

Internal Audit Report on Planning - Management of Developer Financial Guarantees

County of Henrico



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Excited about our future*

**Internal Audit Report #257
August 23, 2016**

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Internal Audit Report on Planning - Management of Developer Financial Guarantees



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Summary

- Scheduled Audit
- Conclusions on Audit Objectives (refer to Slide 15)
- Exception Oriented
- 6 reportable Issues; 3 Other Observations
- Management Action Plans have been developed to address all risks identified





Contents

- Introduction and Background
- Scope, Internal Controls and Methodology
- Conclusions on Audit Objectives
- Issues and Management Action Plans
- Closing and Report Distribution



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Introduction

- Auditor III, Sharon Cherry, performed audit work
- Used professional auditing standards
- Examined controls & tested for selective compliance
- All exceptions given to Agency
- Reported control design issues & significant test exceptions only
- Work for same Government we audit



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Background

Purpose of Financial Guarantees in the Planning Department:

- To ensure that all required improvements for Subdivisions or Plans of Development (POD's) will be constructed according to the approved plans
- Overall, Subdivision and POD improvements bonds:
 - Protect the public interest
 - Give the developer some flexibility in completing the project



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Background

Subdivision Financial Guarantees:

- For public improvements (such as roads and water/sewer lines) in a residential development
- These improvements will eventually become property owned and maintained by the County.
- The posting of financial guarantees allows developers
 - to record subdivision plats before these required improvements are completed or installed.
 - to recognize a quicker return on their investment as lots can be sold and houses built sooner.
- Types: Letters of Credit (LOC's), Surety Bonds, Cash Bonds, Collateral Bonds/Certificates of Deposit (COD's)



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Background

POD Financial Guarantees:

- For private improvements such as parking lots, fencing, landscape and lighting
- These minor improvements:
 - do not affect the safe use of the property
 - many times cannot be completed due to weather conditions/time of year
- Types: LOC's and Cash Bonds only



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Background

Financial Guarantee Estimations:

- DPW provides the estimates for road construction and paving, curb and gutters, storm sewers, signs and monument markers for surveying purposes. (Public improvements)
- DPU provides the estimates for water and sanitary sewer pipes. (Public improvements)
- Planning provides the estimates for site improvements such as fencing, parking lots, landscape and lighting. (Private improvements)
- Estimates are needed for the initial project as well as to value partially completed work for bond/LOC reductions or incomplete work on defaulted bonds.



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Background

Financial Guarantees Database:

- In-house developed Access database system implemented in September 2013 to track project estimates and expiration dates related to financial guarantees as well as generate the associated correspondence
- Proceeds from bonds which defaulted between June 2009 and September 2013 as a result of the economic downturn have been set-up as cash bonds in the database. [8 are currently active-estimated value still being determined]. A separate spreadsheet is used to monitor progress on the projects and track follow-up efforts.
- Reclamation bonds [5 sand and gravel valued at \$484,800 and one quarry valued at \$267,300] are tracked outside of the database on a spreadsheet.



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Background

Financial Guarantees Database:

Date	# of Bonds	Approximate Value
6/30/13	167	\$12.9 million
6/30/14	146	\$20 million
6/30/15	123	\$15 million
12/10/15	117	\$13 million



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Audit Scope

Includes:

- Bond/LOC initial set-up, extension, reduction, amendment, release and draw processes
- Cash Bond money receipts process
- Bond/LOC reconciliation and monitoring processes
- Planning's estimation processes to determine the value of POD improvements



Excludes:

- DPU and DPW's estimation processes to determine the value of subdivision improvements
- Financial guarantees related to conditional use permits (sand and gravel pits, quarries, etc.)
- All other systems utilized by the Planning Department



Internal Controls *Objectives*

- Reliability and integrity of information
- Compliance with policies, procedures, laws and regulations
- Safeguarding of assets
- Effectiveness and efficiency of operations





Internal Controls Cont'd

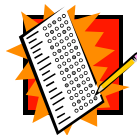
General Limitations of any Controls

- Errors and irregularities may go undetected
- Inherent limitations in any control structure
- Limitations include resource constraints, legislative restrictions, etc.
- Projection to future subject to risk of change in effectiveness
- Compliance may deteriorate



Audit Methodology

- Evaluated design of internal control system including certain relevant application controls
- Performed walk-throughs of stated controls
- Tested for compliance with key controls





