Response to Questions on the FY 2009 Advertised Budget Plan

Request By: Supervisor Herrity

Question: Have performance audits been done on County programs and are those programs being managed in the most efficient manner? If such audits have been made, were recommendations suggested for efficiency and have those recommendations been implemented?

Response: In addition to the ongoing work of agencies in reviewing programs for effectiveness and efficiencies, the County has two other programs which provide analysis of County program performance: the County Executive's review of agency performance results and work completed by the Internal Audit Office.

<u>County Executive's Review of Agency Performance Targets</u>:

Since 2002, the County Executive has met with agency directors on a rotating basis to discuss past performance results as well as their plans for the future. In 2004, the County Executive began incorporating strategic planning into his discussion with agency directors in order to ensure the link between performance and long-term goals and shorter-term objectives.

The use of Performance Measurement in Fairfax has been designed to assist decision-making. To that end, the meetings which have been held between the County Executive and agencies are designed to promote detailed discussion of how agencies are doing, in the context of their Strategic Planning. The following questions are among those that have been developed to help frame the conversation:

- How will you enhance the link between your strategic plan and your Initiatives and Accomplishments in the FY ____ budget? Please explain.
- What mechanism(s) are you using to assess progress on your strategic plan, including performance measures?
- Have you revised, or do you plan to revise, your performance measures to reflect the priorities detailed in the County's Vision Elements and your mission as outlined in your strategic plan?
- What are your next steps in terms of implementing your strategic plan?
- Explain how your performance measures support your agency mission and accordingly, your strategic plan (agency should focus on the most critical measures; need not go through each page of the budget measure by measure).
- What are the factors that resulted in the level of performance achieved? It is noted that in many cases, targets were met or exceeded. In others, they were not. Please address any issues that may have resulted in either exceptionally high or low performance.

- If your agency was unable to meet various targets, what is preventing you from achieving a higher level? What are your plans to address this?

- How would you relate your agency's performance to Pay for Performance, i.e., does the average agency award percentage correlate to the agency's overall performance?

- Are you confident that the measures your agency is using are the correct ones, i.e., do they reflect your strategic priorities, help you manage, represent major service areas, and accurately reflect performance? If not, what are you doing to correct this?

- How has your agency's performance been affected by budgetary or other issues? Please be specific.

- Does your agency contribute to any of the Key County Indicators (KCI)? If so, please describe your agency's role in any of the KCI's that support the County's vision elements? For example, are there cross-cutting issues that you are partnering with other County agencies to achieve a specific objective?

In 2007, the County Executive's Performance meetings were deferred while agencies completed the Lines of Business exercise. This was a significant initiative which required the resources of agency staff dedicated to complete this comprehensive review in a timely manner. However, it is anticipated that the County's FY 2010 budget development process and agency by agency review of the Lines of Business documents will address performance and efficiency issues.

<u>Internal Audit Office Work:</u>

The Internal Audit Office (IAO) prepares an Annual Audit Plan which is reviewed with the County Executive and Deputy County Executives during the scheduled June quarterly meeting. The plan includes audits of departments, functions, processes, and systems, and within these areas may also include review of County programs. Audit objectives for each project are developed, and given the existing staffing level and emphasis on providing timely assessment and feedback to management, staff focuses on analyzing and testing the highest risk areas. These objectives can cover financial, operational, compliance, information systems, and contracting risks. Review of County programs could potentially touch on each of those areas. Annual plans to evaluate departmental and countywide business processes are developed each year. For example, as part of an ongoing assessment of the County's procurement card program, Internal Audit performs 10 or more departmental procurement card audits each year. This provides a continuous evaluation of that program's policy guidance and control strengths and weaknesses. Another example of the emphasis on evaluation of departmental and countywide business processes is the continued scheduling of billing and collection audits in a variety of program areas.

Recent audits which include a review of costs, revenues, and efficiencies are shown below. IAO's full-scale audits are conducted in accordance with Government Audit Standards (GAS) and reports include detailed recommendations as well as management's response for each finding. In accordance with GAS, Internal Audit performs periodic follow-up reviews to determine if agreed upon recommendations have been implemented. The findings below are generally from recent audits in which some recommendations have been verified; however, the majority have anticipated implementation dates in the future and will be followed up on as they come due.

1. **Architect and Engineer Reviews**

These reviews are initiated at the request of the Department of Public Works and Environmental Services (DPWES) and other departments. Internal Audit routinely reviews overhead rates for architect and engineer (A&E) contracts in excess of $100,000. The overall objective is to assess the accuracy of the A&E's provisional overhead rate to assist DPWES in pre-negotiations of contract prices. These reviews generate savings to the County in instances where proposed overhead amounts fall outside of allowable rates. For FY 2007, Internal Audit performed 16 A&E reviews and found total recommended savings of $172,000. So far in FY 2008, the office performed 21 A&E reviews with total recommended savings of $255,000.

