

**REPORT TO THE BOARD OF SUPERVISORS
FAIRFAX COUNTY, VIRGINIA**

**QUARTERLY STATUS REPORT ON OPERATIONS
AS OF JUNE 27, 2001**

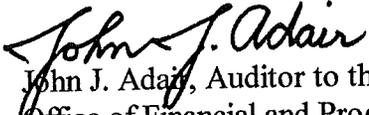


OFFICE OF FINANCIAL AND PROGRAMS AUDITOR

FAIRFAX COUNTY, VIRGINIA

MEMORANDUM

TO: Board of Supervisors

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

DATE: June 27, 2001

SUBJECT: Quarterly Status Report on Operations

EXECUTIVE SUMMARY

During this quarter, we completed our review of about \$4.4 million of overdue accounts receivable that were over a year old. County Departments determined that \$1.2 million of the receivables had been collected previously, but not removed from the financial system; \$0.8 million should not have been established; and about \$0.8 million was not collectible due to bankruptcy, age, legal settlements or other reasons.

These receivables, totaling about \$2.8 million, will be removed from the County's records, providing a more accurate picture of its finances.

About \$1.6 million of the \$4.4 million was determined to be collectible. This quarter, County Departments collected about \$246,500 in overdue receivables bringing the total collected to date, as a result of this review, to about \$318,500. County Departments are taking action on the remaining \$1.3 million determined to be collectible, as discussed in this report.

In addition to our work on receivables, we monitored grant reimbursement requests at the direction of our Audit Committee. These requests continued to be made more timely, providing millions of additional dollars for the County to invest.

We worked with the Office of Internal Audit as it took steps to determine if there are appropriate controls and procedures in place to prevent improper handling of County funds. We also monitored a new legislative requirement to report on proffered cash pledges, payments and expenditures that is being coordinated by the County Attorney's Office.

During the next quarter, we intend to continue to work with the Office of Internal Audit in the internal control area, and to monitor the collection of overdue receivables, the timeliness of grant reimbursement requests, and the reporting of proffer information.

REVIEW OF ACCOUNTS RECEIVABLE

We have been working with County Departments over the past three quarters as they reviewed more than \$4.4 million worth of overdue accounts receivable that were more than a year old.

County Departments determined that \$1.2 million of the receivables had been collected previously, but not removed from the financial system; \$0.8 million should not have been established; and about \$0.8 million was not collectible due to bankruptcy, age, legal settlements or other reasons.

These receivables, totaling about \$2.8 million, will be removed from the County's records, providing a more accurate picture of its finances.

About \$1.6 million of the \$4.4 million was determined to be collectible. This quarter, about \$246,500 was collected. These collections, when combined with a collection of about \$72,000 by the Fire and Rescue Department, as discussed in a prior report, brings the total amount of overdue receivables collected thus far to about \$318,500.

County Departments are taking action on the remaining \$1.3 million determined to be collectible, as discussed below.

Collections of Accounts Receivable During This Quarter

During this quarter, County Departments took actions to collect about \$246,500 in overdue receivables.

- The Department of Housing and Community Development (DHCD) collected \$225,000 in overdue Section 8 receivables;
- The Police Department collected \$12,802 in overdue receivables due from the Federal Bureau of Investigation (FBI); and
- The Department of Administration for Human Services collected \$8,756 for 20 overdue invoices due from Inova Health Systems, Mount Vernon Hospital.

In addition, County Departments have determined that an additional \$1.3 million in overdue receivables is collectible.

- DHCD is working to collect \$190,000 from the Commonwealth of Virginia and \$127,000 from various housing authorities it believes represents collectible Section 8 overdue receivables.

- The Department of Public Works and Environmental Services determined that about \$144,000 of its overdue receivables is collectible.
- The Department of Administration for Human Services is working on the collection of an overdue receivable owed by the Commonwealth of Virginia for \$768,167.
- The Department of Administration for Human Services also is attempting to collect \$70,000 it believes is due from the City of Falls Church.

The actions taken and planned by these Departments are discussed below.

