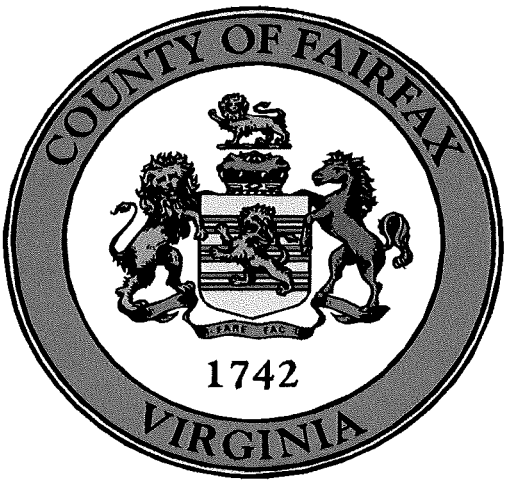
REPORT TO THE BOARD OF SUPERVISORS
FAIRFAX COUNTY, VIRGINIA

QUARTERLY STATUS REPORT ON OPERATIONS AS OF JUNE 10, 2003



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 10, 2003

SUBJECT: Quarterly Status Report on Operations

EXECUTIVE SUMMARY

As part of our review of proffers and future construction escrows, we worked with Department of Public Works and Environmental Services staff to review $110,000 being held as a future construction escrow. Staff determined that this money was actually a proffer. As such, the money belongs to the County and is being transferred to the Transportation Department's road fund. We are working with staff to research other future construction deposits we believe may be cash proffers belonging to the County.

The Board of Supervisors asked our Office, in March 2003, to review the County's Fiscal Year 2004 budget and provide it, through its Audit Committee, with any suggestions or recommendations we had regarding expenditure reductions. We prepared a schedule of reserved and unreserved fund balances to consider at an April work session with our Audit Committee. The Committee Chairman used this information to prepare suggestions for budget reductions, including one for a $990,170 reduction in the County's computer replacement fund. Staff, who already had reduced the fund, and planned to review it further, agreed to this suggestion, making it part of the package of budget expenditure reductions that trimmed three more cents from the real estate tax rate.

We monitored responses to letters sent by Board Supervisors to Homeowner Associations telling them they are entitled to $343,000 in proffered money we found was being held by the County for the Associations. This quarter, the first payments, totaling $41,075, were made by the County to three Homeowner Associations. Campbells Landing received $28,200, Whitlers Creek $7,500 and Stone Pond received $5,375.

Our continuing review of how Fairfax County assesses real estate focused this quarter on the appeals of assessments made by citizens to the County and the Board of Equalization.

Overdue receivables, (over 120 days old) which we monitor for the Audit Committee, were reduced by $693,795 from February to April, 2003, and County Departments continued to expedite requests for grant reimbursements, which we also monitor for the Audit Committee, providing $8.66 million in additional dollars for County investment.

FUTURE CONSTRUCTION ESCROWS

At the request of the Audit Committee, we continued working with the Department of Public Works and Environmental Services staff on Future Construction escrows.

Departmental staff establishes Future Construction escrows when they receive amounts from developers representing their share of specific construction projects to take place at some time in the future.

Funds escrowed for specific projects are to be provided to developers or other County offices to help offset the cost of these specific construction projects when they are undertaken. There is about $12 million in the Future Construction escrows account.

Last quarter, Departmental staff essentially completed its comparing and verifying of information contained in their files and data bases to ensure data accuracy, making corrections as necessary.

This quarter, we worked with Departmental staff to sort the data that they had reconciled. We sorted it both by age and by project type. As part of this process, we noted that several of the future construction escrows appeared to be proffers. Those which are proffers should be transferred to the appropriate County Departments, rather than being held as future construction escrows for developers.

Staff completed research on one of the questionable future construction escrows, a $110,000 deposit received in March 2000 being held as an escrow account for future construction. Staff found that this money was actually a proffer for a traffic signal, which means that the money belongs to the County. The $110,000 is being transferred to the County's Department of Transportation where it will be put into the Department's road fund.

