



# Fairfax County Internal Audit Office

Department of Housing & Community Development  
Revenue Collection Audit  
Final Report

September 2014

*"promoting efficient & effective local government"*

## Introduction

The Fairfax County Department of Housing and Community Development (DHCD) administers several programs that provide rental housing assistance for low and moderate income families and individuals in Fairfax County, on behalf of the Fairfax County Redevelopment and Housing Authority (FCRHA). Housing Assistance Programs in Fairfax County include the Federal Public Housing Program, Fairfax County Rental Program, Elderly Housing Program, Housing Partnerships and the Housing Choice Voucher Program.

Revenues under the Federal Public Housing Program are derived from dwelling rents, utility payments in excess of FCRHA established standards, investment income, maintenance charges, late fees, and subsidies from the federal U.S. Department of Housing and Urban Development (HUD). Operation of the Fairfax County Rental Program is primarily supported by tenant rents. The Elderly Housing Program is supported in part with rental income, federal/state support, and County support.

Housing Partnerships provide affordable rental housing through partnerships between the FCRHA and private investors. The operation of Housing Partnerships is primarily supported by tenant rents with a county contribution for real estate taxes. The revenue collected from rents and property excess income is utilized by the partnerships to reimburse the FCRHA for expenses incurred to support salaries, maintenance and other operating expenses.

## Executive Summary

Our audit focused on the billing, cash receipts handling, and accounting functions associated with revenues from FCRHA programs and partnership properties. The DHCD staff was very cooperative and responsive in obtaining requested documentation in a timely manner. Rent and other operating cash receipts in FCRHA programs and partnership properties totaled over \$41 million in FY 2013. The majority of Housing revenues are received through a lockbox and approximately 2% of the revenues are received through the mail by Housing staff. From the \$41 million, over 99% of the revenues were collected and approximately \$92,000 was outstanding receivables per their Aged Receivables Report as of June 30, 2013. Billings for rent and other charges were accurate and timely; lease agreements and annual recertification forms were maintained on file; and tenant payments were generally deposited into the bank in an accurate and timely manner.

The results of our audit procedures indicated that overall the internal controls over billing and collections were generally adequate. However, we noted the following exceptions where compliance and controls could be strengthened:

- From the total \$92,000 outstanding receivables, we sampled ten of the highest tenant account balances outstanding over 90 days, and totaling approximately \$36,000. In five out of ten tenants accounts tested in our sample, timely follow-

ups were not performed. However, all cases have now been referred to DTA for collection.

- There was no documented evidence of monthly reconciliations for billings and collections. We saw evidence that daily reconciliations were performed to ensure all balances matched; however, a reconciliation package was not maintained to verify this and to evidence the approval by a supervisor that the reconciliations were being performed and in a timely basis.
- Five staff members had access to the safe which was corrected during the audit. Further, keys to the petty cash box were kept inside the safe, making them accessible to more than one person.
- A log of in-house payments received through the mail was not maintained, making it difficult to determine when funds were received, whether they were deposited on time, or account for all payments received by mail.
- Checks were not restrictively endorsed immediately upon receipt, exposing them to the risk to be improperly negotiated.
- DHCD did not use the proper close-out date in reporting their FY13 year-end balances causing deferred revenues related to rents and other charges of approximately \$117,000 (out of approximately \$41 million for FY2013) to be recorded in the incorrect fiscal year. Period 13 adjustments were done to correct FY13 deferred revenues; however, the entries did not post to cash, and the deferred revenues were not reversed in FY14.
- DHCD did have a Billing and Collection Plan; however, the June 2012 revised version was not submitted to the Department of Finance (DOF) for approval, as required by ATB 036. Further, we noted some discrepancies in the Billing and Collection Plan which needed to be addressed.

## Scope and Objectives

This audit was performed as part of our fiscal year 2014 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. This audit covered the period of July 1, 2012, through June 30, 2013. The objectives of the audit were to determine that:

- Proper segregation of duties existed within the revenue billing and collection processes.

- Revenue owed to the county was accurately bill and collected, and adequately safeguarded upon receipt.
- Amounts received were deposited, posted, and reconciled in a timely manner.
- Aging of accounts and collection efforts for past-due amounts were sufficiently performed.
- Any adjustments or write-offs of amounts due were proper.

## Methodology

Our audit approach included interviewing appropriate staff, observing employees' work functions, detailed testing of various samples of transactions, and evaluating the processes for compliance with sound internal controls, county policies, and departmental policies and procedures. We did not audit the Housing Choice Voucher (HCV) program. Our audit did not examine the system controls over billing, collections and posting applications as these were audited in the FY 2011 YARDI Audit.