2. **Homeland Security Grants**

Over the past several years Fairfax County has received significant funding related to homeland security grants. During the audit period there were 14 County agencies which had homeland security grant funding, totaling approximately $72 million. The majority of grant funding involved five agencies: Office of Emergency Management (OEM), Fire and Rescue Department (FRD), Police Department (Police), Health Department (Health), and Department of Information Technology (DIT).

The Office of Emergency Management is responsible for helping coordinate emergency response planning efforts among the various public safety, health, and other agencies in the County, as well as with the government jurisdictions in the national capital region and the Commonwealth of Virginia. OEM, formerly part of the Police Department, was established as a separate agency in July 2004. As part of their coordination efforts, OEM's role included oversight responsibility and preparation of a grant summary report for most County homeland security grants, and also providing guidance and assistance to agencies. This work has been done with minimal staff assigned to the administrative oversight of homeland security grants.

The responsibility for homeland security grant applications, processing, billing, reporting, and compliance varied on a grant-by-grant basis. Some grants were being handled completely by one applicable agency, while for certain multi-agency grant programs OEM was responsible for loading the budget appropriations in the financial system and submitting required reports and revenue billings to the grantors. However, written policies and procedures establishing and clarifying OEM's role and responsibilities as the coordinating agency for homeland security grants were not documented.

Internal Audit tested a sample of grants covering 80 percent of the total homeland security grant funding. One of the most critical objectives of the audit was to determine if expenditures charged to the homeland security grant programs appeared to be appropriate, and Internal Audit found that expenditures reviewed were generally in accordance with grant requirements. Most homeland security grants did not require the achievement of specific benchmarks or other readily measurable outcomes, other than the purchase of certain types and quantities of approved equipment, and the grant programs we reviewed appeared to meet those requirements. The office commends the agencies reviewed during this audit in meeting guidelines for appropriateness of spending and for successfully completing substantial procurement efforts, especially given the rapid increase in the number and dollar amount of homeland security grant funds, the multitude of detailed grant requirements, and often short timeframes in which funds had to be expended prior to expiration dates.

There were some areas of control weaknesses noted which provided the following opportunities for improvement:

- In some instances, OEM and Police were not billing for grant receivables in a timely manner. For example, OEM did not bill $4.4 million in grant expenditures for over a year. In another example, the Police had over $500,000 in expenditures for one grant that remained unbilled for over six months. Delayed billings for reimbursable grant expenditures resulted in less funds available for investment in the County's pooled cash, and a significant loss of potential investment earnings.
- The Police Department incurred over $300,000 in grant expenditures for two grants that had to be charged to the County's General Fund budget, rather than reimbursed through the individual grants, because grant deadlines were not met.
- Both OEM and Police consistently failed to meet grant reporting deadlines. Only five of the 48 required reports selected for review for these two agencies were evidenced to be completed and submitted timely.
- Grantor required supporting documents were not maintained for several expenditures within two OEM grants. These records of accounting transactions are necessary to evidence the propriety of grant expenditures and to ensure that the county will be reimbursed for purchases made.
- When billing for reimbursable expenditures, OEM, Police, FRD and Health were not establishing accounts receivable records in the county's financial system (FAMIS), as required by County policy.

A lack of documented internal control procedures and effective supervisory review appeared to affect the overall success of the grant reporting and billing processes within OEM and Police. OEM did not have a sufficient tracking system to ensure that grant reports, billings, and other requirements were completed timely; and the internal controls and supervisory review were not sufficient to achieve compliance. Police had recognized the need to develop a grant tracking system prior to our audit, and had made substantial progress in that endeavor, but a lack of other effective internal controls and supervisory review resulted in the conditions noted.