We will continue to work with Department staff in researching other escrow amounts that may actually be proffers belonging to the County, and will include any that are determined to be proffers in our next quarterly status report.

REVIEW OF THE FISCAL YEAR 2004 BUDGET

The County's Fiscal Year 2004 advertised budget contained a two cent reduction in the real estate tax rate to partially offset the tax increase caused by higher residential assessments. The Board of Supervisors took action to reduce that tax rate an additional three cents.

As part of the effort to reduce the real estate tax rate, the Board's Budget Committee Chairman, at the March 10, 2003, meeting of the Board of Supervisors, asked for, and

received, unanimous consent to have the Auditor to the Board review the County Executive's recommended budget. Our Office was to provide any suggestions or recommendations regarding the budget to the Board through the Audit Committee.

We prepared a schedule of reserved and unreserved fund balances for discussion at an Audit Committee work session. The work session produced five questions involving possible reductions of fund balances. Ultimately, one of the reserved fund balances was reduced $980,170. However, recognizing that the fund reduced was one that had been slated by staff for a comprehensive review, and that many factors enter into budget reduction decisions, we will not consider that this reduction resulted from our work.

Review of Reserved and Unreserved Fund Balances

We reviewed fund balances in the budget to see if any were available for use in reducing the real estate tax rate. We prepared a schedule of all restricted and unrestricted fund balances for discussion at an April 1, 2003, Audit Committee work session involving the Chairman of the Audit Committee and the Chairman of the Budget Committee.

After reviewing and discussing the fund balances, the Audit Committee Chairman proposed that five questions be posed, regarding certain balances, to the Department of Management and Budget, as follows:

- Are there qualifying cable related expenses now funded by General Fund dollars that could be transferred to Fund 105, Cable Communications; for example, capital expenses or staff time devoted to franchise-related monitoring?

- Can the unreserved ending balance from Fund 109, Refuse Collection and Recycling Operations, be used instead of General Fund dollars to subsidize Fund 110, Refuse Disposal?

- Are there any General Fund dollars going to any of the Solid Waste Funds, and if so, can the unreserved ending balance in Fund 109, Refuse Collection and Recycling Operations, be used in lieu of those General Fund transfers?

- In Fund 503, Department of Vehicle Services, there was a transfer out to the General Fund of $3 million in FY 2002 and a transfer out to the General Fund of $1.7 million in FY 2003. However there is no transfer out to the General Fund in FY 2004. What were the transfers out to the General Fund in FY 2002 and FY 2003, and why was there no transfer out to the General Fund in FY 2004?

- Because there is an unreserved ending balance of $7.6 million in Fund 505, Technology Infrastructure Services, can the amount charged to agencies for computer replacement be reduced by $100/unit or more?

The Department of Management and Budget provided answers to each of the questions that said, in essence, that reductions in the fund balances should not be taken at this time. With regard to the question about Fund 505, the personal computer (PC) replacement program, the April 9, 2003 response was as follows:

In FY 2003, the PC replacement program operates on a four year cycle with an amount of $600 collected per PC per year over a period of four years, based on the estimated life cycle and future replacement cost. However, in FY 2004, based on an initial review of the PC replacement program by County staff it is recommended that the annual amount collected per PC be reduced by $100 from $600 to $500.

This reduced amount will still allow for the minimum standard configuration, contractor support for installation and maintenance, the software costs including the operating and productivity suite (i.e. Microsoft Office products), and training to help employees effectively utilize their new machine.

The step of reducing the annual amount by $100, proposed in the FY 2004 Advertised Budget Plan, which resulted in a savings of nearly $1.0 million in funding for County agencies, is the beginning of a larger, comprehensive review of the program, both in terms of funding and operation.

