Chesterfield County, Virginia
Internal Audit

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DATE: October 8, 2019

TO: Joseph P. Casey, Ph.D.   Chesterfield County
              County Administrator   Board of Supervisors

              Mervin B. Daugherty, Ed.D.   Chesterfield County
              Superintendent   School Board

FROM: Greg L. Akers
              Director of Internal Audit

SUBJECT: Treasurer Tax Billing and Payment Processing Audit

The Office of Internal Audit completed an audit of Treasurer Tax Billing and Payment Processing, and the final report is attached.

We thank Carey Adams and Keith Gagnon, and their office staff for their cooperation and assistance during this audit.

Attachment

Copy: Carey Adams, Treasurer
          Keith Gagnon, Procurement Director
          Matt Harris, Deputy County Administrator for Finance

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Internal Audit

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Freedom of Information Act (FOIA) exempt portions of this report were redacted for public distribution.

Treasurer Tax Billing and Payment Processing

October 8, 2019

Treasurer Tax Billing and Payment Processing Audit

Highlights

Refunds/Credits and Tax Billing Reconciliations

The County's Tax Management System (TMS) implementation was substantially completed June 2017 and impacted two major processes, refund/credit processing and tax billing reconciliations. While Treasurer staff documented working refund/credit processing and reconciliation procedures, the formal policies have not been updated to reflect the new system processes.

Monthly tax reconciliations to the general ledger were not consistently completed timely due to key staff turnover and initial limitations with system reporting.

Recommendation: Treasurer's Office update refund/credit and reconciliation policies and monitor monthly reconciliations for timely completion.

Tax Management System Security/Access

The Treasurer's Office performs periodic user access reviews to ensure that specific employee accounts and permissions were current.
CONFIDENTIAL, FOIA EXEMPT CONTENT §2.2-3705.2(3): SYSTEM SECURITY

Tax Payment Processing

The Treasurer's Office is responsible for collecting all County tax revenues ($600 million collected FY18). We selected 25 tax payments and tested without exception:
- Payments were properly recorded in TMS and ONESolution.
- Payment application was credited against most delinquent tax.

Commendation: The Treasurer's Office has controls ensuring accurate and proper tax payment processing.

Treasurer Tax Management System Project Management

Chesterfield County awarded PCI LLC a $2.1 million contract April 9, 2015 for the Tax Management System (TMS). The contract required 12.5% retainage withheld for all invoices paid. While payments were made net of retainage, we determined retainage was not recorded in ONESolution (County's Enterprise System).

Recommendation: Procurement activate ONESolution retainage field for applicable contracts when purchase orders are created.

Management concurred with 5 of 5 recommendations detailed in the report to be implemented by10/8/19. Internal Audit performs annual follow-up with management to confirm implementation status.


INTRODUCTION

BACKGROUND
The Treasurer audit was a regularly scheduled audit on the FY19 audit plan approved by the Audit and Finance Committee.

The Treasurer is a Constitutional Officer elected by County citizens every four years. The Treasurer's Office is responsible for collecting current and delinquent property taxes, managing the annual tax billing, investing the County's funds, and collecting state income taxes. Additionally, the Treasurer's Office ensures real estate, personal property, and motor vehicle license tax billings are properly printed and issued to Chesterfield County taxpayers. During FY18, the Treasurer's Office collected tax revenue totaling $600 million illustrated below:

Tax Revenue Collected by Type, Fiscal Year 2018
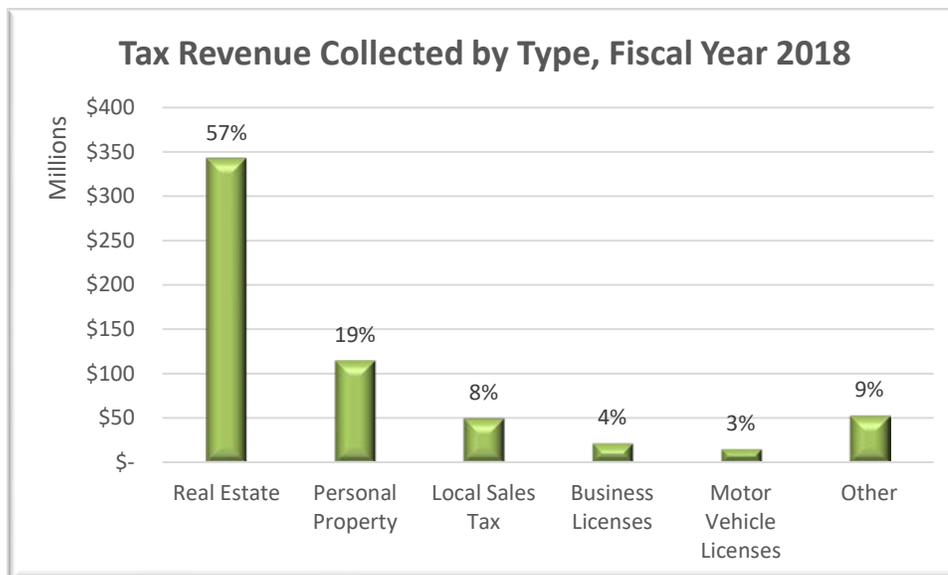
Chesterfield County awarded PCI LLC a $2.1 million contract ($2.4 million after change orders) April 9, 2015 for a new Tax Management System (TMS). The County's TMS implementation was substantially completed June 2017 replacing multiple existing systems that were dated.

