



**OFFICE OF FINANCIAL AND PROGRAM AUDIT
NOVEMBER 2020 QUARTERLY REPORT**

**BOARD OF SUPERVISORS
AUDITOR OF THE BOARD**

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**Fairfax County
Office of Financial and Program Audit**



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Office of Financial and Program Audit

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**Fairfax County
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REPORT ABSTRACT

Working under the guidance and direction of the Audit Committee, the Auditor of the Board provides an independent means for assessing management's compliance with policies, programs and resources authorized by the Board of Supervisors. Further to this process, efforts are made to gain reasonable assurance that management complies with all appropriate statutes, ordinances and directives.

This agency plans, designs, and conducts studies, surveys, evaluations and investigations of County agencies as assigned by the Board of Supervisors or the Audit Committee (AC). For each study conducted, the agency focuses primarily on the County's Corporate Stewardship vision elements. The agency does this by developing, whenever possible, information during the studies performed which are used to maximize County revenues or reduce County expenditures.

To assist the Office of Financial and Program Audit (OFPA) with executing the responsibilities under our charge, members of the Fairfax County Board of Supervisors (BOS) submit study recommendations of which the findings and management responses are included in published studies. This process is utilized to provide the constituents, BOS and management reasonable assurance that fiscal and physical controls exist within the County.

Additionally, this agency conducts follow-up work on prior period studies. As part of the post study work conducted, we review the agreed upon managements' action plans. To facilitate the process, we collaborate with management prior to completion of studies. Through this collaboration, timelines for the implementation of corrective action and status updates are documented for presentation at the upcoming Audit Committee Meetings.

The results of studies may not highlight all the risks/exposures, process gaps, revenue enhancements and/or expense reductions which could exist. Items reported are those which could be assessed within the scheduled timeframe, and overall organization's data-mining results. The execution of the OFPA's studies are facilitated through various processes such as; sample selections whereby documents are selected and support documentation is requested for compliance and other testing attributes. Our audit approach includes interviewing appropriate staff and substantive transaction testing. OFPA staff employs a holistic approach to assess agencies/departments whereby the review is performed utilizing a flow from origination to closeout for the areas under review.

There are several types of studies performed by OFPA, e.g.; operational, financial, compliance, internal controls, etc. To that end, it is important to note; OFPA staff reserves the option to perform a holistic financial and analytical data-mining process on all data for the organization being reviewed where appropriate. This practice is most often employed to perform reviews for highly transactional studies.

**Fairfax County
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UNALLOCATED/UNASSIGNED SALES TAX STUDY

OVERVIEW AND UPDATES

The results of this study may not highlight all the risks/exposures, process gaps, revenue enhancements and/or expense reductions which could exist. Items reported are those which could be assessed within the scheduled timeframe, and overall organization's data-mining results. **Office of Financial and Program Audit (OFPA's) studies** are facilitated through several processes such as: sample selections, compliance support documentation and various testing approaches. There are several types of studies performed by OFPA, e.g.: performance, operational, financial, compliance, etc. To that end, it is important to note OFPA staff reserves the option to perform a holistic financial and analytical data-mining process on all data for the organization being reviewed where appropriate. This practice is most often employed to perform reviews for highly transactional studies.

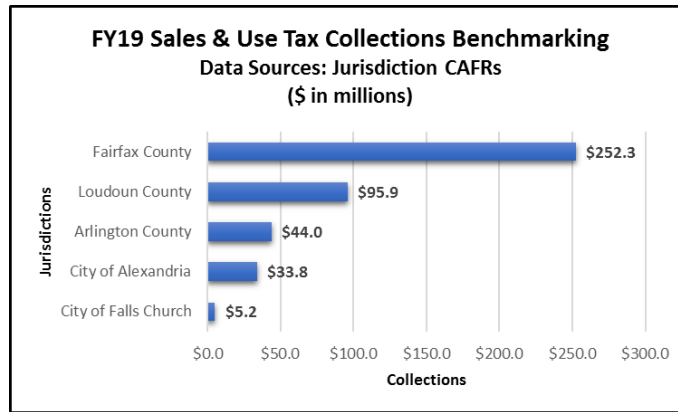
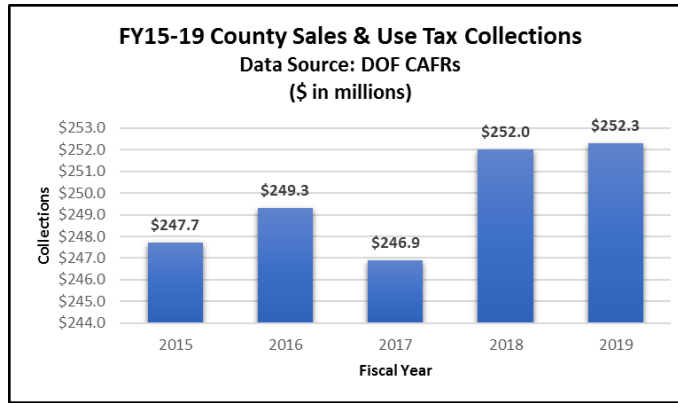
Individuals and/or businesses with sales, leases, and rentals of tangible personal property in or for use in Virginia, as well as accommodations and certain taxable services, are subject to Virginia Sales and Use Tax (*unless an exemption or exception is established*). Per the Department of Tax Administration (DTA) website, the General Sales Tax Rate for Fairfax County is **6% (4.3% state tax, 1% local tax, and 0.7% state tax for transportation)**. All local sales taxes are self-reported by businesses to the Virginia Department of Taxation (TAX). TAX then allocates tax revenues back to the localities in which the sales were made generally based on monthly or quarterly sales tax filings made by the business. Allocations to localities are based on Federal Information Processing Standards (FIPS) codes recorded by the business on their sales tax return. Each locality in Virginia is assigned a unique FIPS code by the National Institute of Standards and Technology (NIST) to ensure uniform identification of geographic entities throughout government agencies. The FIPS code for the County is **51059**. Misallocations of Sales and Use Tax revenues occur when businesses incorrectly record FIPS codes. Unassigned Sales and Use Taxes occur when FIPS codes are not provided by businesses for out of state vendors.