Industry experts continue to stress the validity and essential nature of the County's refresh cycle at the desktop. The County's program is within the realm of prudent, standard business practices for entities as large and complex as ours, and extending the cycle would result in higher maintenance and resource costs. Further reduction of the amount charged to agencies for computer replacement is not recommended until the entire program has been studied and the consequences evaluated.

About two weeks later, at the Budget Markup session on April 21, 2003, staff determined that a further reduction could be made in Fund 505 of $100 per computer unit (as was suggested in the Chairman's question regarding Fund 505) which resulted in a budget reduction of $980,170.

We recognize that many factors enter into decisions to make budget reductions. Also, staff had indicated that the initial reduction of $100 per unit was the beginning of a larger, comprehensive review of the program. Since we do not know whether the question generated by the Audit Committee regarding Fund 505 was the primary reason for the reduction, we will not consider the $980,170 reduction as resulting from our work.

HOMEOWNER ASSOCIATION CASH PROFFERS

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, such as offsetting or mitigating the impact of a particular development on public facilities and services.

After it was found that the County had money in a "General" proffer account that was being held for Homeowner Associations, County staff wrote to the Supervisors of the County's Magisterial Districts providing them with information regarding these proffers, which totaled $343,206. The Supervisors then advised the 29 Homeowner Associations in their Districts of the proffers and what the Associations had to do in order to be eligible to obtain the proffered money.

The Associations were asked to facilitate the release of the proffered funds by providing the County with information, such as a plan or permit for the facilities mentioned in the proffers, a copy of a construction cost estimate or an itemized receipt for materials and labor, or photographic evidence that the facilities have been constructed.

Last quarter, County staff received its first request for the funds. It came from the Whitler's Creek Homeowner Association located in Springfield.

This quarter, two additional requests were received and verified, and the County released proffer funds totaling $41,075 to the three Homeowner Associations. Whitler's Creek received $7,500, Campbells Landing was sent $28,200, and Stone Pond received $5,375.

We will continue to monitor and report on the Homeowner Association requests in future quarterly status reports.

REVIEW OF REAL ESTATE ASSESSMENT PROCESS

We continued our review of the process used by County officials to assess the value of residential real estate for tax purposes. Our previous report had stated that the increases in real estate assessments for 2003 were in line with the percentage increases in the surrounding Northern Virginia Counties.

However, since a mass appraisal system is used by the County to assess residential units, there are always some assessments that need adjustment.

The County has procedures that allow Fairfax County taxpayers to compare their assessments to other properties, view recent sales in their assessment neighborhood, and to appeal the assessments of their residences if they believe them to be incorrect. The County suggests that taxpayers consider whether their property is assessed uniformly with other similar properties and if it could be sold for the assessed value. If taxpayers believe that their assessment is not uniform with similar properties or that they could not sell their property for an amount reasonably equal to the 2003 assessment, they may wish to file an appeal.

Taxpayers may request formal reconsideration of their assessment by the Department of Tax Administration. The Department asked that these requests be made this year by April 4, 2003.

Taxpayers also may file an appeal with the Board of Equalization of Real Estate Assessments. The Board of Equalization's appeal deadline for this year's assessments was June 2, 2003.

The Department also makes Administrative Determinations to correct data errors which may be found by staff or reported by homeowners to the Department.

Appendix IV lists the number of appeals to the Department of Tax Administration and Board of Equalization as well as Administrative Determinations made by the Department for calendar years 2000 through 2003.

We reviewed the outcomes of the appeals made to the Department of Tax Administration and the Board of Equalization for Tax Year 2002. As discussed below, we found that after all appeals had been considered, and reductions, including administrative determinations, had been made where appropriate, less than 1% of the taxable residential parcels had to be reduced.

Tax Year 2002 Appeals of Real Estate Assessments to The Department of Tax Administration and the Board of Equalization

In calendar year 2002, there were 2,152 residential parcels that were reduced a total of $95,400,125. The average reduction per parcel was about $44,331. The reductions resulted from (1) appeals to the Department of Tax Administration; (2) appeals to the Board of Equalization of Real Estate Assessments; and (3) Administrative Determinations by the Department of Tax Administration.