**Department of Housing and
Community Development**

This quarter, DHCD collected \$225,000 in overdue receivables. Most of this amount was from Arlington County, which provided almost \$205,000. All of the receivables involved DHCD's Section 8 Program. The money collected will go to the Section 8 Program within DHCD.

The Federal Department of Housing and Urban Development (HUD) operates the national Section 8 Program. HUD issues vouchers to subsidize rent payments for eligible households. These vouchers are assigned to jurisdictions based on competitive applications that include an assessment of relative housing need. Vouchers are portable throughout the United States. When a household brings a voucher from another jurisdiction to Fairfax County, the DHCD is allowed to collect a portion of the monthly administrative allowance and the housing subsidy amount. In order to collect this amount, DHCD must bill the housing jurisdiction that originally received the HUD voucher.

After conducting research on Section 8 receivables that were over a year old, DHCD staff concluded that they had valid receivables from Arlington County for almost \$205,000, the Commonwealth of Virginia for about \$190,000, and 13 local housing jurisdictions totaling about \$147,000. Previous letters from DHCD's Section 8 Program staff requesting payment had not resulted in collections.

DHCD wrote follow-up letters to Arlington County, the Commonwealth of Virginia and the 13 other local housing jurisdictions, located in nine States, the District of Columbia, and San Juan, Puerto Rico requesting that the outstanding receivables be resolved as soon as possible.

As a result of this action, Arlington County reimbursed the County \$204,826 on May 9, 2001.

In addition, DHCD officials said they collected about \$20,000 from 5 of the 13 housing jurisdictions that had responded to its letters as of the end of May 2001.

The Commonwealth of Virginia is still reviewing the County's claim that it is owed \$190,000 in overdue Section 8 receivables.

DHCD officials said they are continuing to work to collect overdue Section 8 receivables from the Commonwealth and the housing jurisdictions.

**Department of Administration
for Human Services**

The Department of Administration for Human Services had accounts receivable over two years old totaling about \$1.4 million. As a result of the work of Department staff, about \$847,000 was determined to be valid. The money collected on these receivables would go to the County's General Fund.

During this quarter, Department staff collected 20 overdue invoices from Inova Health Systems, Mount Vernon Hospital, totaling \$8,756.

Another overdue receivable, in the amount of \$70,071 was re-billed to the City of Falls Church. Falls Church City officials are reviewing the support provided by the County to ensure they have not already paid this bill. This receivable had not been resolved at the time of our report.

Department of Administration for Human Services staff determined this quarter that the largest overdue receivable it had, for \$768,167, was valid and should be collected from the Commonwealth of Virginia. This was a receivable created in June 1998 for indirect costs incurred in operating Family Services programs.

In reviewing this matter, Commonwealth of Virginia staff found that the Commonwealth had received the County's claim on June 12, 1998, and transferred it to its Division of Finance, Department of Social Services, where it was put on hold to ensure the invoice didn't get paid twice. The Commonwealth was then in a transition to a new Local Cost Allocation Plan, and was concerned about paying claims under both the old and new systems.

Commonwealth staff recently advised County staff that while it appeared that the claim had never been paid, the Commonwealth was required to search its records to ensure it had not been paid. They said that such claims are allocated among several Federal programs and fund categories with many lines of accounting code to search. Further, the search requires that several fiscal years be reviewed as the claim could have been paid in one of several years after its receipt.

On June 20, 2001, Commonwealth staff said that the County should be receiving a payment on the receivable by June 30, 2001. The amount of the payment will depend on

the result of the Commonwealth staff's search of its records and the impact, if any, of regulations regarding Federal reimbursements to the Commonwealth for the receivable.

**Department of Public Works
and Environmental Services**

The Department of Public Works & Environmental Services (DPWES) was formed in Fiscal Year 1999 with the merging of the Department of Public Works, Department of Environmental Management, and the Facilities Management Division of the Department of General Services. The Department of General Services was abolished during this merger.

We asked the DPWES staff to review overdue receivables totaling about \$715,000 to determine whether they were still valid.

In March 2001 we reported the results of DPWES staff research on about \$329,000 in overdue receivables within three of its offices. DPWES staff determined that about \$163,000 of this amount had already been collected, and \$46,000 had been settled by the County Attorney's Office.