To perform our analysis, OFPA liaised with DTA, TAX, and surrounding local jurisdictions to obtain approvals for release of their distribution reports (*details local sales, use, and vending distributions to Virginia localities*), registration tax type activity reports (*details business registration additions, modifications, and deletions*), and monthly new dealer reports (*lists businesses that have opened, re-opened, and closed in locality or surrounding jurisdictions*). We were informed by DTA and TAX most misallocations occur with the jurisdictions surrounding the County. The following table details the reports provided by each jurisdiction:

Surrounding Jurisdictions' Sales & Use Tax Data		
Jurisdictions	Reports Provided	Review Periods
City of Alexandria	004D.0 Locality Distribution 061.1 Registration Activity	December 2019 June 2020
City of Falls Church	004D.0 Locality Distribution 061.1 Registration Activity	December 2019 June 2020
Loudoun County	004D.0 Locality Distribution 061.1 Registration Activity	December 2019 June 2020
Arlington County	061.1 Registration Activity 243.A Sales Tax Dealers	December 2019 June 2020
City of Fairfax	Declined to Participate	N/A

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The tables below detail FY15-19 Sales and Use Tax remittances from TAX to the County & FY19 benchmarking to the jurisdictions participating in our review:



Businesses' Sales and Use Tax remittances to TAX are managed in the State's Integrated Revenue Management System (IRMS). TAX provides IRMS access to one staff member per locality. Through this access staff can: download monthly TAX distribution & locality transfer reports, research business information, review status of pending transfers, etc.

The focus of our review was to identify Sales and Use Taxes due to the County that were misallocated to other jurisdictions or remain unassigned with the State of Virginia. We liaised with DTA, Office of the County Attorney (OCA), and TAX to execute this study. Interpretation of Virginia State Statute (**Secrecy of Information Statute 58.1-3**) by OCA & DTA led to OFPA being unable to receive and review these data. TAX provided the requested data to DTA through the External Entity Secure Messaging Center (EESMC) system. In conjunction with DTA, we designed a testing methodology whereby DTA compiled redacted County's Distribution Report 004D (Distribution Report) data, which was analyzed by OFPA for follow-up. We selected samples of retailers (*of various sizes*) from these data. The City of Fairfax and Arlington County declined to share the Distribution Reports for their jurisdictions. For these jurisdictions we ran the current Business, Professional and Occupational License (BPOL) Report for Fairfax County (*for retailers only*) and selected samples of Fairfax County businesses that border Arlington County and City of Fairfax.

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We used both testing approaches to identify businesses to perform trending analyses on sales tax remittances. Trends in the sample with sharp declines that could be attributed to the impact of COVID-19 on sales or declines cleared through smoothing in the trends were not flagged for further review.

The follow-up process will be performed to assess if under reporting, misallocation of revenue and/or tax revenue leakage exists for resolution. Also, to identify if any anomalies could be addressed by one-time fixes.