To put these numbers for appeals and reductions in perspective, Fairfax County had, at the beginning of calendar year 2003, a total of 321,847 taxable residential parcels valued at more than $99,000,000,000.

Thus, for calendar year 2002, the number of residential parcels reduced because of appeals was less than 1% of the taxable parcels, and the amount of the reduction was about 0.001% of the value of residential property.

Appeals to the Department of Tax Administration

In calendar year 2002, there were 2,227 residential appeals involving 2,352 parcels assessed at a total of $961,623,060 (an average of about $408,853) made to the Department of Tax Administration.

After review by the Department staff, 1,467 of the parcels, (about 62% of those reviewed), were reduced by a total of $67,163,825, (an average reduction of $45,783).

Appeals to the Board of Equalization of Real Estate Assessments

The Board of Equalization received 291 appeals involving 361 parcels from owners of residential property. Of that number, 36 parcels were reduced by a total of $722,300, an average reduction of $20,063.

Two appeals to the Board of Equalization resulted in increases to the valuation of the real estate valuations that had been appealed. The increases totaled $84,000.

Administrative Determinations by the Department of Tax Administration

Administrative Determinations are initiated by the Department of Tax Administration. They usually involve the correction of data errors which may be found by staff or reported by homeowners to the Department. For example, a homeowner may phone to tell the Department that their property has fewer bathrooms than is shown on the County's web site. After verifying this, Department staff would make an Administrative Determination to reduce the assessment for that homeowner's residence without requiring the homeowner to file an appeal.

If a correction impacts other parcels not under appeal, the Department of Tax Administration will extend the correction to those parcels as an Administrative Determination.

In calendar year 2002, the Department of Tax Administration administratively determined that 649 parcels should be reduced a total of $27,514,070, an average of $42,395.

During the next quarter, we plan to attend a Board of Equalization meeting for tax year 2003 to observe the process used to arrive at decisions to change the Department of Tax Administration's real estate assessments.

FINANCE DEPARTMENT'S REPORT ON COUNTY RECEIVABLES

The Department of Finance is now responsible for coordinating the resolution of current and future overdue receivables through its Accounting Operations Division. Our Audit Committee has asked us to monitor the collection of receivables.

Accounts Receivable Decreased Between February and April 2003

According to a report from the Finance Department Director, accounts receivable as of the end of April 2003 totaled $10.7 million. This was a decrease of more than $1.6 million from the February 28, 2002 balance.

Receivables over 120 days old decreased by $693,795 to $2.6 million.

Of the $2.6 million in receivables over 120 days old, overdue parking tickets accounted for about $1.42 million, or more than 54% of the overdue receivables.

Excluding parking tickets, other County Departments had receivables over 120 days of about $1.18 million. The Commonwealth of Virginia owes the County about $770,000 of this amount. County staff is highly confident that these receivables will be collected. Department of Finance staff is working with County agencies to facilitate the collection of the remainder of the receivables over 120 days old, which total about $410,000.

EXPEDITED GRANT REIMBURSEMENTS CONTINUE

We monitor grant reimbursement requests made by three County Departments at the request of our Audit Committee. Timelier grant reimbursement requests made over the past three years have provided millions of additional dollars for the County to invest in its Pooled Cash Management Program, increasing interest income by a substantial amount.

Appendixes I, II, and III show that the three Departments – the Department of Housing and Community Development, the Police Department and the Fire and Rescue Department – have reduced their negative cash balances (which result from not drawing reimbursements timely) from $9.1 million to about $441,000. Together, the three Departments have increased the amount of cash the County has available to invest by about $8.66 million.

The Department of Housing and Community Development has improved its negative cash balances by $5.36 million; the Police Department has improved by about $1.53 million; and the Fire and Rescue Department has improved by about $1.77 million.

