoring negative balances and should keep them to a minimum, we believe that further work is warranted in the DHCD and the Integrated Sewer System.

Regarding the DHCD, we recommend that consideration be given to expanding the review of the negative balances at DHCD to determine whether alternative cash management polices could reduce negative balances.

With regard to the Integrated Sewer System, we recommend that consideration be given to expanding our review to include (1) determining how far back in time the negative balances extend, (2) the impact that any negative balances have on pooled cash funds, and (3) the reasons for these negative balances.

STATUS OF HOTLINE OPERATIONS

The Fairfax County Board of Supervisors voted to establish an audit hotline in May 1997. The Hotline is operated out of the Office of Financial and Programs Auditor. Calls to the hotline number (876-0526) are received at Background Research International, a public company providing a pro bono service for the County. They are documented and faxed to the Office of Financial and Programs Auditor. From there, they are entered into a computer database, and provided to the Office of the County Executive for action.

The County Executive's Office reviews the complaint or suggestion, and determines the appropriate person or agency to handle the matter. When the matter has been handled, a memo is sent from that person or County agency to the County Executive explaining what has been done with the complaint or suggestion. The Office of the County Executive reviews the memo, and provides this information to the Office of Financial and Programs Auditor, who reviews the handling of the complaint or suggestion. If satisfactorily handled, the case is closed and the action taken is entered into the computer database. If County employees have not already contacted them, the caller is informed by the Financial and Programs Auditor of the manner in which the complaint or suggestion has been handled.

In calendar year 1997, the hotline received 70 calls. In 1998, through August 31, the hotline had received 42 calls. Generally, the hotline calls have not involved allegations of fraudulent activity. Only one call resulted in the substantiation of fraud. A caller reported that they were aware that another person was fraudulently receiving food stamps, Medicaid, and Temporary Assistance for Needy Families. This case, which involves about $17,000 in alleged payments, was referred to the Assistant Commonwealth Attorney for determination as to whether a felony had been committed. At the time of this report, action on the case was pending with the Fairfax County Police Department.

One reason that only a single fraud allegation call has been received is that there are at least three other fraud hotlines operated within the County. The hotlines run by the Department of Family Services and the Department of Housing and Community Development are discussed on pages 10 and 11 of this report. The County also operates a TARGET hotline (324-3767) designed to receive reports on those who do not pay personal property taxes on their vehicles.

The calls received by the audit hotline cover a variety of topics ranging from missing street signs to complaints about noise involving construction workers starting work too early on weekends. While the calls generally do not involve fraud, waste or abuse of taxpayer money, they do relate to matters of concern to those who are calling. In recent months, with the concurrence of the Office of Finance and Programs Auditor, the Background Research International representatives have been referring a number of callers directly to the County's Citizen Assistance information number (324-3185) when callers to the hotline are seeking general information. This provides a quicker response to questions from callers who do not have complaints or suggestions and are simply seeking information about a County program or activity.

FRAUD UNITS WITHIN FAIRFAX COUNTY GOVERNMENT

At the June 1, 1998, Audit Committee meeting, we discussed a fraud hotline call received by the Office of Financial and Programs Auditor that had been referred to a fraud group in the Department of Family Services. The Audit Committee wanted to know more about the fraud units in Fairfax County, including their staffing levels, types of complaints received, whether the units operate a hotline, and how complainants know where to call to report fraud.

We are aware of two units in Fairfax County. The first is the unit mentioned above, located in the Department of Family Services. The other is in the Department of Housing and Community Development.

DEPARTMENT OF FAMILY SERVICES FRAUD UNIT

The Fraud Unit in the Department of Family Services consists of four people. The Unit specializes in fraud involving food stamps and Temporary Assistance to Needy Families (TANF). The most common violation for both TANF and food stamp cases is that the recipient has exceeded the income level allowed by law and is not eligible for the assistance.

Complainants know to call the fraud hotline number (324-7564) because the Fraud Unit publicizes it in speeches to various organizations. About 50 calls are received each month. In addition, fraud referral telephone complaints are received at the Department's satellite offices.

The Unit has a caseload of about 1,500. The Fraud Unit representatives told us that the number would be higher, but in March of this year, 367 cases were deleted, under a State requirement, because they were more than 3 years old.

The Fraud Unit gives priority to preventing fraud. The Unit also has procedures in place to identify and correct fraudulent payments. Fraud Unit representatives told us that cases where former recipients are no longer receiving aid get less attention, due to limited resources, and are the ones most likely to be deleted for being more than three years old.