3. **Fire and Rescue Department – EMS Transport Fees**

The audit focused on the billing, cash receipts handling, and accounting functions associated with revenues from EMS transport fees. The EMS Transport Billing staff was very cooperative and responsive in obtaining requested documentation in a timely manner. The results of the audit procedures indicated that overall the internal controls over billing and collection generally appeared to be adequate. However, there were areas that needed to be strengthened. While it is understood that the Board of Supervisors directed the program to be based on a compassionate billing philosophy, we noted that approximately 47 percent ($1.84 million out of a total of $3.91 million) of the accounts receivable was outstanding for more than 180 days, per the July 3, 2007, Aging Summary Report. Patients' liability was $1.64 million out of the $1.84 million outstanding. These past due accounts were separate from the approved hardship waivers. Other areas are summarized as follows:

- The audit noted that in 28 percent of transactions tested in the sample, the billing company had not performed timely follow-ups of past due accounts that remained outstanding for more than six months.
- Controls over the hardship waiver process needed improvement in the areas of adequate supporting documentation, hardship waiver form completion and write-off of outstanding waivers after a reasonable period of time.
- The timeliness of transmission of PCRs to the billing company could not be verified in 36 percent of the sample tested due to lack of proper evidence.
- The agreed upon time frame of 10 days for setting up patient accounts into the billing system subsequent to date of service was exceeded by over five days in 12 percent of the sample items tested; 4 percent were due to late transmission of PCRs and 8 percent were set-up late by DAB even though the PCRs were transmitted by FRD on the same day as the date of service.
- In 33 of 50 instances tested, the time taken to bill was found to be 30 or more days from the date of service.
- Bank deposits were not being posted into FAMIS in a timely manner as required by the county Accounting Technical Bulletin 40070.
- The EMS Transport Billing Section had not obtained an approval for its billing and collection plan from the Department of Finance (DOF).
- The audit also noted areas where either the terms of the contract entered into with DAB were not up-to-date or where additional terms agreed to with DAB were not incorporated into the contract. FRD should review the entire contract and work with DAB to make the necessary updates and amendments.

4. **Police Department – Extradition Reimbursements**

Internal Audit performed an audit of the Police Department's fugitive extradition reimbursement process. The audit focused on the billing, cash receipts handling, and accounting functions associated with the extradition reimbursements; and we reviewed the propriety of extradition expenses as well. The Police Department generally appeared to comply with the Commonwealth of Virginia's (state) extradition reimbursement requirements, and all the extradition expenditures reviewed appeared to be appropriate and were well substantiated by supporting documentation and secondary review. However, the internal control structure over extradition reimbursements presented the following opportunities for potential improvement:

- Segregation of duties over the cash receipts process was not sufficient, as one staff position was responsible for performing all of the cash receipts activities including collecting, depositing, and recording the accounting transactions. Additionally, this position was remitting the billings to the state, and recording the accounting transactions and adjustments for the billings.
- Billing system controls were not sufficient. The Police Department tracked extradition billings by using a billing journal (Excel spreadsheet) rather than utilizing the county's financial system (FAMIS). Although the Department of Finance approved the department's use of an alternative billing process, the Excel spreadsheet file did not appear to have sufficient controls or accountability. The use of an Excel spreadsheet to account for extradition billings did not provide any audit trail of when or by whom billing records were posted, adjusted,

or deleted; and all billing date records were deleted when the reimbursements were received.

- Extradition billings were not always timely, as 13 of the 30 billings reviewed were delayed over 60 days by the Fugitive Squad detectives, who were responsible for submitting the billings and travel receipts to the Financial Resources Division for review and remittance to the state. The timeliness of billings did appear to greatly improve during the past year, however, as all but one of the 13 delayed billings noted occurred prior to April 2006.

The audit recommend that the Police Department implement the EDI wire transfer process for receiving extradition reimbursement payments from the state. Use of the EDI wire transfer system would achieve greater segregation of duties between the billing, cash receipts, and recording accounting transactions responsibilities, and would also improve the timeliness of cash deposits to the county's bank account, improving the county's interest earnings.

The audit also noted that the Fugitive Squad detectives spend approximately 400-600 hours per year (squad total) making their own travel arrangements. This time estimate is based on information provided by the squad's supervisor and two of the detectives, who estimated that travel arrangements take 2-3 hours per trip. Requiring police detectives to spend a substantial amount of time on administrative tasks such as making travel arrangements reduces the amount of time they can spend fulfilling their primary duties. The audit recommended that the Police Department consider providing administrative support for the required travel arrangements of the Fugitive Squad. Police detectives' travel preferences could still be accommodated if communicated on the paperwork submitted. Detectives would still need to complete paperwork indicating the location and dates/times of extradition travel.

5. **DCRS Athletic Registration Fees**

Internal Audit performed an audit of the Department of Community and Recreation Services (DCRS) athletic registration fees collection process which is handled by the Athletic Services Division (ASD). ASD is responsible for scheduling Fairfax County's public gymnasiums and the Park Authority and Schools' athletic fields for sports organizations and community use. As part of the FY 2005 budget, application fees began to be charged for the use of these facilities and ASD was assigned to handle all activities in relation to this. Fees are charged to leagues/organizations, teams, tournaments, one-time users, and groups of individuals.