BOARD INQUIRIES

1. Are the processes used by Arlington County, City of Falls Church, City of Alexandria, & Loudoun County for on-boarding, tracking businesses and sales tax remittances consistent with Fairfax County? If not, do we know how they differ, and can we provide this information to the board?

a. **DTA's Response:**

- i. The VA Department of Taxation (TAX) is responsible for administering the Sales & Use tax for all current and new businesses. TAX provides educational materials, forms, instructions, access to statutes and regulations, and customer service. TAX also conducts audits and performs collection activities for all Sales & Use taxes, which includes the local portion. TAX has a robust website which is useful in facilitating Tax Commissioner rulings. Tax is administered by TAX, localities do not have an administrative role in this process. All localities in the state of VA utilize reports provided by TAX to monitor filings by businesses and to request correction of any misreporting by taxpayers.

2. When businesses remit does the FIPS code automatically populate based on the address or is the FIPS code manually entered?

a. **DTA's Response:**

- i. Most businesses utilize tax software to file their Sales & Use tax returns. The tax software generates the geocode (FIPS code) based on the addresses of customers. For businesses that are unsure of the locality FIPS code of their location, TAX has created a lookup at:
<https://www.business.tax.virginia.gov/fips/index.cfm>

OBSERVATIONS AND ACTION PLANS

The following table details the observation and recommendation for this study along with management's action plan to address it.

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SALES AND USE TAX REVENUE REVIEW

Risk Ranking

MEDIUM

Based on the limitations discussed in the narrative section of this report, OFPA liaised with DTA to construct a follow-up process to identify if declines in revenues for specific businesses represent misallocations. There are **39** graphs below in **Appendix A** whereby OFPA, in concurrence with DTA staff, have identified **30** periods for review and remedy if needed. There are several periods whereby sharp declines and/or flatlines exist in some graphs below. In cases where cyclical smoothing and/or flatlines correspond with high activity COVID-19 dates, these periods were not included in the sample.

Upon completion of the review of the **30** identified periods by DTA's staff, OFPA will liaise with DTA to follow-up on the submission of the requisite paperwork for collections, if needed. This information will be used to quantify any financial impact.

Recommendation

We recommend that DTA review the periods of decline, identified in our sample, to ascertain if these declines are associated with misallocation of revenue. We further recommend DTA staff complete the requisite paperwork to affect the transfer or submission of these funds, if necessary.

Action Plan

Point of Contact	Target Implementation Date	Email Address
Jay Doshi (DTA, Director)	31 May 2021	Jay.Doshi@fairfaxcounty.gov
Juan Rengel (DTA, Division Director)		Juan.Rengel@fairfaxcounty.gov
Young Tarry (DTA, Assistance Director)		Young.Tarry@fairfaxcounty.gov
Harjeet Pawar (DTA, Business Compliance Manager)		Harjeet.Pawar@fairfaxcounty.gov