## Findings, Recommendations, and Management Response

### 1. Follow-Up of Delinquent Accounts Receivable

Timely follow-ups were not performed for past due accounts that remained outstanding for 90 days or more in five out of ten tenant accounts tested in our sample. We selected ten out of the 12 highest tenant account balances above \$2,000 and totaling approximately \$36,000 from the total \$92,000 outstanding receivables as indicated by the June 30, 2013, Aged Receivables Report in the areas of Public Housing, Rental Program and Elderly Housing to verify the effectiveness and efficiency of their collection efforts. All were past tenants that are no longer in the program. We noted the following:

- a. On one of the tenant accounts (\$2,750), a repayment agreement was entered into with the tenant in January 2013. The tenant made the down payment and three monthly payments and then stopped paying the monthly dues. DHCD waited six months before making any tenant contact and turning over the account to the Department of Tax Administration (DTA) for collection.
- b. On one account (\$4,504), the last delinquent letter requesting payment from the tenant was sent out at the end of March 2013; however, the letter was returned as "insufficient address". No payment was received and DHCD waited seven months before making any tenant contact and turning over the account to DTA for collection.

- c. One account (\$5,386) remained outstanding for approximately 16 months before any tenant communication or a repayment agreement was made. As of the date of our review, the tenant was regular in monthly payments under the repayment agreement.
- d. The last payment received in one account (\$3,085) was January 2013, yet the account remained outstanding until December 2013 - a total of 11 months. A payment notice was sent to the tenant in March 2013 requesting payment in full within one month; however, no payment was received and no action was taken to pursue collection. Per DHCD, the debt needed to be turned over to DTA for collection.
- e. On one account (\$4,165), the last correspondence sent to the tenant was in May 2013; however, it was returned undelivered. No payment was received and DHCD waited six months before attempting to contact the tenant and turning over the account to DTA for collection.

The Housing Collection staff explained that the delay in taking action on delinquent accounts was primarily due to staffing limitations.

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:** DHCD should perform follow up actions on past due charges in a timely manner to minimize delays in collections.

**Management Response:** DHCD will reinforce county procedures related to collections and has recently entered into a Memorandum of Understanding (MOU) with the Department of Tax Administration (DTA). In addition, DHCD has the following new and/or improved procedures and actions to better improve the overall collection efforts:

- a. The five accounts under audit review were referred to DTA, under the new county policy. Approximately 28% of the outstanding debt has been collected. Implementation of this item started in March 2014 and collection efforts continue.
- b. The DHCD Property Management and Financial Management staff plan to meet with DTA to discuss how collection results can be improved and processes refined with respect to customer service issues, and for accounts receivable information recorded and reported in the DHCD YARDI system to facilitate timely follow-up actions. Management has anticipated completing this action by July 31, 2014.

- c. Property management staff will provide a monthly report to DTA and DHCD supervisors about collection activities achieved through repayment plans. Management has anticipated completing this action by June 30, 2014.
- d. It should be noted that in many cases collection is difficult due to the personal situation of the family. HCD tries to work with these individuals through the Progress Center. The five cases under audit review had the following demographics: two were single heads of household; all were minorities (African-American); three had household members with a disability; and one was elderly.

## 2. Reconciliations

There was no documented evidence of monthly reconciliations for billings and collections. According to DHCD's billing and collection procedures, staff ensured billings recorded in tenant ledger in the YARDI system were interfaced into the FOCUS system. Further, the procedures stated that at the end of each month, a FOCUS report was run and used to reconcile to the YARDI reports to ensure the two systems were in balance. However, no documentary evidence was available to show that these reconciliations were performed. DHCD did track daily lockbox and manual receipts and ensured balances between deposits, YARDI and FOCUS matched. However, a reconciliation package was not maintained and reviewed by a supervisor to confirm that the reconciliations were being performed and on a timely basis.

ATB 020 and ATB 036 require all county departments to ensure the integrity of financial transactions posted to the county's financial systems by performing monthly reconciliations in accordance with reconciliation plans developed by departments and approved by the Department of Finance (DOF). Reconciliations help to prevent accounting errors, and detect unauthorized and improper transactions related to revenues collected and accounts receivables.

**Recommendation:** DHCD should perform and document monthly accounts receivable reconciliations per the county policy. Reconciliations between deposits, YARDI and FOCUS should be initialed and dated by the preparer and reviewer to ensure timely completion and segregation of duties.

**Management Response:** DHCD will perform and document monthly reconciliations of deposits, YARDI and FOCUS per the county policy. Documentary evidence of reconciliations initialed and dated by the preparer and reviewer will be maintained to ensure timely completion and segregation of duties. Management has anticipated completing this action by June 30, 2014.

