



Fairfax County Internal Audit Office

Department of Public Works and Environmental Services
Land Development Services Revenue Collection Audit
Final Report

February 2014

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Background

We performed an audit of the Department of Public Works and Environmental Services, Land Development Services Division (LDS) revenue collection process. LDS collects land development fees and developer deposits. Revenue and developer deposits were either received directly from customers or forwarded from other LDS Branches to the LDS Cashiers Office (CO). CO recorded revenue collections in FIDO and FOCUS and the developer deposits in PAWS. LDS Bonds and Agreements (BA) entered information used to calculate developer deposits in PAWS and collected developer deposit payments. There were approximately \$47 million and \$14.3 million respectively of fee revenue and developer deposits collected during the audit period.

Executive Summary

Our audit focused on the billing, collection, refunding and recording of Land Development Services' (LDS) revenues and developer deposits. We found that revenue and developer deposits collected were properly deposited; bank reconciliations were performed; and adequate documentation was on file for revenue and developer deposit collections. Some areas in which controls could be strengthened were as follows:

- Adequate documentation of follow-up was not on file for \$128,900 of delinquent elevator fees. The delinquent accounts represented approximately 7.8% of total elevator fees collected during the audit period. Delinquent accounts of \$42,406 were due from calendar year 2011 to 2012 and the remaining balance was past due as of October 2013. Proper follow-up on outstanding receivables will help ensure timely billing and collection to maximize revenue.
- Monthly reconciliations of PAWS to FOCUS for developer deposit transactions were not performed. A reconciliation was performed for June 30, 2013, but no other reconciliations were performed during our audit period. Timely reconciliations are necessary to help reduce risks of accounting errors and improper or fraudulent transactions.
- Improper segregation of duties was noted in the performance of cashier transaction reconciliations in 4 of 12 days tested. There were instances of cashiers reconciling their own transactions, which increases the risk of collections being stolen and concealed.
- Controls over issuing refunds could be strengthened. Customer account information was not attached to support fee refund payments in 9 of 12 transactions tested. There was \$210,236 in LDS fee refunds paid during the audit period. Customer account information is needed to help determine the validity and proper amount of refunds. Although, the refunds were determined to be proper, inadequate documentation during the approval process increases the risk of fraud or error.

- FIDO and PAWS access controls needed to be improved. A former CO employee that transferred to another county department had improper access to FIDO. BA employees collected developer deposits and had PAWS access that allowed them to post developer deposit payments. This improper segregation of duties increases the risk of developer deposits being misappropriated and not forwarded to CO for deposit and recording.

Scope and Objectives

This audit was performed as part of our fiscal year 2013 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of March 1, 2012, through February 28, 2013, and our audit objectives were to determine:

- The adequacy of controls over receipt, deposit and recording of fees
- Whether adequate controls over revenue refunds existed
- If proper system user access controls existed
- If developer deposits were properly accounted for and recorded
- If fees were being collected in a timely manner

Methodology

Our audit approach included interviewing management and staff of areas responsible for billing, recording and collection of revenue and collection of developer deposits for LDS to obtain an understanding of internal controls over revenue developer deposit collections. We also carried out walk-throughs of processes; performed various reconciliations; and obtained samples of revenue collection, fee refund and developer deposit documentation and related accounting system reports.

Findings, Recommendations, and Management Response

1. Inadequate Follow-up on Delinquent Accounts

The LDS, Commercial Inspections Division (CID) did not have adequate documentation on file to support proper follow-up on delinquent elevator fees. There was \$128,903 of delinquent elevator fees as of October 2013; \$42,406 were due for calendar years 2011 and 2012 and remaining balance was past due in 2013. Total elevator fees collected for the audit period was approximately \$1.66 million. The total delinquent accounts represent approximately 7.8% of elevator fees collected for

the audit period.

Accounting Technical Bulletin (ATB) 036, *Billing and Collection Procedures for Billable Revenue*, requires County agencies that generate billable revenues to develop and implement a plan of action to achieve the timely collection of all revenues. If uncollected billings are not followed up on in timely manner, it could result in a loss of revenue, loss of potential interest earning on county cash balances, and a reduction in the county's cash flow.

Recommendation: CID should follow-up on uncollected billings in a timely manner to minimize delays in collections. All collection efforts should be sufficiently documented and departmental policies and procedures should be written. LDS should work with the Department of Tax Administration (DTA) to develop appropriate procedures for accounts sent to collection agencies. Fees and penalties should be charged on delinquent accounts in accordance with county policy.

Management Response: CID has been working with DTA and following up on uncollected billings to bring all the delinquent billings up to date. LDS has been working with DTA to develop procedures for accounts to be sent to the collection agency. CID and the Financial Management Branch (FMB) are working with DTA, the Department of Information Technology (DIT) and the FOCUS Business Support Group (FBSG) to implement the Accounts Receivable module in FOCUS so we can charge the appropriate fees and penalties on the delinquent accounts. Management anticipates completing this action by June 30, 2014.