Conclusions on Audit Objectives

Rating	Audit Objective	Issues/Other Observations Identified
▲	Review for compliance with State and County regulations and documented agency policies and procedures.	Issues 1, 2, 3
▲	Determine the adequacy of controls over the bond/LOC extension, reduction, amendment, release and draw processes.	Issues 2, 5, 6; Other Observations 1, 2, 3
▲	Determine the adequacy of money receipts controls over cash bonds.	Issues 1, 3, 5
▲	Determine the adequacy of bond/LOC reconciliation and monitoring controls.	Issues 1, 2, 4, 5
▲	Determine the adequacy of controls over Planning's estimation process for private improvements.	Other Observation 1
▲	Evaluate and assess other application and business process controls.	Issues 2, 5

● **Insufficient-Immediate Attention**
 ▲ **Improvement Needed**
 ■ **Sufficient**

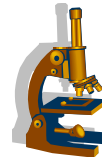
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Issues

1. Strengthen the Cash Bond Money Receipts Process and Institute a Reconciliation Process
2. Implement Database and Project File Monitoring Controls
3. Revise Financial Guarantee Policies and Procedures
4. Enhance the Control and Monitoring of Drawn Funds Related to Defaulted Bond Projects
5. Enhance the Financial Guarantees Database and Restrict Permissions
6. Establish a Process to Verify the Current Financial Status of Surety Companies and Financial Institutions



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Issues

Other Observations:

1. Provide Supporting Documentation for Planning's Estimates of Required Site Improvements
2. Ensure the Draft Policy to Help Ensure Timely Project Completion is Issued
3. Confirm all LOC and Surety Bond Contractual Agreements are Properly Stored and Saved Electronically



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Issue 1

Strengthen the Cash Bond Money Receipts Process and Institute a Reconciliation Process



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Condition

Issue 1

1. Checks received primarily from walk-in customers were not controlled by restrictively endorsing them immediately upon receipt.
2. Cash bond reconciliations were not performed even though the *Bonding and Guarantee Processing Procedures* include a section entitled, "Monthly Reconciliation of Reports for Cash Bond Transactions". As a result, as of 3/31/16, we noted that the totals of active cash bonds per the Financial Guarantees Database (\$2,385,323); Oracle AR (\$1,870,972) and the G/L's Trial Balance (\$1,867,069) were all different.



CASH	
25,000	2,000
4,000	500
4,500	5,000
33,500	7,500
26,300	



Condition

Issue 1

3. The cash bond receipt letter mailed with the PIV receipt to the bond holder did not provide detailed information that would help the cash bond process run more smoothly.

For instance, follow-up information was not communicated since cash bonds do not have an expiration date.

In addition, information was not provided related to

- (a) requesting a full or partial release (e.g. who is authorized to receive the refund in cases such as business partnerships) and
- (b) the importance of keeping critical information current (e.g. payment address).





Issue 1

Effect

Potential for:

- a. Misappropriation of money receipts for cash bonds which goes undetected as reconciliations are not performed (None noted)
- b. Misappropriation of checks that were not restrictively endorsed or as the result of a lack of segregation of duties (None noted)
- c. Tracking systems that are not in agreement (i.e. cash bond deposits and refunds in Oracle AR and Oracle Financials do not agree with the cash bond transactions recorded in the Financial Guarantee Access Database.)
- d. Misunderstandings in the cash bond process such as who can request and accept full or partial refunds
- e. Refund checks are returned or are delayed as information such as the bond holder's address was not kept current

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Issue 1

Cause

1. Checks are usually processed and taken to the cashier's office immediately upon receipt.
2. Turnover in the Account Clerk III position
3. The Senior Principal Planner in Zoning Administration thought that the reconciliation was being done
4. Other items were deemed a higher priority than enhancing the cash receipts letter



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Issue 1

Criteria

Best money receipts practices dictate that:

- cash receipts be reconciled frequently
- money receipts be controlled immediately upon receipt
- Relevant cash bond information be communicated up front to help the overall process run smoothly



Issue 1

Recommendation

1. Cashier's/certified checks should be restrictively endorsed as soon as they are matched up to the financial guarantee paperwork to ensure that the amount is correct.
2. A process should be established that reconciles money receipts to the manual PIV's, cash bond entries in the Financial Guarantees Database, Oracle AR and ultimately Oracle Financials (G/L).
3. Duties related to the money receipts process from the receipt of the checks to their deposit and ultimately the preparation of the cash reconciliation and its review by a member of management should be properly segregated.
4. The cash bond receipt letter should be updated as described or consideration should be given to having the developer sign a formal cash bond agreement.