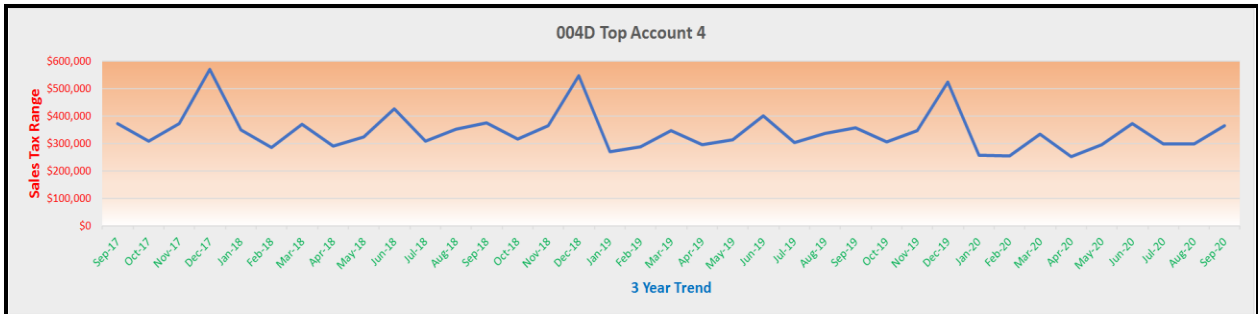
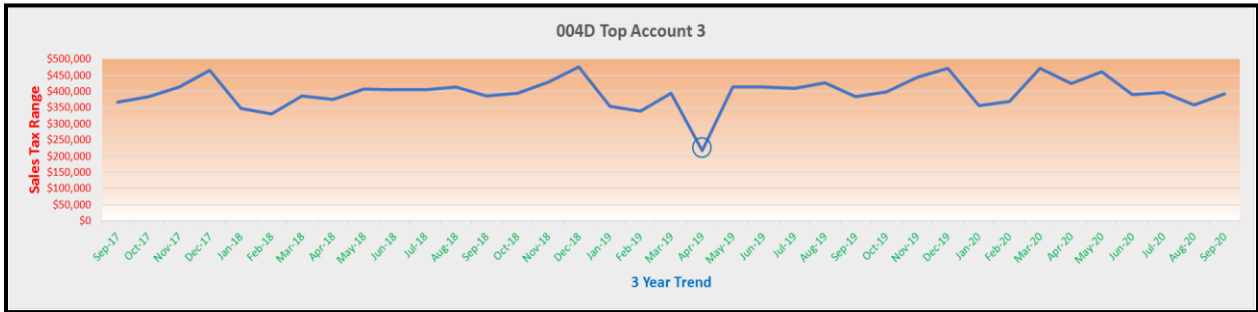
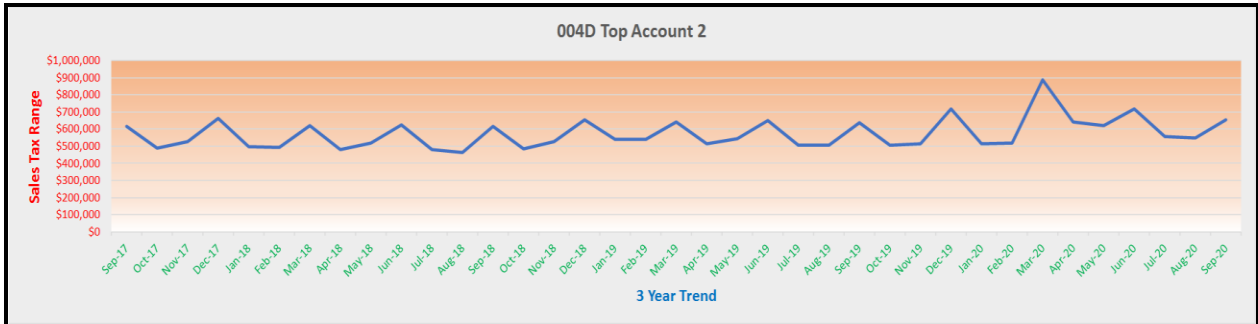
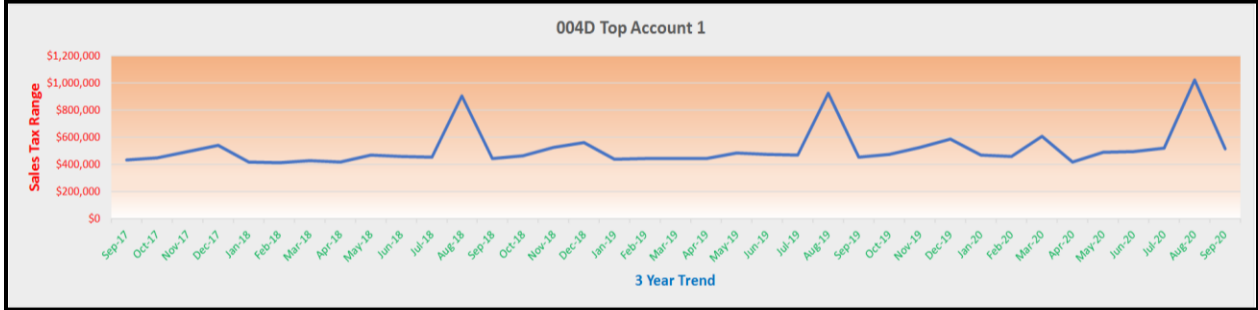
MANAGEMENT RESPONSE:

DTA will be glad to ascertain the reasons for the declines, and submit a transfer request, if appropriate.