If a fraud case involves $1,000 or more the Fraud Unit can take it to Court. Before that can happen, an Assistant Commonwealth Attorney must review and sign off on the fraud complaint as a felony. The Fraud Unit then sends the allegation to the Fairfax Police, Criminal Investigation Bureau, to get subpoenas, and also lines up witnesses. The Fraud Unit may go to Court as many as three times on a case. First, they attend a preliminary hearing after the Criminal Investigation Bureau sets a court date. Next, there is generally a grand jury hearing, and then a trial or sentencing.

People who are caught and convicted are often allowed to pay back the County over a 2-5 year period. They pay it back through their probation officer. The Fraud Unit recovered about $73,600 in calendar year 1995, $155,300 in 1996, more than $173,000 in 1997, and $183,578 through July 1998.

DEPARTMENT OF HOUSING AND
COMMUNITY DEVELOPMENT FRAUD UNIT

There is also a Fraud Unit in the Department of Housing and Community Development. It was created in 1992, with one person, and now consists of three people. The Unit focuses primarily on fraud involving Section 8 Rental Housing. One of the individuals in the Fraud Unit also carries out the function of inspecting Section 8 units, driving around the County to see if they are being maintained properly. When Section 8 units appear to be in need of maintenance, the landlord is notified of the need to repair the units. Administrative fees earned from the Section 8 Program support all three positions.

The Section 8 program is a $26 million a year program for Fairfax County. The money is distributed in the form of certificates and vouchers, and is paid to landlords, not to renters.

The most common types of fraud they discover involve unreported income and unauthorized household members living in Section 8 Housing. The Fraud Unit finds out about these unauthorized household members through a number of sources, including calls to its fraud hotline, as well as its liaison with the Police, the Department of Motor Vehicles, the Courts, the Office of Land Records, and the Virginia Employment Commission. In 1997, the Fraud Unit received 288 leads for investigation from phone calls, letters, the Section 8 hotline and other DHCD employees and 581 leads from the review of monthly police reports.

The Fraud Unit received 64 hotline calls in calendar year 1997, and 54 calls so far in 1998. Complainants know to call the fraud hotline number (246-5291) because it is published in Section 8 brochures, and because the head of the Fraud Unit makes presentations to civic organizations, making certain the hotline number is mentioned during these presentations.

For the past several years, the Fraud Unit handled an average of 77 cases a year that resulted in hearings, and recovered about $40,000 in fraud and damage claims annually. The Unit is allowed to keep 50% of the fraud-related money it recovers. The money goes into a fraud account and can be used for buying printers and other items to equip the Fraud Unit.

The Housing Fraud Unit works with the Federal Department of Housing and Urban Development (HUD), and refers some of its cases to the HUD Inspector General for prosecution. We contacted the HUD Office of Inspector General to get its opinion of the Fraud Unit, and were told by a representative that it was his impression that the cases presented by the Fraud Unit were thoroughly investigated and documented. He believed that the Fraud Unit is one of the best in the nation in the area of Section 8 compliance. We also were informed that the Fraud Unit was recently recognized at a national housing conference as being a model for other communities.

Both Fraud Units informed us that they coordinate fraud cases involving individuals receiving assistance from both the Departments of Family Services and Housing and Community Development.

WORK AT THE FAIRFAX COUNTY RETIREMENT ADMINISTRATION AGENCY

On February 27, 1998, we issued our first report on our work at the Retirement Administration Agency (RAA). That report was entitled, "Retirement Systems: Excellent Financial Condition; County Contribution Rates Appropriate; and Fiscal Year 1999 Contributions Projected To Be Significantly Lower." In that report, we pointed out that the market value of the three retirement systems' assets increased from June 30, 1990 to June 30, 1997, by an average of more than 15% a year reaching a total of $2.31 billion. The report also states that the total unfunded liability for the three systems had fallen from more than $200 million in Fiscal Year 1991 to less that $40 million in Fiscal Year 1997. The result was the three systems were between 96% and 99% fully funded at the end of the Fiscal Year ending June 30, 1997.

That report also points out that the dramatic growth in asset values enabled the Boards of Trustees for the retirement systems to propose significant reductions in the County's Fiscal Year 1999 contribution rates. This resulted in an estimated $9.5 million reduction in County contributions to the three retirement systems in Fiscal Year 1999.

We have completed the fieldwork on the second phase of our review at RAA. During this phase we reviewed how well the RAA was administering the three retirement systems for the Boards of Trustees. We found areas where operational controls could be improved, including the avoidance of negative balances, which has been discussed earlier in this report. We are in the process of drafting a report that we anticipate will be issued in the next several weeks. We plan to discuss this report at our next Audit Committee meeting on December 1, 1998.