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March 29, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We are pleased to submit the statewide **Report on Collection of Commonwealth Revenues by Local Constitutional Officers** for the fiscal year ended June 30, 1998. The Auditor of Public Accounts annually audits each constitutional officer or director of finance handling state funds to determine that these officials have maintained accountability over Commonwealth collections, established internal controls, and complied with state laws and regulations. This statewide report summarizes our findings that we have previously communicated to the individual Treasurers, Directors of Finance, Sheriffs, Commissioners of Revenue, and Commonwealth Attorneys and the respective local governing body upon completing our individual audits. Clerks of the Circuit Courts maintain separate accounting records and we issue separate reports for each Clerk's Office.

We group findings by constitutional officer and locality. Most findings affect a single locality, although there were two issues affecting several localities. We found four Treasurers not reconciling state taxes to monthly Commonwealth reports. Several others delayed remitting sheriff's fees to the Commonwealth. Page 7 summarizes the internal control and compliance findings for all of the constitutional officers.

We limit our work in local government to the collection of Commonwealth revenues. The local governments hire certified public accountants to audit all other local government financial activities. These firms issue separate reports on the results of their audits.

AUDITOR OF PUBLIC ACCOUNTS

WJK: kwv

INTERNAL CONTROL AND COMPLIANCE FINDINGS

TREASURERS

AUGUSTA COUNTY

Properly Remit Sheriff's Fees

The Treasurer improperly coded \$16,270 of state sheriff's fees as local collections. When notified of the problem, the Treasurer immediately sent the unpaid amount to the state. The Treasurer should monitor sheriff's fees to ensure the state receives its share.

CARROLL COUNTY

Remit Sheriff's Fees Promptly

The Treasurer delayed transferring sheriff's fees to the Treasurer of Virginia on 6 of the 37 days tested for up to 11 banking days. Section 2.1-198B of the Code of Virginia requires treasurers to remit fees weekly or twice each week if collections exceed \$5,000. The Treasurer should remit fees to the State Treasurer as required by the Code of Virginia.

GRAYSON COUNTY

Remit Sheriff's Fees Promptly

The Treasurer delayed transferring sheriff's fees to the Treasurer of Virginia on 35 of the 45 days tested for up to 15 banking days. Section 2.1-198B of the Code of Virginia requires treasurers to remit fees weekly or twice each week if collections exceed \$5,000. The Treasurer should remit fees to the State Treasurer as required by the Code of Virginia.

ISLE OF WIGHT COUNTY

Improve Accounting System Knowledge

The Treasurer does not reconcile his automated accounting system to the Commonwealth's Accounting and Reporting System. However, the Treasurer does perform a reconciliation using manual records in combination with automated reports. The Treasurer's organization of accounts makes reconciliation difficult, time consuming and very inefficient. Since its implementation in 1995, the Treasurer did not establish accounts for all state tax activity or properly code existing accounts to the general ledger. The state's Department of Accounts provides local treasurers with monthly reports showing state tax assessments, collections, and uncollected balances by revenue source. The Treasurer should immediately establish the proper control accounts, modify the account structure, and establish reconciliation procedures to ensure the automated accounting records are complete and accurate. Until the Treasurer is able to correct the inadequacies of the system, he should consider reverting back to his previous accounting system.

KING AND QUEEN COUNTY

Reconcile State Taxes to Commonwealth Reports

The Treasurer does not reconcile state tax assessments to monthly Commonwealth reports. The state's Department of Accounts provides local treasurers with monthly reports showing state income tax assessments, collections, and uncollected balances. To ensure this information is complete and accurate, local treasurers must reconcile this information to the locality's records. The Treasurer should reconcile assessments and collections monthly according to the Department of Accounts' November 29, 1995 Procedures Memorandum.

Record Dates of Tax Payments

The Treasurer does not keep adequate records of payment receipt dates. Section 2.1-198A of the Code of Virginia requires the treasurers to maintain a record of the date they receive tax payments and the date they forwarded payments to the state treasurer. Recording these dates provides evidence of compliance with the requirement that the state treasurer received all payments within one banking day after receipt.

KING GEORGE COUNTY

Remit Sheriff's Fees Promptly

The Treasurer delayed transferring sheriff's fees to the Treasurer of Virginia on 16 of the 34 days tested for up to 9 banking days. Section 2.1-198B of the Code of Virginia requires treasurers to remit fees weekly or twice each week if collections exceed \$5,000. The Treasurer should remit fees to the state Treasurer as required by the Code of Virginia.

PETERSBURG CITY

Utilize New System

The City installed a new computer system in October 1997; however, the Treasurer continued to use manual records to account for nearly all state tax activity. The Treasurer did not reconcile the manual system to the automated system. We noted several differences in assessments and overpayments between the manual general ledger, computer system, and Commissioner of Revenue's records.

The Treasurer could not provide accurate year-end balances for the audit. We reconstructed assessments, uncollected balances, overpayments, special payments, and penalty and interest amounts from the Commissioner of Revenue's records, Treasurer's assessment sheets, manual general ledger, deposit certificates, Commonwealth reports, and computer system reports. The only computer system reports that the Treasurer's office knew how to run were the assessment sheets. We contacted Bright's technical support and obtained instructions for the Treasurer's staff to run other reports.