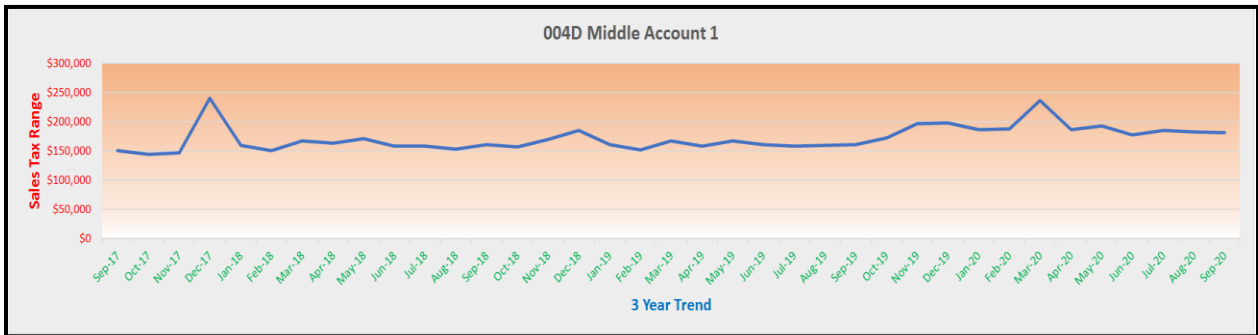
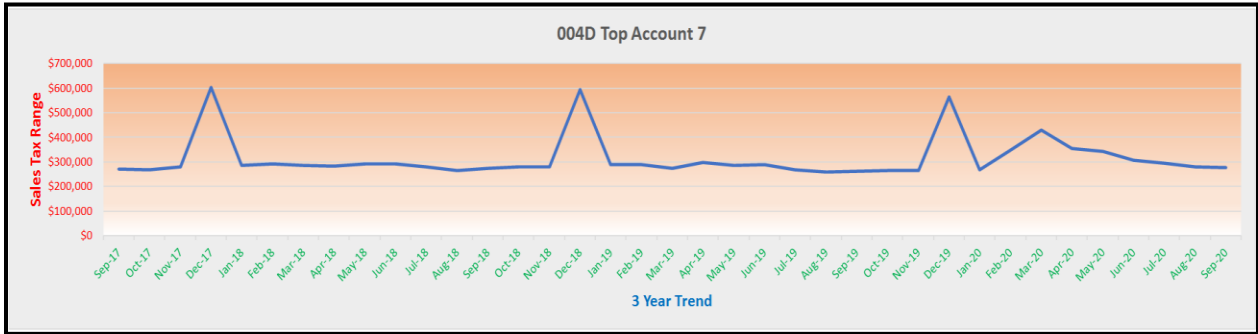
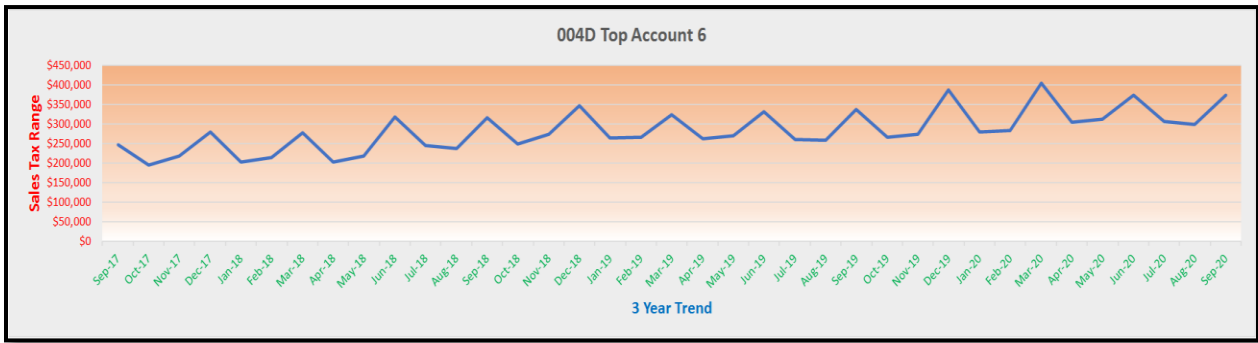
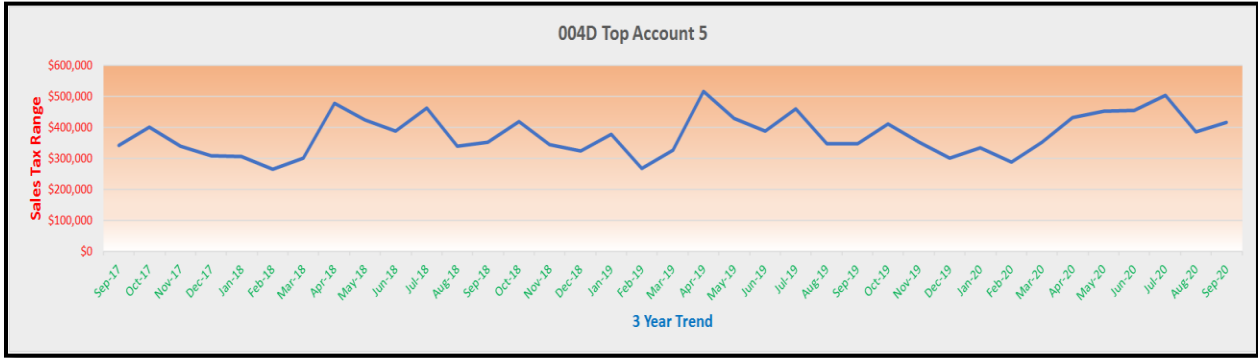
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APPENDICES