REVIEW OF RESTON COMMUNITY CENTER

At its June 2, 2003 meeting, the Board of Supervisors approved a motion that the Office of the Auditor to the Board review the fiscal policies and practices of the Reston Community Center and expeditiously report its findings to the Board.

WORK TO BE PERFORMED DURING THE NEXT QUARTER

During the next quarter, we will begin our review of the Reston Community Center, and continue our reviews of the real estate assessment process and the receipt and expenditure of cash proffers and future construction escrows. We also will monitor the collection of overdue receivables and the timeliness of the Department of Housing and Community Development, Police Department, and Fire and Rescue Department grant expense reimbursement requests.

DHCD'S CASH MANAGEMENT PROGRESS

Grant Program	Average End-of-Month **Negative** Cash Balance During FY 1999	**Negative** Cash Balance at October 31, 2002	**Negative** Cash Balance at February 28, 2003	**Negative** Cash Balance at April 30, 2003	Amount of Improvement or (Regression) Since FY 1999
Community Development Block Grant	$ 2,421,918	$ 26,548	$ -	$ -	$ 2,421,918
HOME Investment Partnership Grant	265,047	5,957	370,598	20,239	244,808
Public Housing Under Modernization	289,007	-	-	-	289,007
Fairfax County Rental Program	535,622	-	-	-	535,622
Private Finance Fund	1,871,222	-	-	-	1,871,222
Totals	$ 5,382,816	$ 32,505	$ 370,598	$ 20,239	$ 5,362,577

POLICE DEPARTMENT'S CASH MANAGEMENT PROGRESS

Grant Program	Average End-of-Month **Negative** Cash Balance During CY 1999	**Negative** Cash Balance at October 31, 2002	**Negative** Cash Balance at February 28, 2003	**Negative** Cash Balance at April 30, 2003	Amount of Improvement or (Regression) Since CY 1999
Local Law Enforcement Block Grant	$ 65,470	$ -	$ -	$ -	$ 65,470
COPS More Program	19,817	74,639	76,977	76,977	(57,160)
COPS Universal Hiring Program	1,416,680	216,667	2,090,000	-	1,416,680
VDOT I-95/395/495 Patrol Augmentation	109,886	190,261	190,261	-	109,886
Totals	$ 1,611,853	$ 481,567	$ 2,357,238	$ 76,977	$ 1,534,876

FIRE AND RESCUE DEPARTMENT'S CASH MANAGEMENT PROGRESS

Grant Program	**Negative** Cash Balance March 3, 2000	**Negative** Cash Balance at October 31, 2002	**Negative** Cash Balance at February 28, 2003	**Negative** Cash Balance at April 30, 2003	Amount of Improvement or (Regression) Since March 2000
FEMA/OFDA Activation	$ 1,699,173	$ 60,513	$ 53,417	$ 8,013	$ 1,691,160
Interntional Search and Rescue	127,330	696,514	264,382	335,797 **(1)**	(208,467)
DOJ Domestic Preparedness	18,357	23,208	-	-	18,357
VDOT Congestion Management	266,304	-	-	-	266,304
Totals	$ 2,111,164	$ 780,235	$ 317,799	$ 343,810	$ 1,767,354

Footnote:

(1) This grant is being replaced by a new International Search and Rescue grant. The Department is currently in the process of reconciling the old grant account above in preparation for final close-out. The Department expects to submit a final reimbursement request to the U.S. Agency for International Development prior to the end of next quarter as part of its close-out procedures.

APPEALS OF RESIDENTIAL ASSESSMENTS

Year	Appeals To DTA (1)	Administrative Determinations	Appeals To BOE (2)	Total
2000	1,644	110	198	1,952
2001	1,590	254	231	2,075
2002	2,228	293	291	2,812
2003	1,690	324	400 (est.)	2,414

Footnotes:

(1) Department of Tax Administration
(2) Board of Equalization