The audit focused on the billing, cash receipts handling, and accounting functions associated with revenues including the athletic registration fees. During this audit, DCRS was in the process of transitioning from spreadsheet-based recordkeeping to the Athletic Facilities Scheduling System (AFSS). The results of the audit procedures indicated that the internal control structure over the billing and collection of revenues needed to be strengthened and presented several opportunities for needed improvement.

6. **DPWES Solid Waste Disposal and Resource Recovery - Revenue Collection Process**

Internal Audit performed an audit of the Department of Public Works and Environmental Services, Division of Solid Waste Disposal and Resource Recovery (DSWDRR) revenue collection process. The division manages the billing and accounting for disposal fees paid by over 30 commercial collection companies and about 250 permitted disposal companies. Fairfax County's DSWDRR collected $99,808,407 in FY 2006 and $110,487,389 in FY 2007.

The audit focused on controls over the revenue collection process for both citizens and vendors. The audit found that in general the controls were effective. There was adequate separation of duties between employees handling invoicing, collection of County funds, safeguarding of revenue collected as well as those responsible for processing financial documents. Receivables were deposited, posted and reconciled in an effective and efficient manner. Additional controls were recommended.

7. **Park Authority – Construction Management**

Internal Audit performed a review of capital projects management within the Fairfax County Park Authority at the request of management. The work focused on controls over project budgets, construction and design contracts, change orders, and status reporting. The Audit found that the controls in these areas were not adequate and found several areas where best practices improvements could be made. Specific findings were noted in the following areas:

<u>Project Tracking and Reporting</u>

- There was a lack of clear, individual project based, status reporting for capital projects which hindered the ability to ensure accountability. By not breaking project tracking and accounting data out on a project by project basis, and including all pertinent historical budget and cost figures, the Park Authority Board (PAB) and management were not receiving sufficient information necessary to make informed decisions.
- Actual capital project expenditures were not being regularly tracked and monitored against Park Authority Board approved budgets. Additionally, approval requirements to fund project budgets were not documented in writing and were applied inconsistently.
- Planning and Development (P&D) staff responsible for the administration of capital projects also prepared project budgets and financial reporting which went to the Park Authority Board and management with no oversight from the FCPA Administration Financial Management Branch (FMB). The Financial Management Branch was responsible for issuing financial statements for FCPA operations including reporting on Fund 370, Park Revenue Fund and Fund 371, Park Capital Improvement Fund. Current operating procedures did not include independent verification of capital project budgets by FCPA Administration FMB. This created weak segregation of duty controls and lessened FCPA's ability to enforce compliance with financial policies and procedures.

<u>Contract Management</u>

- Park Authority management did not enforce the general condition clause of the contract agreement with contractors which calls for change order costs on proposals to be segregated and itemized, with supporting documentation to allow for proper analysis. Internal Audit noted that 59 percent of the change order costs included in the sample were submitted as lump-sum and could not be properly analyzed by Planning and Development staff to ensure that only reasonable and allowable costs were included.
- There were control weaknesses in approving and processing payments to contractors. Contract negotiations with consultants were not properly

documented, leaving the County vulnerable to allegation of unfair competition and/or bad publicity.

- Proposed labor and overhead rates were not separately identified but rather combined into one billing rate which was reviewed for reasonableness before it was paid. This made detailed cost analysis difficult if not impossible. Additionally, cost proposals did not allow for cost analysis and limitations on profit and overhead expenses, such as utilizing a set multiplier ceiling on billing rates. There are potentially significant cost savings to be realized provided the Park Authority has a similar success as DPWES had when it implemented a 3.0 multiplier ceiling.

Change Orders

- Change order costs appeared to be excessive for equipment rental fees. Blue Book equipment rental rates for construction (the industry accepted reference for establishing equipment rental rates) were not required on change orders, increasing the risk that the FCPA will be overcharged for equipment rentals.
- Independent architect and engineer (A&E) consultants hired by FCPA Planning and Development recommended change order cost proposals that included cost duplications and other unallowable cost elements.

Contract Audit Provisions and Cost Certification

- Selected Park Authority professional service design contracts did not include a standard audit clause giving the county legal rights to audit apparent errors or other questionable items included in consultant contracts.
- The architect and engineer (A&E) consultants and construction contractors were allowed to submit cost proposals without a Certificate of Current Cost or Pricing Data. Requiring such data is an industry best practice in which the consultant/contractor certifies in writing that costs and pricing data included in its cost proposal are current, accurate and complete as of the date of negotiations.