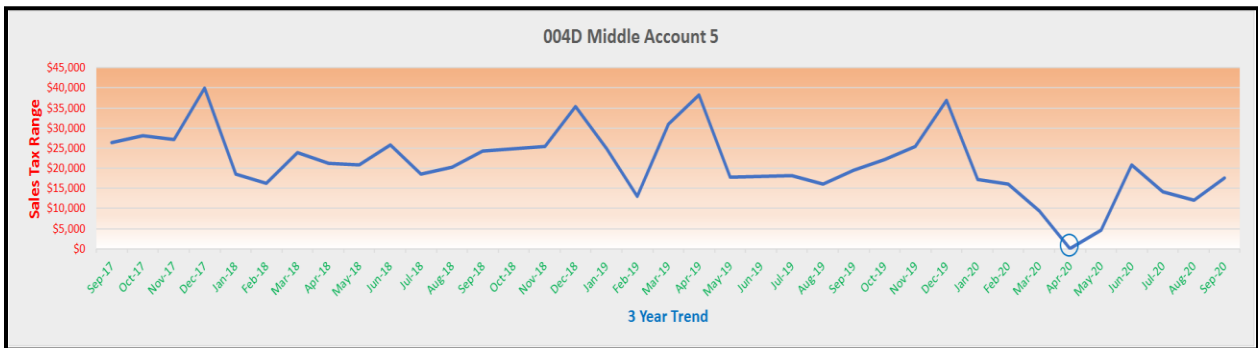
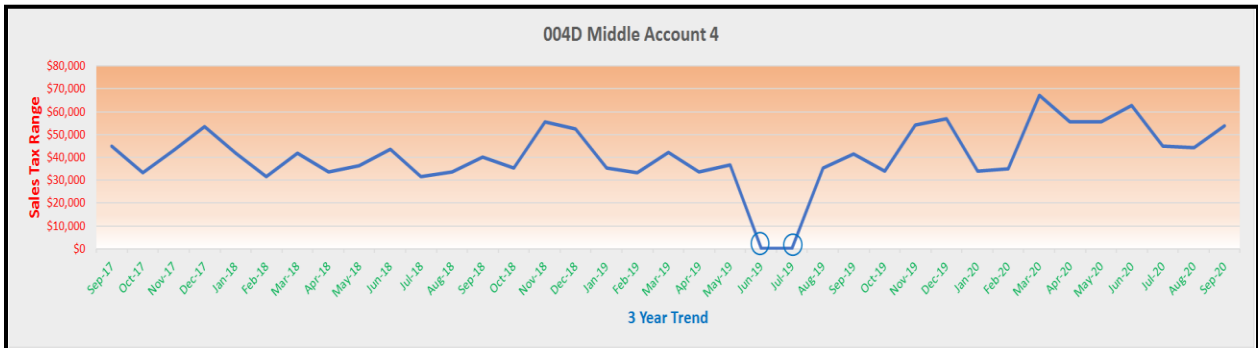
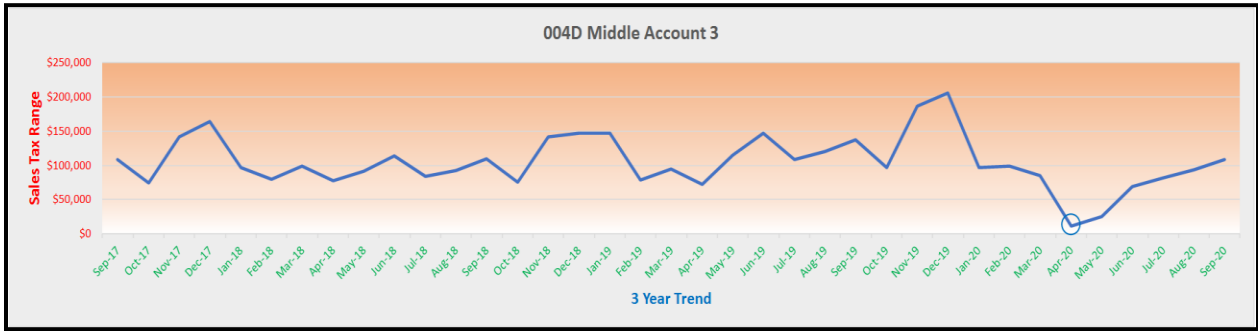
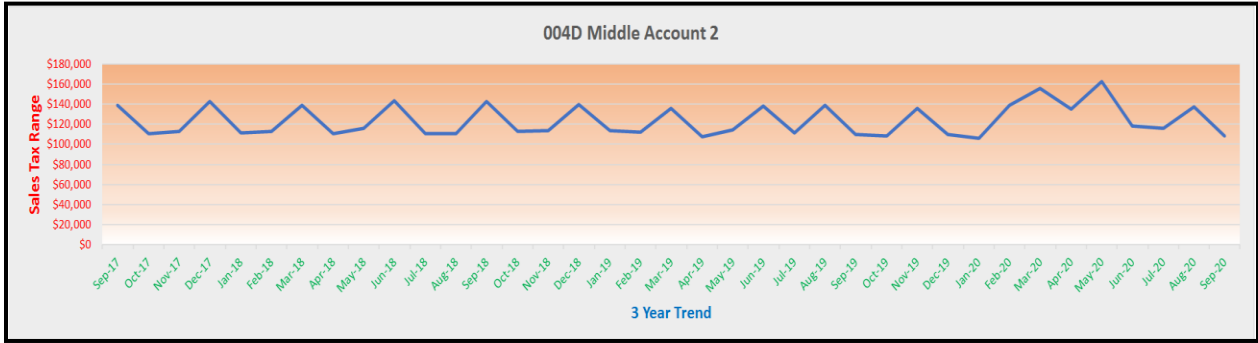
APPENDIX A