OBJECTIVES
Objectives of the audit were to:
- Evaluate tax billing for efficiency, proper controls, and accuracy.
- Review tax payment processing for efficiency and proper controls.
- Test credits/refunds and reconciliations for proper controls, accuracy, and timeliness.
- Ensure proper security/access controls for the Treasurer's taxation management system.
- Review for recent technology project implementations and evaluate project management.
- Report results to Management.

SCOPE
Our audit work covered FY18 and the current operating environment. We considered the following code, policies, and procedures during our audit:

Code of Virginia 58.1 Chapter 39 – Enforcement, Collection, Refunds, Remedies and Review of Local Taxes	*County Administrative Policy 7-3*
County Administrative Policy 7-5	*County Administrative Policy 12-15*
Chesterfield County Treasurer's Office Standard Operating Procedures	

We conducted this performance audit 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. Terry Parker, Senior Auditor, Jim Boudreau and Christian Wingfield, Staff Auditors, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY
Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included the following: interviews, observations, data analysis, and documentation review.

INTERNAL CONTROL CONCLUSION
According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- efficiency and effectiveness of operations;
- accurate financial reporting; and
- compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place and there were minimal findings to question their ability to assist management in meetings its mission, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING
We thank the Treasurer's Office, and Procurement for their cooperation and assistance during this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES
Refunds/Credits and Tax Billing Reconciliations
(Point Sheet 1)

CRITERIA:
The Treasurer's Office issues taxpayer refunds/credits when there is a taxpayer overpayment, exoneration, or adjustment reducing a tax liability already paid in full.

Timely reconciliations of billings to account receivable records and the general ledger are essential internal controls to ensure record completeness and accuracy. Reconciliations help detect data entry and billing errors, plus monitor timely adjustments.

CONDITION(S):
The County's Tax Management System (TMS) implementation was substantially completed June 2017 and impacted two major processes, refund/credit processing and reconciliations. Treasurer staff documented working procedures used for refund/credit processing and reconciliation performance. The formal office policy for refunds/credits has not been updated to reflect new system processes. Additionally, a formal written policy for reconciliations has not been compiled from the working procedures.

Refunds/Credits:
TMS is used for daily operations (i.e. billing, receipts and refunds). In FY18 the Treasurer's Office issued 30,230 refund/credit transactions totaling $5.2 million. We tested 25 refunds ($2,295) and 25 credits ($14,501) with no exceptions for:
- Refund/credit was made timely (average of 34.5 days).
- Bill payment received prior to the refund/credit.
- Refund issued to appropriate party (individual billed for personal property and business licenses, or payor for real estate).

When refunds are issued, TMS populates check description fields with property identification numbers.

Reconciliations:
We tested the Treasurer's reconciliations prepared in the months directly after the June 2017 TMS implementation to ensure accounts receivable and billings agreed with the County's general ledger, were performed monthly, signed by the preparer, and reviewed by the Treasurer. We noted:
- Each tax billing is reconciled to the general ledger immediately at time of billing. However, monthly tax reconciliations were not consistently completed in a timely manner during the period due to key staff turnover and initial limitations with system reporting. Auditor noted three of four (75%) reconciliations tested were completed three to seven months after processing.

CAUSES:
- Controls are in place and functioning as intended to ensure refunds are processed accurately.
- Staff turnover and TMS report modifications delayed the completion of reconciliations.
- Management's periodic policy and procedure review for potential updates is not documented.

EFFECTS(S):
- Refunds were processed timely.
- Identified adjustments for reconciling differences were not completed timely in general ledger.
- Dated policies may impact business continuity.

COMMENDATION(S):
We commend the Treasurer's Office for its accurate and timely processing of real estate, personal property, and business license refunds/credits.

RECOMMENDATION(S):
We recommend The Treasurer's Office:
1. Update policies for refunds/credits and reconciliation processes.
2. Document management's periodic policy and procedure review for potential updates.
3. Ensure monthly reconciliations are completed timely.

MANAGEMENT'S RESPONSE(S):
1. *Concur. Treasurer, Carey Adams implemented 10/1/19. The implementation of the Taxation Management System resulted in a myriad of processing changes and brought about many significant benefits to our customers. At the time, new desk procedures were developed to reflect the changes and were used in training. Office policies have since been updated for changes to procedures and were provided recently to Internal Audit for review.*
   Auditor's comment: Corrective action described in response is sufficient to close recommendation.