Issue 1

Management Action Plan

#	Management Action Plan	Completed By	Date
1.1	The updated process to be documented in the revised Policies and Procedures directs the Account Clerk III to restrictively endorse checks as soon as they are matched up with the appropriate Bond Receive and Release Form.	Senior Principal Planner	9/9/16
1.2	The Account Clerk III has reinstated and updated the process of monthly reconciliation of cash bonds. The new process will include PIV receipts, Financial Guarantees database, Oracle AR, and Oracle G/L. Reconciliation reports will be reviewed and approved by the Senior Principal Planner and Senior Business Supervisor.	Senior Business Supervisor	11/15/16



Issue 1

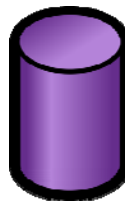
Management Action Plan

#	Management Action Plan	Completed By	Date
1.3	The updated process to be documented in the revised Policies and Procedures calls for the Account Clerk III to endorse checks upon receipt and reconcile the receipts with the database and Oracle, and for the Senior Principal Planner and Senior Business Supervisor to review and approve the reconciliation.	Senior Business Supervisor	9/9/16
1.4	The cash bond receipt letter has been revised to include information regarding follow-up information, clarifying that the money can only be refunded to the party that posted it, and asking for updates to mailing address and other information.	Senior Principal Planner	8/3/16



Issue 2

Implement Database and Project File Monitoring Controls



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Condition

Issue 2

Walkthroughs of the financial guarantee processes, detail testing of 13 bonds (8 cash, 4 LOC's and 1 surety) entered into the database system since its implementation in September 2013 and limited testing of 9 older LOC's and surety bonds revealed the following:

1. Three of 8 cash bonds tested were deposited 4-6 business days late.
2. For cash bonds, a copy of the Cash Receipts letter was not placed in the project file nor was it recorded in the Correspondence section of the database.
3. In 16 cases, Status Letters were not recorded as being sent out approximately every 6 months.
4. Seven instances were noted where correspondence letters found in the project files were not recorded in the database system as being sent.



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Condition

Issue 2

5. Six instances were noted where 60-Day Letters were sent out late (a month or less before the expiration date). In 2 additional cases, 60-Day Letters were not recorded as being sent at all.
6. Six estimates recorded in the database related to 3 projects did not have documentation in the file supporting the partial or full completion of the required improvements.
7. Three active cash bonds were initially excluded from a frequently used report query as the name and address of the entity that posted the bond were not entered into the database.



Effect

Issue 2

The potential for:

1. Lost or misappropriated checks (None noted)
2. Incomplete or inaccurate data in the database which could result in inaccurate information being presented
 - (a) on forms which act like a “dashboard” of project information,
 - (b) in management reporting and/or
 - (c) in correspondence letters generated from the database, some of which communicate the required bond value
3. Poor customer service with developers as LOC's or surety bonds could approach expiration with limited contact.





Issue 2

Cause

1. Oversight
2. Formal process and database monitoring procedures had not been established.
3. A higher priority was placed on cleaning-up the older cash bonds
4. Issues and questions that came up when the database was initially set-up

Criteria



1. According to the IT Assurance Guide: Using COBIT, business process requirements of the data should be controlled to help ensure the completeness and correctness of the data processed.
2. The *Financial Guarantee Policies and Procedures* dated 2/1/13
3. *Bonding and Guarantee Processing Procedures* updated in April 2013



Issue 2

Recommendation

The Senior Principal Planner in Zoning Administration should:

1. Ensure that cashier's and certified checks are deposited timely
2. Check the database entries against the available documentation for the initial set-up, extension, reduction, release, etc. of all financial guarantees to ensure the accuracy and completeness of the information recorded in both the system and the project files. In addition, a system to document this review should be devised.
3. Implement other database reasonability checks such as reviewing the "Type" and "Status" for consistency and completeness.
4. Ensure that Status Letters are sent out approximately every 6 months on all financial guarantees including cash bonds.
5. Ensure that 60 Day Letters are sent out in a timely manner.





