

Internal Audit Report on Meals Tax Administration

County of Henrico



*Proud of our progress;
Excited about our future*

Internal Audit Report #266 November 20, 2017

HENRICO COUNTY INTERNAL AUDIT
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Internal Audit Report on Meals Tax Administration



Report #266
November 20, 2017

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Summary

- Scheduled Audit
- Conclusions on Audit Objectives:
Controls are sufficient, insufficient, or need improvement related to:
 - Determine Meals Tax revenue is properly collected from all applicable entities to which it applies per County code
 - Determine defined late or non-filing penalties are properly levied per the County code and any refunds due are properly disbursed
 - Determine Meals Tax revenue collected is completely and accurately recorded in appropriate general ledger account(s)
 - Determine Meals Tax revenue is tracked in a manner that enables all funds collected to be used solely for operational and capital project needs of HCPS
- Exception Oriented
- No reportable Issues or Other Observations
- No Management Action Plans Required

● Insufficient-Immediate Attention ▲ Improvement Needed ■ Sufficient

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Contents

- Introduction and Background
- Scope, Objectives and Methodology
- Conclusion on Audit Objectives
- Issues/Other Observations
- Closing and Report Distribution



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Introduction

- Auditor III Joyce Aikor-Richardson 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
- Work for same Government we audit



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Background

- The referendum was held on November 5, 2013 and a majority of voters in the County approved the referendum giving the Board of Supervisors the authority to vote on a Food and Beverage “Meals” Tax ordinance.
- A public hearing on the meals tax was held on February 25, 2014 and after the public hearing, the Board of Supervisors approved the meals tax ordinance at this meeting.
- On June 1, 2014, establishments began collecting the meals tax for which their first payments to the County were due July 21, 2014, because July 20, 2014 was a Sunday but the 20th each month thereafter. Processes for the administration and collection of the meals tax are continuously being examined and refined.

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Budget Highlights

- The meals tax revenue for FY2014-15 was conservatively estimated as this was the initial year of the meals tax at \$18 million with the first \$9 million being allocated to School Operational needs and \$9 million being used to fund School Capital Projects.
- The FY2013-14 meals tax revenue from June 2014, which totaled \$1,990,470, was put in a meals tax reserve and allocated to the capital project needs of HCPS in FY2015-16. The actual revenue generated from the meals tax in FY2014-15 was also greater than originally projected.
- At the end of each fiscal year, all meals tax revenue collected over the budgeted revenue estimate will be placed in the meals tax reserve for future capital project needs of HCPS, which will be reviewed and approved on a project by project basis by the Board of Supervisors.

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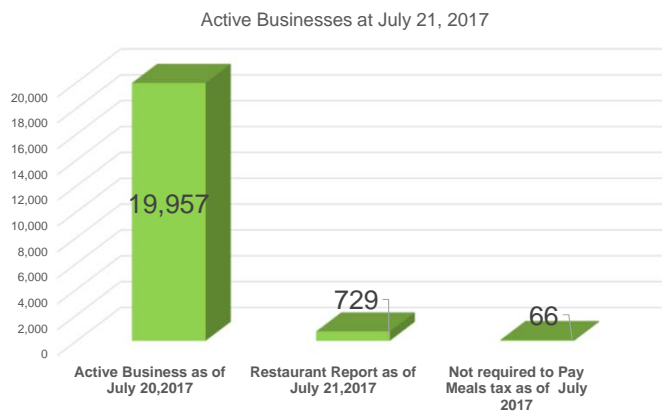
Budget Highlights

- As the HCPS and County further work together to formulate meals tax eligible projects and incorporate such projects into adopted budgets, the sooner such projects can proceed
- The meals tax ordinance approved by the Board of Supervisors included a 3% holdback on the total meals tax collected each month provided the business files and pays the meals tax by the due date each month. The 3% holdback is intended to offset the administrative cost of collecting the meals tax. Henrico is one of the few localities in the Commonwealth that allows the holdback, which is in keeping with Henrico's tradition of being a business-friendly community.