## 3. Access to Safe and Petty Cash Controls

County policies related to access to the safe and petty cash were not being followed properly. The safe located at Pender Drive stored the site's undeposited receipts, petty cash box, stamps and confidential mail. Per DHCD, the

average daily petty cash in the safe is approximately \$200 and the dollar value of checks could be up to \$235,000. The combination code to the safe was available to five staff members even though access was not maintained under dual access control. Further, we noted that one of those five staff members recently retired; however, the combination code to the safe was not changed until Internal Audit Office (IAO) notified staff. During our audit DHCD did reduce access to the safe to two staff members; however, the keys to the petty cash box were still kept inside the safe and accessible to both staff members.

ATB 40070, *Processing Monetary Receipts*, requires that knowledge of safe combinations be restricted to as few staff as possible. Further, safe or vault combinations should be changed whenever a staff member who has access to the combination leaves the employment of the department. ATB 20030, *Petty Cash*, requires that a primary key to petty cash box be held by the custodian while a secondary key should be held by the department director or designee for emergency purposes. Thus, if the custodian is not available, the alternate staff member with access to safe must go to the department head or designee for access to the petty cash box. The custodian and/or department director may be held personally liable for uninsured losses that occur as a result of negligence.

Having the safe accessible to several staff members eliminates accountability in instances of loss of funds from thefts and mistakes. Further, not changing the safe combination when a staff member who knows the combination leaves or no longer has the authorization, increases the risk of theft by unauthorized employees accessing the safe. Finally, non-compliance with policies related to safeguarding petty cash could lead to errors, theft or fraud.

**Recommendation:** We recommend DHCD comply with the county policy for safeguarding petty cash. Finally, the safe combination should be changed whenever a staff member leaves the employment of the department.

*Note: During our audit, DHCD complied with the county policy in restricting access to the safe to as few staff as possible.*

**Management Response:** Access to the safe and knowledge of safe combination is now restricted to two (2) staff members and the key to the petty cash box is now restricted to only one person (custodian of petty cash) to comply with ATB 20030 for safeguarding petty cash, and ATB 40070 in restricting the access to the safe to as few staff as possible. The key to the petty cash box is held by the custodian and a secondary key is kept by the department director or designee for emergency purposes. This item was implemented on May 31, 2014.

#### 4. Receipts Log

DHCD did not maintain a log of in-house payments received through the mail. Their Billing, Payment and Collection procedures stated that all payments received in-house such as the Housing Choice Voucher Portability payments and

other tenant checks were logged daily in an Excel spreadsheet. However, we noted that no such spreadsheet was being maintained. In four out of five in-house receipts in our sample, we noted that checks were not date-stamped, and in the absence of a receipts log we were unable to determine when the checks were received and whether they were deposited the next business day after the receipt date per county policy. Approximately 2% of the Housing revenues are received through the mail.

County Policy (ATB 40070 – Processing Monetary Receipts) requires that funds received through mail be logged in an established journal.

In the absence of a receipts log, it is not possible to determine when funds were received and whether they were deposited on time. In addition, the total population of funds received cannot be matched to totals of funds deposited. This increases the risk for fraud or errors.

**Recommendation:** We recommend that Housing maintain a daily cash receipts log to track all funds received through the mail per their procedures. The log can be in manual or electronic format and should contain the date received, the amount received, the name of the payer, purpose of the payment and its type (check or money order). The log should be reconciled to deposit slips.

**Management Response:** DHCD is now maintaining a Daily Receipts Log in electronic format to track all in-house payments received through the mail to include the date received, the amount received, the name of the payer, purpose of the payment and type of payment (check or money order). The Daily Cash Receipts Log is now reconciled to the deposit slips. This item was implemented on May 31, 2014.

## 5. Check Endorsement

Checks were not restrictively endorsed immediately upon receipt. Instead, endorsement was done later when the administrative assistant prepared the deposit slip.

County Policy (ATB 40070 – Processing Monetary Receipts) requires checks received through the mail be endorsed when received. This ensures all checks are deposited in the designated bank account and not diverted for other purposes. The longer the checks are not endorsed, the greater the risk they will be improperly negotiated.

**Recommendation:** Checks should be restrictively endorsed immediately upon receipt with a stamp stating “For Deposit Only”.

**Management Response:** Checks received through the mail are now endorsed when received to ensure all checks are deposited in the designated bank account. This item was implemented on May 31, 2014.