Of the remaining overdue receivables, DPWES staff said that one invoice, for \$51,600 was from 1984, and another invoice for \$27,000 was 8 years old. Staff said that these two receivables, along with \$16,700 worth of receivables dating back to 1985 through 1988 that could not be located, and an additional \$5,350 deemed uncollectible should be written off. Only about \$19,300 was potentially collectible.

During this quarter, about \$386,000 in overdue receivables were reviewed by DPWES staff. The staff determined that about \$124,425 are collectible, bringing the total amount potentially collectible, to about \$143,725. The remainder has been determined to be not collectible. Collections made of these valid receivables would go to Enterprise Funds operated by the DPWES, not the General Fund.

The results of the reviews conducted this quarter were as follows:

- About \$45,725 of \$192,363 in overdue receivables was determined to be collectible by the Division of Solid Waste Disposal and Resource Recovery. The remainder was determined to be either not valid receivables, due to billing errors, or were valid but not collectible due to bankruptcy, unsuccessful collection efforts by Equifax Collection Agency, age, or because they were small dollar volume accounts that were less than \$100.
- About \$78,700 of approximately \$194,000 in overdue receivables is considered collectible by the Wastewater Planning and Monitoring Division. This money is due from construction contractors who had damaged sewer lines when they were constructing new streets. Of the receivables deemed not collectible, about \$67,000

represents receivables which are more than 4 years old, and for which documentation is no longer available. The Division intends to write these off along with \$48,000 owed by the Virginia Department of Transportation (VDOT) since Fiscal Year 1998. This amount was charged for the salary of County engineers overseeing VDOT's moving of sewer lines to ensure VDOT did the job correctly. VDOT has never paid for these salaries, and the County no longer charges for this under new operational procedures.

Police Department

In our March 2001 quarterly report, we noted that Police Department staff had collected about \$28,200 in accounts receivable that were more than a year overdue from the FBI.

During this quarter, Police Department staff collected an additional \$12,802 of the overdue receivables from the FBI, bringing the total collected to about \$41,000.

The Department is attempting to collect additional overdue receivables amounting to \$11,249 from the FBI. Department staff met with an FBI representative during this quarter and has been working with him to reconcile these overdue receivables.

Sheriff's Office

The Sheriff's Office determined this quarter that of \$837,500 shown as overdue receivables, \$70,500 had already been collected, \$767,000 were not valid receivables, and the entire amount should be written off.

The County's list of overdue receivables showed that the Sheriff's Office had 5 overdue receivables totaling almost \$767,000 for reimbursement requests made to the Virginia State Compensation Board. The Sheriff's Office staff submits monthly reimbursement requests to the State Compensation Board for salaries, benefits, and expenses associated with operational costs. A sixth receivable for \$70,500 incurred under the Virginia Community Diversion Incentive Program also was listed as overdue.

After researching its records, the Sheriff's Office determined that the \$767,000 in Compensation Board receivables dated back to the 1992, 1993 and 1994 timeframe. Accordingly, the Sheriff's office had to review microfiche records to determine how the receivables were established and why they were still on the County's records.

Sheriff's Office staff found that none of the six receivables were valid. The largest, for \$708,379.18, occurred as the result of an erroneous double billing to the State Compensation Board for salaries and administrative expenses.

Four other receivables, totaling about \$58,400 and shown as due from the State Compensation Board were not valid. They were created due to the timing of requests for

reimbursement of salaries for people who were not yet shown in the Compensation Board's records as being on the County's payroll, and therefore not eligible for reimbursement. These four receivables involved requests for reimbursement made in October, November and December 1993, and January 1994.

Sheriff's Office staff advised us that the process for reimbursement requests to the Compensation Board has changed considerably over the years. In past years, requests were submitted manually and adjustments to the requests were made by Compensation Board staff that sometimes resulted in payments to the County that were less than the amount requested. When this happened, this left the County with "receivables" on its books that could not be collected. Since the County did not have a write-off policy for receivables, these amounts stayed on the County's records as being overdue receivables.