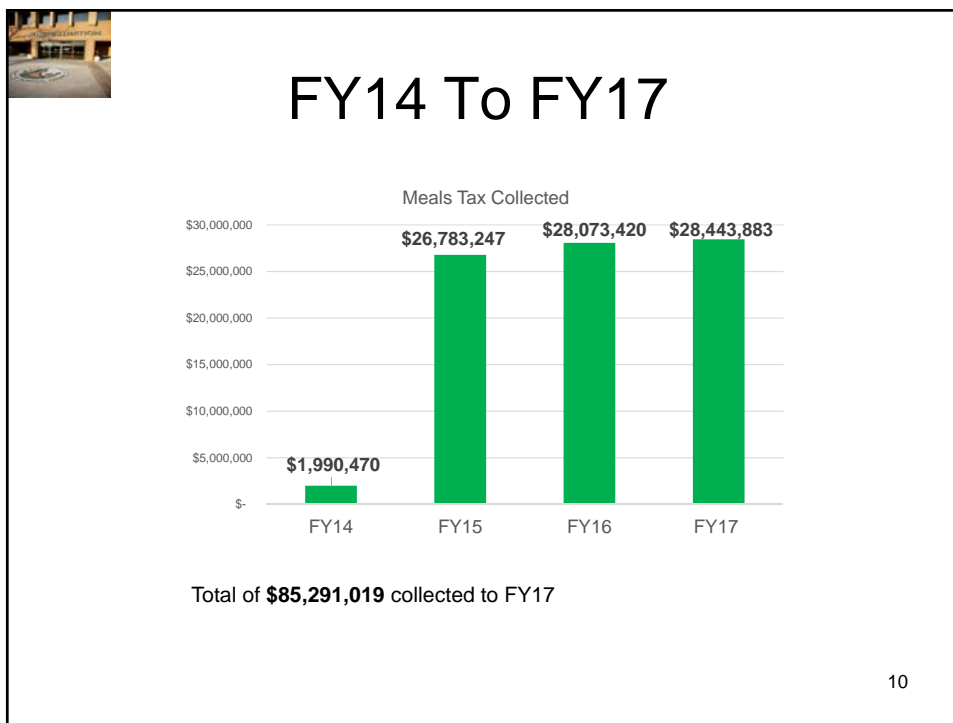
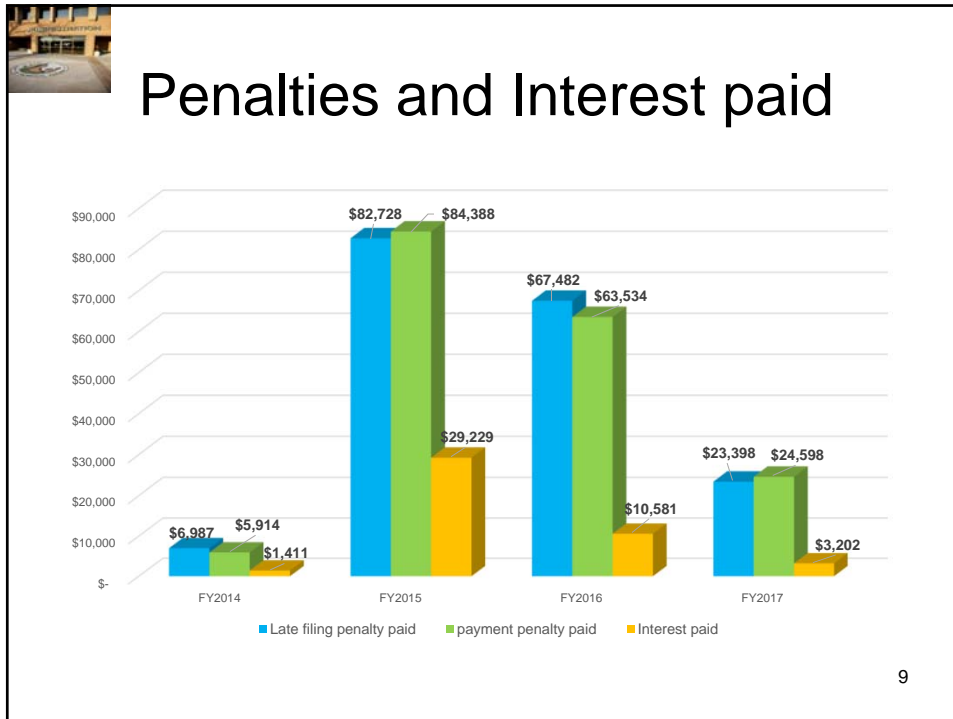
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Business Section System (RBS) Data