Issue 2

Management Action Plan

#	Management Action Plan	Completed By	Date
2.1	The updated process to be documented in the revised Policies and Procedures calls for the Senior Principal Planner to review the date of deposit of all checks to ensure they are deposited in a timely manner.	Senior Principal Planner	9/9/16
2.2	The updated process to be documented in the revised Policies and Procedures calls for the Senior Principal Planner to review the accuracy and completeness of information in the database and the files at the time of set-up, extension, reduction, amendment or release of each bond.	Senior Principal Planner	9/9/16
2.3	Queries have been created to flag any exceptions to critical data entry fields. A process has been established and documented for the Senior Principal Planner to check them on a monthly basis.	Senior Principal Planner	8/3/16



Issue 2

Management Action Plan

#	Management Action Plan	Completed By	Date
2.4	The Senior Principal Planner now reviews the Work List on a monthly basis to ensure that status letters are sent out as required.	Senior Principal Planner	8/3/16
2.5	The Senior Principal Planner now reviews the Work List on a monthly basis to ensure that 60-Day letters are sent out as required.	Senior Principal Planner	8/3/16



Issue 3

Revise Financial Guarantee Policies and Procedures



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Issue 3

Condition

1. The *Financial Guarantees Policies and Procedures* dated 2/1/13 and the *Bonding and Guarantee Processing Procedures* updated in April 2013 had not been updated to reflect the following:
 - a. process changes related to the implementation of the Financial Guarantees Database System on 9/26/13.
 - b. management's expectation that certified and cashier's checks received as tender for cash bonds be deposited the same day they are received unless they are received too late in the afternoon to process the deposit.
2. Furthermore, the *Financial Guarantees Policies and Procedures* had not been revised to reflect:
 - a. the organizational structure change effective 11/14/15 and
 - b. the correct County Code reference related to subdivision bonds (19-93 rather than 19-38).



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Issue 3

Condition

3. Finally, we noted that:
- (a) internal policies and procedures,
 - (b) external guidance to developers about this process which is found on the internet and
 - (c) correspondence to developers

did not consistently document the forms of cash payments accepted for cash bonds.

The *Financial Guarantee Policies and Procedures* dated 2/1/13 state that cash is an acceptable form of tender when management confirmed that it is not.



Issue 3

Effect

Users have no updated tool for reference and training purposes.





Issue 3

Cause

The new process was still evolving; therefore, management wanted to wait to update the policy and procedure documents.

Criteria

Policies and procedures documenting a process should be current and comprehensive so that they can be used as a reference and training tool.




Issue 3

Recommendation

1. The *Financial Guarantees Policies and Procedures* and the *Bonding and Guarantee Processing Procedures* should be revised to reflect:
 - a. the process changes that were instituted as a result of the implementation of the Financial Guaranty Database System and
 - b. management's expectation concerning the timely deposit of cashier's and certified checks
2. The *Financial Guarantees Policies and Procedures* should be updated to reflect:
 - a. the new organizational structure within the Planning Department and
 - b. The correct Henrico County Code reference for subdivision financial guarantees
3. The *Financial Guarantees Policies and Procedures; Bonding and Guarantee Processing Procedures; "Understanding the Financial Guarantee (Bond) Process"* document on the internet and the Bond Estimates Letter to the developer should be updated to consistently state the forms of payment acceptable for cash bonds.







Issue 3

Management Action Plan

#	Management Action Plan	Completed By	Date
3.1a	The Policies and Procedures and the <i>Bonding and Guarantee Processing Procedures</i> will be revised to reflect the process changes instituted as a result of the implementation of the new Financial Guarantees database.	Senior Principal Planner	9/9/16
3.1b	The Policies and Procedures and the <i>Bonding and Guarantee Processing Procedures</i> will be revised to reflect the expectation that all checks will be deposited the day received or the next business day.	Senior Principal Planner	9/9/16
3.2a	The Policies and Procedures will be revised to reflect the new division of responsibilities following the reorganization.	Senior Principal Planner	9/9/16




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Issue 3

Management Action Plan

#	Management Action Plan	Completed By	Date
3.2b	The Policies and Procedures will be revised to reflect the recodification of the subdivision ordinance.	Senior Principal Planner	9/9/16
3.3	The Policies and Procedures, <i>Bonding and Guarantee Processing Procedures</i> , " <i>Understanding the Financial Guarantees (Bond) Process</i> " document on the web site and the Bond Estimates Letter will be updated to clarify that cashier's checks and certified checks are accepted, but literal cash is not.	Senior Principal Planner	9/9/16