2. *Concur. Treasurer, Carey Adams implemented 10/1/19. Informal procedures for periodic policy and procedure reviews have been codified and were provided recently to Internal Audit for review.*
   Auditor's comment: Corrective action described in response is sufficient to close recommendation.

3. *Concur. Treasurer, Carey Adams implemented 6/30/19. On January 17, 2017 and on June 23, 2017, the County's two major tax modules, real estate and personal property were implemented successfully, and this audit covered the period beginning July 1, 2017. As part of those implementations, a comprehensive reconciliation process was performed to ensure that customer data from legacy systems was transferred accurately to the new Taxation Management System (TMS). After implementation, timely reconciliations were initiated,*

comparing data in TMS to summarized data in the County's general ledger. Immaterial differences were noted and after investigation, it was determined that TMS customer data was correct, however, certain immaterial amounts were not being posted to the general ledger as expected. It was also determined that reports provided by the vendor to assist in these reconciliations needed to be modified for our purposes. Accordingly, though these reconciliations were started timely, they could not be finalized until the vendor provided report modifications. Progress in testing the report modifications was hampered by the loss of a key employee. Once these revised reports were provided and successfully tested, the reconciliations were finalized and completed timely.

CRITERIA:

County Administrative Policy 7-3: Information Systems Technology – Information Security Policy describes segregation of duties requirements for system access and security administration.

County Administrative Policy 7-5: Information Systems Technology – Access to distributed systems requires appropriate security level modifications after personnel changes.

CRITERIA:
The Treasurer's Office has developed departmental policies and procedures to provide guidance to their staff including:

- Cashier manual detailing payment processing and practices.
- Payment Precedence Policy outlining payment processing per VAC 58.1-3913.
  - VAC 58.1-3913 requires tax payments credited first against the most delinquent local account.

These policies and procedures assist in payments being performed timely and accurately.

CONDITION(S):
The Treasurer's Office is responsible for collecting all tax revenues for the County. In FY18, $600 million of revenue was collected. We selected 25 tax payments and tested without exception:

- Payments were properly recorded in TMS and the County's financial management system.
- Payment application was credited against most delinquent tax.

CAUSE(S):
- The Treasurer's Office has policies and procedures for payment processing.
- The County Tax Management System is programed to apply payments per 58.1-3913.

EFFECT(S):
- Payment processing internal controls developed and implemented by the Treasurer, are working effectively.

COMMENDATION(S):
We commend the Treasurer's Office for having controls in place to ensure accurate and proper processing of tax payments.

Tax Management System Project Management
(Point Sheet 4)

CRITERIA:
County Administrative Policy 12-15: Procurement Administration establishes County Department responsibilities for vendor contract management and reporting performance concerns to the Procurement Department.

Project management best practices include reporting tools to monitor project progress against budgeted goals and contract requirements.

CONDITION(S):
In March 2014, Chesterfield County issued a request for proposal to procure a new Tax Management System (TMS). The contract was awarded to PCI LLC, on April 9, 2015 for $2.1 million. Additionally, change orders were added to the contract for a final PCI contract total of $2.4 million.

ONESolution's (Chesterfield County Enterprise System) financial project tracking allows for cumulative project management. The project was completed $80k under budget ($2.32 million) in May 2019. However, we noted the following opportunities for project management:
- IST's TMS project deliverable tracking spreadsheet was incomplete and did not include all vendor (PCI) invoices paid. Additionally, the spreadsheet was not reconciled to ONESolution.
- Vendor invoices were net of 12.5% retainage on original contract deliverables.
- Retainage was not required on deliverables ($454,900) added by contract change orders.

CAUSE(S):
- IST Project Managers (PM) did not receive formal training and guidelines to ensure a consistent project management approach.
- Procurement did not activate ONESolution's parameter to record retainage payable.

EFFECT(S):
- Project invoice and deliverable tracking documentation was incomplete.
- TMS project retainage payable and expense was not recorded in ONESolution until paid at milestone completions.

ACTION(S) TAKEN:
In December 2018, IST hired a Project Management Office Division Chief tasked with standardizing their policies and procedures. IST provided us with copies of the following:
- project management guidance,
- training for project managers, and
- project expense tracking spreadsheet including reconciliation to ONESolution.

RECOMMENDATION(S):
We recommend Procurement:
5. Activate ONESolution retainage field for applicable contracts when purchase orders are created.

MANAGEMENT'S RESPONSES(S):
5. *Concur. Procurement Director, Keith Gagnon implemented 9/17/19. Procurement Department staff will ensure that the retainage field is activated for change orders as well as the original purchase order for applicable contracts. Please note that doing so was already standard operating procedure and that this omission appears to be an isolated incident.*