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Approved Budget FY2014-2015

FY2014-15: As a result of the approval of the referendum in November, 2013, the FY2014-15 budget reflects the inclusion of revenues to be generated from the food and beverage tax, more commonly referred to as the meals tax. **The General Fund utilizes \$9,000,000 of meals tax resources to cover fixed cost increases such as payments to VRS for retirement and group life benefits, health care cost increases, and increases in the retiree health care credit.** In addition, there are a number of other items that were added to maintain service levels and bring fiscal structure back to the HCPS budget.

The remaining \$9,000,000 estimated to come from the meals tax is allocated in the FY2014-15 capital budget for improvements to aging schools. These improvements include HVAC system updates, roofing projects, new windows, lighting, doors, and other building systems critical to fostering a positive and inviting learning environment. The capital allocation of meals tax resources is in addition to the \$2.5 million allocation of General Fund resources that has been provided for mechanical improvements and roof replacements since FY1997-98.

The approved budget is the County's annual fiscal plan adopted by the Board of Supervisors and implemented by the County Manager

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Approved Budget FY2015-2016

FY2015-16: As a result of the approval of the referendum in November, 2013, the FY2015-16 budget continues to reflect the inclusion of revenues to be generated from the food and beverage tax, more commonly referred to as the meals tax. In FY2015-16, \$20,000,000 is projected in meals tax resources.

Of this amount, \$9,000,000 will continue to be allocated to the operating budget, \$9,000,000 will continue to be allocated to the capital budget for deferred maintenance projects, and \$2,000,000 will be allocated to a reserve for capital needs to be identified for the FY2016-17 capital budget. In addition to the \$20,000,000 projected to be collected in FY2015-16, **the amount of meals tax collected in June, 2014 of \$1,990,470 will also be allocated for deferred maintenance projects in the FY2015-16 capital budget.** The combined \$10,990,470 of meals tax resources are in addition to the \$2,500,000 allocated in the capital budget for mechanical improvements and roof replacements.

The approved budget is the County's annual fiscal plan adopted by the Board of Supervisors and implemented by the County Manager

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Approved Budget FY2016-2017

FY2016-17: As a result of the approval of the referendum in November, 2013, the FY2016-17 budget continues to reflect the inclusion of revenues to be generated from the food and beverage tax, more commonly referred to as the meals tax. In FY2016-17, \$20,000,000 is projected in meals tax resources.

Of this amount, \$9,000,000 will continue to be allocated to the operating budget, \$9,000,000 will continue to be allocated to the capital budget for deferred maintenance projects, and \$2,000,000 will be allocated to a reserve for capital needs to be identified in a future capital budget. In addition to the \$20,000,000 projected to be collected in FY2016-17, the FY2016-17 capital budget includes **\$10,783,247 of prior collected meals tax resources for planning and design for several renovation projects.** The combined meals tax resources are in addition to the \$2,500,000 allocated in the capital budget for mechanical improvements and roof replacements.