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Issue 4

Enhance the Control and Monitoring of Drawn Funds Related to Defaulted Bond Projects



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Issue 4

Condition

Planning's FY16 and FY17 expanded budget narratives state that the recent recession resulted in some developers defaulting on their bonds or letters of credit. We reviewed a spreadsheet updated as of 12/11/15 which is used to track and monitor relevant information related to the drawn funds on the 8 defaulted bond projects open at that time. We noted that there were a number of question marks indicated by information such as actual costs and status comments. As a result, it was difficult to determine:

1. An approximate value of the remaining improvements
2. If regular and consistent follow-up efforts were actually taking place as the Status section of the document did not allow for the chronological documentation of detailed notes.



Discussions with management revealed that there appeared to be no control and monitoring of the drawn funds including accurate disbursement information so that management could be kept apprised of the adequacy of the available funds. In addition, there appeared to be no documented procedures which outline the process to pay the contractors who complete the work so that agencies could be properly reimbursed and systems involved kept in balance.

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Issue 4

Condition

Furthermore, in trying to reconcile active cash bonds in the database system to Oracle AR, we noted:

1. one defaulted bond with an initial value of \$80,439 had been released on 10/30/15 with \$47,111 returned to the developer. This bond was still listed as active in the database system, however, and was not noted as closed on the defaulted bond tracking spreadsheet as of 12/11/15.
2. In addition, another defaulted bond with an initial value of \$115,847 was also listed as active in the system and was not noted as closed on the tracking spreadsheet as of 12/11/15. Documentation in the project file, however, shows that this bond value was depleted and ended up with a negative balance of \$18,653 after paying invoices to complete the required improvements and clean-up the site.



Issue 4

Effect

Difficulty determining:

- a. Which defaulted bonds are open and actively being worked
- b. A good estimate of the remaining improvements to be completed and whether or not the drawn funds will cover the required work
- c. The frequency of follow-up efforts





Issue 4

Cause

1. A more formal tracking system was not designed as there are relatively few of these projects and there have not been any new defaults in the last two years.
2. Management meetings related to the defaulted bonds have not been held regularly since the Assistant Director of Planning retired in the fall of 2014.
3. There were no written procedures to follow as defaults had not occurred in a long time.

Criteria

Best business practices dictate that projects are to be followed-up on regularly with relevant and useful information including progress updates documented and reported for effective management decision making purposes.



Issue 4

Recommendation

1. The Senior Business Supervisor, the Senior Principal Planner of Zoning Administration and the Planner IV responsible for coordinating the efforts on the defaulted bond projects should meet for the following purposes:
 - a. To establish documented procedures related to the processing, tracking and monitoring of drawn funds on defaulted bond projects to include:
 - 1) which agency pays the bills to the vendor that completed the improvements,
 - 2) the processes to transfer the Oracle AR deposits and to complete IDT's,
 - 3) the process to update management on the progress of defaulted projects, especially if it looks like the drawn funds will not cover the required improvements, etc.
 - 4) how disbursements against the drawn funds should be processed in order to keep systems involved in balance,
 - 5) follow-up frequency,
 - 6) documentation requirements





Issue 4

Recommendation

- b. To enhance the current tracking system to allow for more detailed documentation of follow-up results and clear tracking and reporting of estimated costs to complete the improvements and actual costs incurred.
- 2. Furthermore, the Senior Principal Planner of Zoning Administration and the Planner IV should work together to ensure that the database system and the tracking spreadsheet are properly updated for the defaulted bonds that were either released or depleted.



Issue 4

Management Action Plan

#	Management Action Plan	Completed By	Date
4.1a, 4.1b, & 4.2	New procedures will be established and documented for processing, monitoring, and using drawn funds from defaulted bond projects. This will require further study.	Senior Principal Planner	12/31/16



Issue 5

Enhance the Financial Guarantees Database and Restrict Permissions



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Condition

Issue 5

1. There was no documentation related to the Financial Guarantees Database (Database) that details system functionality such as table relationships, primary and foreign keys in tables and naming conventions for all objects (i.e. tables, queries, forms, reports, macros).