Now, that system for requesting reimbursement from the Compensation Board has been upgraded. The monthly payroll and expenses reimbursement reports are submitted electronically. The Compensation Board staff reviews the submission, revises it if necessary, and advises the County of the revisions necessary so the County can correct it's submission. As a result, the Sheriff's Office does not have this type of discrepancy between what is billed and what is allowed by the Compensation Board that lead to the creation of the uncollectible receivables in question.

The sixth receivable, for \$70,500, involved a request for funds for the Community Diversion Incentive Program that was made in January 1995. The Sheriff's office staff researched this amount and determined it was received but not recorded by the Sheriff's office.

**Finance Department Has
Implemented a Write-off Policy
For Non-tax Accounts Receivable**

Many of the County's departments recognized that they should not be carrying uncollectible receivables in their accounts. However, they could not remove them because the County did not have a write-off policy for such receivables.

The Finance Department now has now developed and implemented a write-off policy for uncollectible non-tax receivables. In addition, the Finance Director told us that funding has been approved in the Fiscal Year 2002 budget to hire an accountant, effective July 2001, who will be responsible for overseeing the resolution of overdue accounts receivable. This should prevent the recurrence of such receivables in the future.

**EXPEDITING GRANT REIMBURSEMENT
REQUESTS IS PROVIDING MORE
FUNDS FOR INVESTMENT**

At the request of our Audit Committee, we continue to monitor the requests for grant reimbursements by three County Departments. Our previous quarterly reports have detailed the progress of the DHCD, Police Department, and Fire and Rescue Department in expediting grant requests. By obtaining grant reimbursements more timely, these three Departments have provided millions of additional dollars for investment in the County's Pooled Cash Management Program. This has increased interest income by a significant amount.

Appendixes I, II and III show that the three Departments have reduced their negative cash balances by about \$8.3 million, as of the end of May 2001, from their 1999 levels.

DHCD has improved its negative cash balance by about \$5.3 million over its Fiscal Year 1999 balance. It had a negative cash balance of about \$1.2 million as of May 31, 2001 compared to about \$6.5 million during Fiscal Year 1999.

The Police Department has improved its negative cash balance by about \$1.4 million. It had a negative cash balance of only about \$173,000 as of May 31, 2001, compared to \$1.6 million during calendar year 1999.

The Fire and Rescue Department has improved its negative cash balance by almost \$1.6 million. It had a negative cash balance of about \$522,000 at May 31, 2001, compared to about \$2.1 million in March 2000.

The three departments, which had combined total negative monthly cash balances of more than \$10.2 million during Fiscal Year 1999 had reduced their total negative cash balances by about \$8.3 million to about \$1.9 million as of the end of May 2001. Sustaining these reductions of \$8.3 million in negative cash balances, at the current rate of return, would allow the County to earn an additional \$300,000 in interest income annually. We will continue to monitor the requests for grant reimbursements by the three Departments.

**DISCLOSURE OF PROFFERED CASH
PLEDGES, PAYMENTS, AND EXPENDITURES**

At the request of the Audit Committee, we also began monitoring Fairfax County's implementation of the recently enacted amendment to the Code of Virginia requiring local governments to disclose in annual reports to the Commission on Local Government information on proffered cash pledges, payments, and expenditures.

A cash proffer is a written voluntary offer of money, submitted as part of a rezoning application and accepted by a locality upon approval of the rezoning. Cash proffers may

address various issues, including but not limited to offsetting or mitigating the impact of a particular development on public facilities and services.

The annual reports required by the recent legislation are due to the Commission within three months of the close of each fiscal year or by September 30th. The amendment to the Code requires the first report to include information on cash proffer activity for the preceding two fiscal years. Future reports are to include information on cash proffer activity for only the previous fiscal year.

More specifically, the following information is to be reported to the Commission.

- Total amount of cash proffers collected in each fiscal year
- Total amount of cash proffers pledged in each fiscal year, but not collected
- Total amount of cash proffer revenue expended in each fiscal year, and
- An aggregate list of the types of public improvements on which cash proffer revenue was expended during the fiscal year.

In early May 2001, the County Attorney's Office called a meeting to explain and discuss this new reporting requirement. At this meeting, responsibilities were assigned for gathering the required information for report preparation and submission.