The approved budget is the County's annual fiscal plan adopted by the Board of Supervisors and implemented by the County Manager

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Approved Budget FY2017-2018

FY2017-18: As a result of the approval of the referendum in November, 2013, the FY2017-18 budget continues to reflect the inclusion of revenues to be generated from the food and beverage tax, more commonly referred to as the meals tax. In FY2017-18, \$22,988,000 is projected in meals tax resources.

Of this amount, \$9,000,000 will continue to be allocated to the operating budget, \$9,000,000 will continue to be allocated to the capital budget for deferred maintenance project, \$2,988,000 to debt service related to the 2016 bond projects, and \$2,000,000 will be allocated to a reserve for capital needs to be identified in a future capital budget. The meals tax resources for maintenance projects are in addition to the \$2,500,000 allocated in the capital budget for mechanical improvements and roof replacements.

The approved budget is the County's annual fiscal plan adopted by the Board of Supervisors and implemented by the County Manager

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Transfer to School Capital Project

JUL-14-FY15	FY15	Actual		\$9,000,000
JUL-14-FY15		Actual	\$9,000,000.	
JUL-15-FY16	FY16	Actual		\$1,990,470
JUL-15-FY16		Actual	\$10,990,470.	
JUL-15-FY16		Actual		\$9,000,000
JUL-16-FY17	FY17	Actual		\$2,000,000
JUL-16-FY17		Actual	\$19,783,247	
JUL-16-FY17		Actual		\$9,000,000
JUL-16-FY17		Actual		\$8,783,247

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Transfer to School General Fund

JUL-14-FY15	FY15	Actual		\$9,000,000
JUL-14-FY15		Actual	\$9,000,000.	
JUL-15-FY16	FY16	Actual		\$9,000,000
JUL-15-FY16		Actual	\$9,000,000.	
JUL-16-FY17	FY17	Actual		\$9,000,000
JUL-16-FY17		Actual	\$9,000,000	

The General Fund utilizes \$9,000,000 of meals tax resources to cover fixed cost increases such as payment to VRS for retirement and group life benefits, health care credit. (Source Approved Budget for FY14-15, FY15-16, and FY16-17)

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Scope

- Revenue Division of Finance
- Monitoring businesses for compliance (including audits)
- Monitoring of late or non-filers
- Review of accounts for refunds
- Review of system reports of penalties and interest
- Recording of revenue and transfers on the General Ledger

Excluded:

- System controls in RBS Meals Tax module related to the calculation of penalties and interest. *These controls will be separately considered for a future system audit.*

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Internal Controls *Objectives*

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



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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

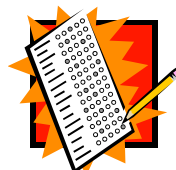


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Audit Methodology

- Determined revenue-related processes and control procedures (e.g. reviews to ensure completeness of filings, compliance audits, segregation of duties, etc.)
- Evaluated strengths and weaknesses of control procedures
- Sampled documentation to evaluate controls
- Reviewed RBS revenue reports (including penalties and interest) and compared to Oracle General Ledger
- Reviewed transfers and related Board approvals



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Conclusions on Audit Objectives

Rating	Audit Objective	Issues/Other Observations Identified
■	Determine Meals Tax revenue is properly collected from all applicable entities to which it applies per County code	None
■	Determine defined late or non-filing penalties are properly levied per the County code and any refunds due are properly disbursed	None**
■	Determine Meals Tax revenue collected is completely and accurately recorded in appropriate general ledger account(s)	None
■	Determine Meals Tax revenue is tracked in a manner that enables all funds collected to be used solely for operational and capital project needs of HCPS	None

** Note Scope Exclusion at Slide 17.


● Insufficient-Immediate Attention
 ▲ Improvement Needed
 ■ Sufficient

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Issues/Other Observations

No issues noted



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Closing

- Appreciate Agency's cooperation
- No Follow Up for this audit



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Report Distribution

Audit Committee (Mrs. O'Bannon, Mr. Thornton, County Manager)	Board of Supervisors, Non-Committee Members
Deputy County Manager for Administration	Director of Finance
Internal Audit Staff	

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