2. A review of permissions to the Database revealed that three of the four employees in Active Directory's Planning Administration Division Group, which was granted permission to write to and modify the Database, did not need this access.

In addition, one of these employees, the Senior Business Supervisor, was also granted a separate permission to write to and modify the Database.

Only the Accounting/Fiscal Technician in this group should have update permission since she is the Account Clerk III's back-up for processing financial guarantees.

3. There was no comments section in the Database to capture and document phone calls and other important communications (excluding correspondence letters) related to projects' statuses.



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Issue 5

Effect

1. Potential for:
 - a. Database misuse
 - b. Inconsistent and unstructured system administration
 - c. System fragmentation
 - d. Unauthorized database changes
2. The absence of the Senior Principal Planner for an extended period of time may result in the loss of:
 - a. Critical system knowledge
 - b. Efficiency if another Planning employee had to step in and make system enhancements or address issues
3. Process inefficiencies when communications such as phone calls from the developer or other agencies that would provide insight into the project's status are not documented in the system



Issue 5

Cause

1. Other priorities took precedence
2. Oversight
3. Management is not sure who set-up these permissions
4. Management has never before considered this type of system enhancement





Issue 5

Criteria

1. Software documentation best practices dictate that documentation should include code functionality, requirement specifications, design and test documents and user manuals which would enable anyone who inherits the responsibility for a database to proceed with minimal training.
2. According to ISACA'S COBIT 5: A Business Framework for the Governance and Management of Enterprise IT, security is a goal of the information life cycle; therefore, system access should be restricted to those who need it to perform their job duties.
3. According to the IT Assurance Guide: Using Cobit DS11: Manage Data, effective data management helps ensure the quality, timeliness and availability of business data.



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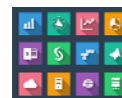
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Issue 5

Recommendation

1. The Senior Principal Planner should create system documentation for the Database that addresses naming conventions for all objects (e.g. tables, queries, forms reports, macros, etc), primary and foreign keys in tables, table relationships (e.g. related tables and queries) and other areas related to system functionality. Furthermore, comments should be added to database objects, fields and code.
2. The Planning Administration Division Group should be granted read-only permission to the Database.
3. The separate permissions granted to the Senior Business Supervisor should be deleted.
4. The Senior Principal Planner of Zoning Administration should add a comments section in the Database that is visible on the project's dashboard report page.



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Issue 5

Management Action Plan

#	Management Action Plan	Completed By	Date
5.1	Documentation of the Financial Guarantees database has been created and will be maintained.	Senior Principal Planner	8/3/16
5.2	The Planning Administration Division Group has been granted read-only permission to the database.	Planning Systems Manager	8/3/16
5.3	The separate permissions granted to the Senior Business Supervisor have been deleted.	Planning Systems Manager	8/3/16
5.4	A "phone log" has been added to the Financial Guarantees database.	Senior Principal Planner	8/3/16



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Issue 6

**Establish a Process to Verify
the Current Financial Status of
Surety Companies and
Financial Institutions**



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Issue 6

Condition

1. Surety company ratings were not verified as a part of the surety bond set-up and approval process.
2. Prior to the acceptance of letters of credit from developers, no process had been established to verify the current financial status of the issuing financial institution.

Effect

The surety bond or the letter of credit could prove to be useless during the draw process.



Issue 6

Cause

1. Change in the Account Clerk III position
2. Oversight
3. Planning stopped its subscription to the rating books which contain this information as they are available in the County's Law Library
4. Management has never before considered establishing such a verification process for financial institutions

Criteria

Best business practices dictate that obligees establish a process whereby the current financial status of surety companies and financial institutions are verified, documented and approved by management before surety bonds or letters of credit are accepted as financial guarantees from developers.





Issue 6

Recommendation

We recommend that management establish a methodology to verify, document and approve, as acceptable, the current financial status of surety companies and financial institutions prior to accepting surety bonds and letters of credit from developers.



Issue 6

Management Action Plan

#	Management Action Plan	Completed By	Date
6	The updated process to be documented in the revised Policies and Procedures calls for the Account Clerk III to confirm and document, and the Senior Principal Planner to verify, that financial institutions have a rating of B++ or above from A. M. Best (for sureties) or three stars or above from bankrate.com (for banks).	Senior Principal Planner	9/9/16





Other Observations

The following slides include additional observations noted during our audit which were considered less critical in reaching our conclusions on the audit objectives.