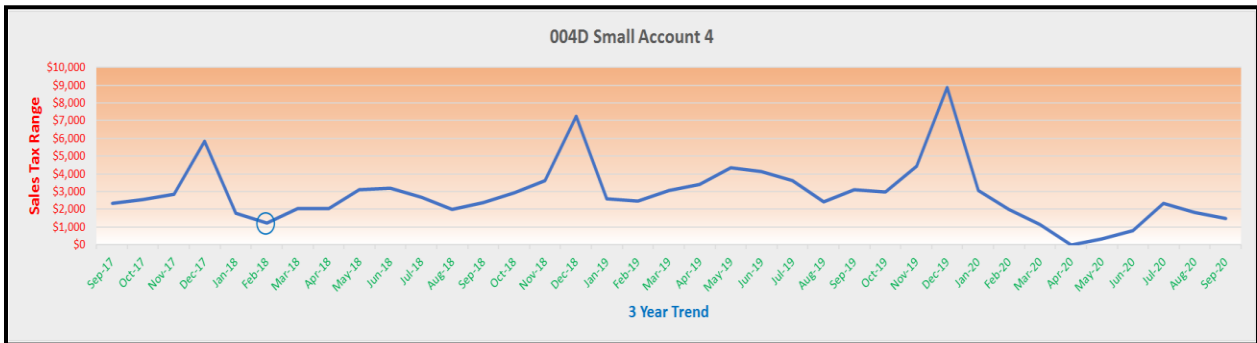
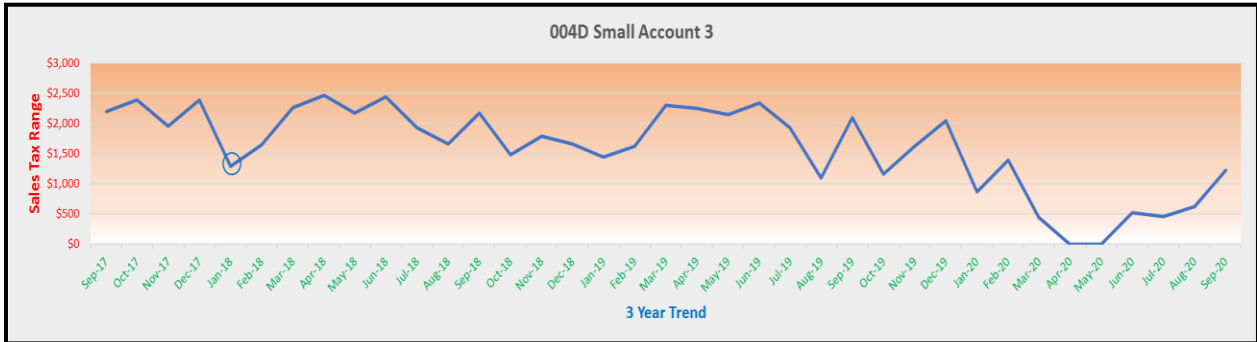
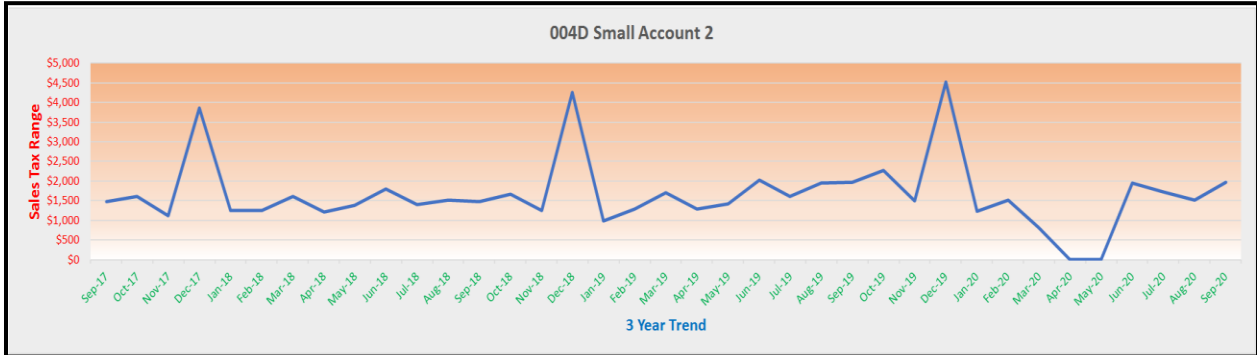
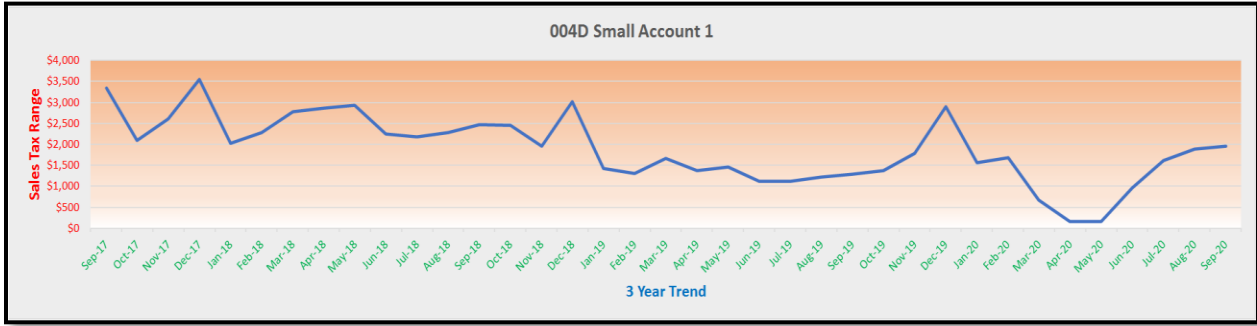