During the next quarter we will continue to monitor the implementation of this new process.

WORK TO BE PERFORMED DURING THE NEXT QUARTER

During the next quarter, we will continue to monitor the collection of overdue receivables, the timeliness of the DHCD, Police Department, and Fire and Rescue Department grant expense reimbursement requests, and the action taken by the County with regard to proffers.

In addition, in accordance with the request of the Board of Supervisors, we will continue to work with the Office of Internal Audit to determine whether there are appropriate controls in place for preventing improper handling of County funds. We will coordinate with the Office of Internal Audit in its review of self assessment questionnaires completed by County Departments to enable us to prioritize areas where financial controls should be reviewed to ensure the controls are working as intended.

We also will continue to monitor the implementation of the legislative mandate to disclose proffered cash payments and expenditures.

APPENDIX I

DHCD'S CASH MANAGEMENT PROGRESS

Grant Program	Average End-of-Month Negative Cash Balance During FY 1999	Negative Cash Balance at October 31, 2000	Negative Cash Balance at February 28, 2001	Negative Cash Balance at May 31, 2001	Amount of Improvement or (Regression) Since FY 1999
Community Development Block Grant	\$2,421,918	\$511,999	\$2,020,810	\$411,903	\$2,010,015
HOME Investment Partnership Grant	265,047	164,965	147,434	586,777 (1)	(321,730)
Public Housing Under Development	1,113,733	0	0	0 (2)	1,113,733
Public Housing Under Modernization	289,007	233,761	1,205,352	217,391	71,616
Fairfax County Rental Program	535,622	611,324	1,363,235	0 (3)	535,622
Private Finance Fund	1,871,222	466,352	2,290,072	0	1,871,222
Totals	\$6,496,549	\$1,988,401	\$7,026,903	\$1,216,071	\$5,280,478

Footnotes:

(1) DHCD staff said they planned to complete the draws on this grant before June 18, 2001.

(2) DHCD staff said this program no longer exists, and all funds due have been drawn from the Federal Department of Housing and Urban Development. Accordingly, this will be the last report on the Public Housing Under Development Program.

(3) This includes \$2,181,018 that was received, and deposited, on May 29, 2001, but had not been recorded in the financial accounting system as of May 31, 2001, when we checked the negative cash balances.

APPENDIX II

POLICE DEPARTMENT'S CASH MANAGEMENT PROGRESS

Grant Program	Average End-of- Month Negative Cash Balance During CY 1999	Negative Cash Balance at October 31, 2000	Negative Cash Balance at February 28, 2001	Negative Cash Balance at May 31, 2001	Amount of Improvement or (Regression) Since CY 1999
Local Law Enforcement Block Grant	\$ 65,470	\$ 0	\$ 0	\$ 0	\$ 65,470
COPS More Program	19,817	20,993	20,993	39,382	(19,565)
COPS Universal Hiring Program	1,416,680	29,596	698,004	96,484	1,320,196
VDOT I-95/395/495 Patrol Augmentation	109,886	81,041	137,785	37,298	72,588
Totals	\$1,611,853	\$131,630	\$856,782	\$173,164	\$1,438,689

APPENDIX III

FIRE AND RESCUE DEPARTMENT'S CASH MANAGEMENT PROGRESS

Grant Program	Negative Cash Balance at March 3, 2000	Negative Cash Balance at October 31, 2000	Negative Cash Balance at February 28, 2001	Negative Cash Balance at May 31, 2001	Amount of Improvement or (Regression) Since March
FEMA/OFDA Activation	\$1,699,173	\$271,992	\$280,181	\$ 0	\$1,699,173
International Search and Rescue	127,330	329,749	478,686	431,970 (1)	(304,640)
DOJ Domestic Preparedness	18,357	57,780	0	83,802	(65,445)
VDOT Congestion Management	266,304	1,462	5,417	6,000	260,304
Totals	\$2,111,164	\$660,983	\$764,284	\$521,772	\$1,589,392

Footnotes:

- (1) According to Fire and Rescue Department staff, a request for reimbursement for \$387,995 was made to the financial office of the U.S. Agency for International Development on May 31, 2001.