Other Obs. 1

Provide Supporting Documentation for Planning's Estimates of Required Site Improvements

1. A 10% administrative fee allowed by the Code of Virginia was not always added to the POD project estimates calculated. Furthermore, when the administrative fee was added into the estimate amount, it was not always broken-out separately on the bond tracking form and, thus, was not always documented separately in the database system. Furthermore, detailed testing of three Plans of Development (POD's) revealed that two did not have the 10% Administrative Fee added.
2. Sufficient documentation to support the calculation of estimates was not always maintained.





Other Obs. 1

Provide Supporting Documentation for Planning's Estimates of Required Site Improvements, cont.

Recommendation:

1. Planning's estimates on the bond tracking forms should be broken-down into the various bond component items so that the addition of the 10% administrative fee is clearly documented.
2. The Account Clerk III should recalculate the overall estimate including this fee amount and initial and date the tracking form to document her check. If correct, the fee amount should be added separately in the Access database under the "Admin" column.
3. Sufficient supporting documentation should be maintained in the project file or in the Zoning Conformance section of the Planning Department to address questions concerning the estimate if they are raised.



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Other Obs. 1

Management Action Plan

#	Management Action Plan	Completed By	Date
OO1.1	The zoning enforcement officers have been trained in the correct process for filling out the Bond Receive and Release form. This will be monitored by the Account Clerk III, who will report any problems to the Senior Principal Planner.	Senior Principal Planner	8/3/16
OO1.2	The Account Clerk III will recalculate the estimate on each Bond Receive and Release Form and will initial and date the form once its accuracy has been verified prior to entering the appropriate information into the Financial Guarantees database, including the administrative fee.	Account Clerk III	9/9/16
OO1.3	The zoning enforcement officers have been directed to maintain documentation for estimates in their working files.	Deputy Zoning Conformance Officer	8/3/16



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Other Obs. 2

Ensure the Draft Policy to Help Ensure Timely Project Completion is Issued

Prior to the start of the audit, management had already formed a task force to address citizen complaints related to deteriorating roads in a subdivision project. The resulting response was a draft document entitled, "Policy for Development of Residential Subdivisions" which sets forth more stringent controls to ensure that projects move forward towards completion of the required improvements without being continually extended.

Recommendation:

We support managements' efforts to address this risk and recommend that the draft policy be issued in its final form as soon as possible. Once issued, the policy should be reviewed periodically with necessary updates made at that time.



Other Obs. 2

Management Action Plan

#	Management Action Plan	Completed By	Date
OO2	Planning Department staff will continue to work with the Department of Public Works to develop the proposed policy regarding timely completion of development projects, and will recommend adoption to those responsible.	Senior Principal Planner	12/31/16





Other Obs. 3

Confirm all LOC and Surety Bond Contractual Agreements are Properly Stored and Saved Electronically

Discussions with the Account Clerk III in the Zoning Administration Division revealed that the process to scan and save LOC/Surety agreements and any related amendments had not been kept up to date. Furthermore, the original agreements were kept in her desk drawer.

Recommendation:

The Senior Principal Planner in the Zoning Administration Division should:

1. Ensure that all financial guarantee agreements and related amendments are scanned and saved electronically in folders on a shared drive that is back-up nightly by IT. Consideration should be given to moving these electronic copies to the case files in the enterprise document management system.
2. Move the original documents to upgraded file cabinets that may provide better protection from damage due to fire, water, etc.



Other Obs. 3

Management Action Plan

#	Management Action Plan	Completed By	Date
OO3.1	All financial guarantees have been, and will continue to be, scanned and saved on a shared drive backed up nightly by the Department of Information Technology.	Account Clerk III	8/3/16
OO3.2	Original financial guarantees have been moved to a more secure location in the Planning Department.	Account Clerk III	8/3/16





Closing

- Appreciate Agency’s cooperation
- Follow up on open Action Plans will be performed as completion dates are reached or after sufficient time has passed to ensure the actions are effective and on-going.



Report Distribution

Audit Committee (Mr. Glover, Mrs. O’Bannon, County Manager)	Board of Supervisors, Non-Committee Members
Deputy County Manager for Community Development	Director of Planning
Internal Audit Staff	



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