## 6. Year-end Deferrals

Deferred revenues related to rents and other charges were not recorded in the correct fiscal year. DOF year-end closing procedures specifically stated all receipts received on or before June 29, 2013, should be deposited and reported in the current fiscal year. DHCD closed out its deferred revenues on June 26, 2013 instead. Adjustments were made in period 13 of fiscal year 2013 to correct deferred revenues; however, the adjustment entries did not post to cash, and the deferred revenues were not reversed in FY2014. The total amount of cash receipts for June 2013 for all programs not posted in the correct fiscal year was approximately \$117,000 (out of approximately \$41 million for FY2013). IAO reviewed the prior fiscal year and noted the same issue; the amounts received on June 28, 2012 were posted in FY 2013 when the DOF official date was June 30, 2012.

ATB 020, *Reconciliation of Financial Transactions*, requires agencies to ensure that revenues are reported in the proper fiscal period and appropriate deferrals or accruals are made. Not recording deferred revenues in the correct accounting period results in liabilities and cash being misstated.

**Recommendation:** We recommend that DHCD take steps to identify the cause(s) of not recording deferred revenues in the fiscal year that they were received, properly report deferred revenues in the future and comply with DOF's year-end closing procedures.

**Management Response:** There was a software interface issue where the current date was being sent instead of the transaction date. The interface has been corrected and is now sending the transaction date. This will ensure that year-end interfaces from YARDI are posted to the correct fiscal year in FOCUS. In addition, the DHCD Financial Management Division staff will ensure that revenues are reported in the proper fiscal period and appropriate deferrals or accruals are made and reversed accordingly. This item was implemented on May 31, 2014.

## 7. Billing and Collection Plan

DHCD revised their billing and collection plan in June 2012; however, the revised plan was not submitted to DOF for approval. The most recent plan that was on file with DOF was as of January 2011.

Further, we noted the Billing and Collection Plan wording did not clearly reflect the actual business operations and in some cases changed the meaning completely. The inaccurate clauses are noted below:

- a. The Invoice Billing Process and Payment Processing sections stated that payments received by the 6<sup>th</sup> of the month were considered late payment, whereas it should have stated that payments received on the 6<sup>th</sup> of the month or later were considered late payment. In addition, one of the sentences

- stated “A grace period of five (5) days was given to tenants to pay a late payment fee is assessed”, whereas it should have stated “A grace period of five (5) days is given to tenants to pay *before* a late payment fee is assessed”.
- b. The Collection and Delinquent Account Process section stated that any tenant who was late with rent payment three (3) times within twelve (12) months was considered in violation of the lease agreement, and was ineligible for renewing the lease. The Housing Applications/Intake Unit clarified that they actually meant calendar year instead of any 12 month period. Further, the Housing Collections office clarified a tenant had to be late under a “pay or quit” notice to be considered “late” under this clause which was not included in the written policies.
  - c. The section “Staff Responsibilities” in the Billing and Collection Plan listed functions of some staff members that did not reflect actual operations. The section indicated that two persons were assigned to open the daily mail, whereas we noted only one person was performing this task. Further, the procedures stated the back-up staff person for posting payments to accounts was also responsible for authorizing adjustments and preparing accounts receivable reconciliations. However, DHCD clarified that since three main persons were handling the responsibility; the back-up person was rarely needed and could be assigned as the supervisor for this function going forward. Additionally, the procedures stated the two persons responsible for authorizing adjustments were also preparing A/R and YARDI/FOCUS interface reconciliations. According to DHCD, authorizing adjustments had no effect on reconciliations since these two functions were related to separate funds, and agreed that this needed to be clearly stated in the procedures.

According to ATB 036, *Billing and Collection Procedures for Billable Revenues*, county agencies that generate billable revenue are required to provide an accurate billing and collection plan to DOF. The billing and collection plan is a means to aid management in assessing that a system is in place that will maximize the timely collection of all revenues.

Failure to obtain an approved billing and collection plan that accurately describes procedures/requirements increases the risk of ineffective and inefficient collection of funds that may result in reduced revenues and errors.

**Recommendation:** We recommend DHCD update their billing and collection plan to reflect actual operations including the clauses described in the finding, and submit it to DOF for approval.

**Management Response:** DHCD was in the process of developing a MOU with DTA that changed the collection process. The policy had to be developed to be both consistent with new Board policy and within the regulatory and legal framework governing the FCRHA as a landlord. Further, the policy had to be adopted by the FCRHA. The process took over a year and it did not seem

prudent to update the plan while the process was under revision with DTA. The MOU was adopted in July 2013. The Billing and Collection Plan will be updated to reflect actual operations policy changes including the correction of inaccurate clauses noted in the finding. Additionally, staff reductions due to budget constraints have prompted revisions to the “Staff Responsibilities” section and will be noted in the revised plan. Management anticipates completing this action by September 30, 2014.