The City's official accounting system is the computer system. The Treasurer should fully utilize this system to account for state tax activity and acquire additional training as needed.

Reconcile State Taxes to Commonwealth Reports

The Treasurer did not reconcile state tax assessments to monthly Commonwealth reports. The state's Department of Accounts provides local treasurers with monthly reports showing state income tax assessments, collections and uncollected balances. To ensure this information is complete and accurate, local treasurers must reconcile this information to the locality's records. The Treasurer should prepare monthly reconciliations of assessments and collections using the Department of Accounts' November 29, 1995 Procedures Memorandum.

Reconcile List of Uncollectible Taxes

The Treasurer did not reconcile the 1996 List of Uncollectible State Income Taxes submitted to the Department of Taxation to the advice returned from the Department. The uncollectible amount submitted was \$350 less than the uncollectible amount received by the Department. Subsequent to the audit, the Treasurer resolved this discrepancy with the Department of Taxation.

POWHATAN COUNTY

Establish Consistent Reconciliation Procedures

The Treasurer does not reconcile the monthly Commonwealth Revenue Detail Report to the County's accounting system. Consequently, we found several miscoded receipts on the Commonwealth report. The Department of Accounts provides local treasurers with monthly reports showing state tax assessments, collections, and uncollected balances. To ensure this information is complete and accurate, local treasurers must reconcile this information to the locality's records.

SMYTH COUNTY

Reconcile State Taxes to Commonwealth Reports

The Treasurer did not reconcile state tax assessments to monthly Commonwealth reports. The state's Department of Accounts provides local treasurers with monthly reports showing state income tax assessments, collections and uncollected balances. To ensure this information is complete and accurate, Treasurers must reconcile this information to their records. The Treasurer should prepare monthly reconciliations of assessments and collections using the Department of Accounts' November 29, 1995 Procedures Memorandum.

Update Interest Tables

The Treasurer did not update her state tax accounting system to reflect changes in interest rates published by the state's Department of Taxation. At the auditor's request, the Treasurer updated the system to reflect the most current interest rate. The Treasurer should promptly update the system for future rate changes.

SHERIFFS

AUGUSTA COUNTY

Deposit Collections Promptly

The Sheriff delayed depositing collections on 5 of 12 days we tested for up to 8 banking days. The Sheriff receipts over \$5,000 annually, securing collections in a locked desk until he deposits them into his official bank account. To reduce the risk of fraud or loss, the Sheriff should deposit collections weekly as suggested by the Virginia Sheriff's Accounting Manual.

COMMISSIONERS OF REVENUE

KING AND QUEEN COUNTY

Record Dates of Tax Payments

The Commissioner of Revenue does not keep adequate records of payment receipt dates and forwarding dates. Section 58.1-307B of the Code of Virginia requires the commissioners of revenue to maintain a record of the date they receive tax payments and the date they forwarded payments to the local treasurer. Recording these dates provides evidence of compliance with the requirement that the local treasurer received all payments within two banking days after receipt.

SUSSEX COUNTY

Send State Income Tax Payments to the Treasurer Promptly

The Commissioner of Revenue delayed transfers of state payments to the local Treasurer on 8 of 25 days we tested for up to 15 banking days. The Commissioner should remit state payments within two banking days as required by Section 58.1-307B of the Code of Virginia.

SUMMARY OF FINDINGS

We have audited state funds handled by local Treasurers, Sheriffs, Commissioners of Revenue, and Commonwealth Attorneys. The following schedule summarizes these constitutional officers' noncompliance with state laws and regulations and weaknesses in internal controls.

Requirement	Source of Requirement	Number of Officials Not Complying
TREASURERS:		
Remit Sheriff's Fees Promptly (<i>Carroll, Grayson, King George</i>)	<u>Code of Virginia § 2.1-198B</u>	3
Reconcile State Taxes to Commonwealth Reports (<i>King and Queen, Petersburg, Powhatan, Smyth</i>)	Department of Accounts Procedures Memorandum	4
Record Dates of Tax Payments (<i>King and Queen</i>)	<u>Code of Virginia § 2.1-198A</u>	1
Properly Remit Sheriff's Fees (<i>Augusta</i>)	<u>Code of Virginia § 15.2-1609.3</u>	1
Improve Accounting System Knowledge (<i>Isle of Wight</i>)	--	1
Utilize New System (<i>Petersburg</i>)	--	1
Reconcile Uncollectible Taxes List (<i>Petersburg</i>)	--	1
Update Interest Tables (<i>Smyth</i>)	--	1
SHERIFFS:		
Deposit Collections Promptly (<i>Augusta</i>)	<u>Virginia Sheriffs Accounting Manual</u>	1
COMMISSIONERS OF REVENUE:		
Record Dates of Tax Payments (<i>King and Queen</i>)	<u>Code of Virginia § 58.1-307B</u>	1
Send State Income Tax Payments Promptly (<i>Sussex</i>)	<u>Code of Virginia § 58.1-307B</u>	1