2. Timely Reconciliations of Developer Deposits

LDS did not perform monthly reconciliations of PAWS to FOCUS for developer deposit transactions. Developer proffers and future performance deposits amounts were initially calculated and recorded in PAWS and subsequently recorded in FOCUS. A reconciliation of PAWS and FOCUS for developer deposit ending balances was performed by LDS for June 30, 2013, but there was no evidence of reconciliations performed during the audit period. IAO performed a reconciliation of developer deposit transactions recorded in PAWS and FOCUS for the audit period. Sufficient documentation was provided to support the reconciling items. This finding is part of a finding from the Developer Performance Bonds and Agreements Audit (#09-10-05) issued in August 2010.

Accounting Technical Bulletin (ATB) 020 *Financial Transactions Reconciliation* requires all county departments to ensure the integrity of financial transactions posted to the county's financial systems by performing monthly reconciliations. Timely reconciliations of financial transactions reduce the risk of accounting errors and improper or fraudulent transactions.

Recommendation: LDS should perform monthly reconciliations of developer deposit transactions recorded in PAWS to FOCUS. The reconciliations should be initialed and dated by the preparer and reviewer to ensure timely completion and proper segregation of duties.

Management Response: LDS started performing monthly reconciliations of developers' deposits between FOCUS and PAWS to ensure all DE transaction deposits and releases are reconciled. This item was implemented on February 11, 2014.

3. Improper Segregation of Duties for Cashier Reconciliations

There was improper segregation of duties for LDS cashiers. In 4 of 12 days tested, at least one cashier reconciled their own transactions. In one instance, a cashier approved the accounting entry for their transactions. LDS operating procedures require cashier reconciliations and approval of accounting entries to be performed by a person not involved in the transactions.

Allowing cashiers to reconcile or approve accounting entries for their own transactions increases the risks of accounting errors, improper transactions and payments being stolen and concealed.

Recommendation: We recommend that LDS comply with their operating procedures and not allow cashiers to reconcile or approve accounting entries for their own transactions. In instances when separation of duties can't be achieved, a substantive review of the reconciliation must be performed by a supervisor. The supervisor should initial and date the reconciliation to document the review.

Management Response: The cashier's office is complying with their operating procedures and will ensure the proper separation of duties when performing reconciliations. A new counter schedule was established eliminating the need for cashiers to reconcile their own transactions. In the instances when we are short-staffed, a review of the reconciliation will be performed by the supervisor or other designee. This item was implemented on February 11, 2014.

4. Controls Over Fee Refunds

Controls over issuing refunds could be strengthened. The Department of Finance (DOF) did not have adequate documentation on file to support LDS fee refunds paid for 9 of 15 refunds tested. DOF had signed refund request forms with approval from LDS, but customer account information was not attached to support the refunds made. Customer account information was obtained by IAO for tested items to support refund payments. There was \$210,236 of LDS fee refunds paid during the audit period.

ATB 20100 requires county agencies that collect revenues to determine the validity and amount of refunds due to payees and maintain the required documentation to support the refund. Customer account information reduces the risk of forged documentation by validating the correct amount of fee refunds due reducing the risk of fraudulent, improper and incorrect payments.

Recommendation: In addition to written requests and approvals, DOF should obtain FIDO customer account information from LDS to determine the validity and accuracy of fee refunds due prior to making refund payments.

Management Response: The cashier's office scans and sends account information from FOCUS as documentation to support fee refunds in addition to the actual payment request form. This item was implemented on February 11, 2014.

5. FIDO and PAWS User Access Controls

FIDO user access controls could be strengthened. An employee that transferred to another county agency had improper user access to FIDO. Additionally, four FIDO users had higher levels of access than was needed for their job responsibilities.

PAWS users in BA collected developer deposits and had levels of access that allowed them to enter developer information used to calculate developer deposits and post developer deposit payments in PAWS. This is considered improper segregation of duties. LDS operating procedures required developer deposits collected to be forwarded to CO for deposit and recording. However, their system controls allowed them to circumvent the process.

Fairfax County Information Technology Security Policy 70-05.01 states that system administrators or other designated staff:

- Are responsible for removing the accounts of individuals who change roles within Fairfax County or are separated from their relationship with Fairfax County.
- Shall have a documented process to modify a user account to accommodate situations such as name changes, accounting changes and permission changes.
- Shall have a documented process for periodically reviewing existing accounts for validity.
- Shall apply the concept of "Least Privilege", i.e. providing only those privileges necessary to perform one's job function, to ensure the security of networks, computer security and Fairfax County Government data.

The system administrator should be notified immediately when an employee is no longer authorized to access the FIDO application or the required level of access needed is reduced. This prevents unauthorized employees from continuing to have access to critical or sensitive information and operational processes. PAWS level of access allowing BA users to calculate developer deposit amounts and record developer deposit payments increases the risk of developer deposits being stolen, concealed and not forwarded to CO for deposit and recording.

Recommendation: We recommend that LDS establish and implement procedures to periodically review the FIDO application user list and assign responsibility for notifying the system administrator when an employee is no longer authorized to access the FIDO application or the required level of access changes. PAWS access allowing BA users to record developer deposit payments to PAWS should be revoked.

Management Response: LDS has procedures to periodically review the FIDO application user list and notifies the system administrator when changes are required. FMB will be added to the distribution list to review their team members. This item was implemented on February 11, 2014. Additionally, PAWS access allowing project engineer technicians accepting checks will be revoked.