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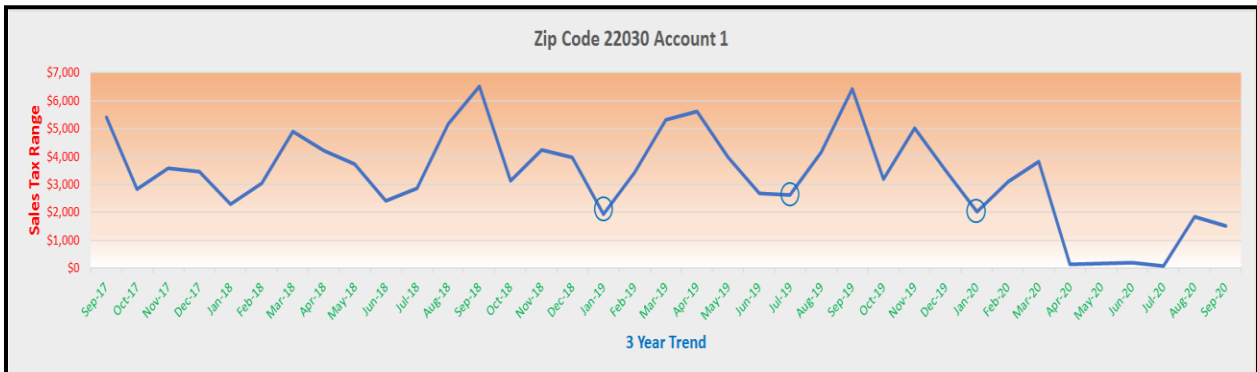
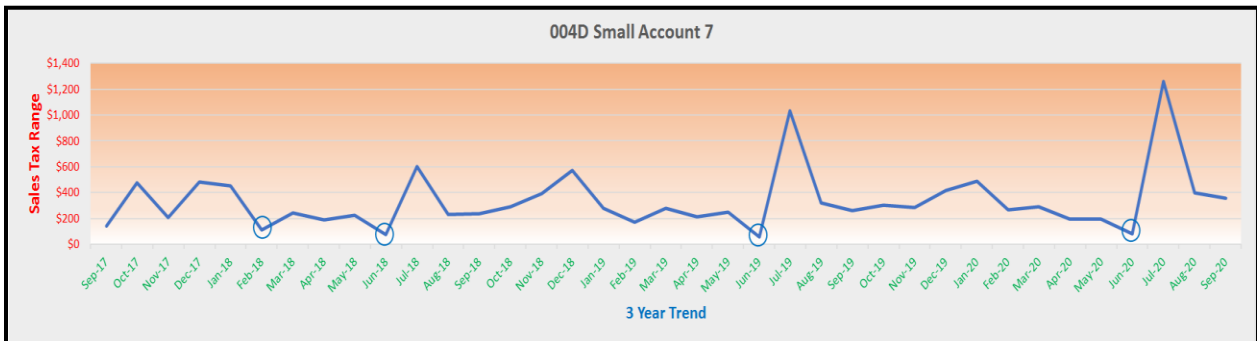
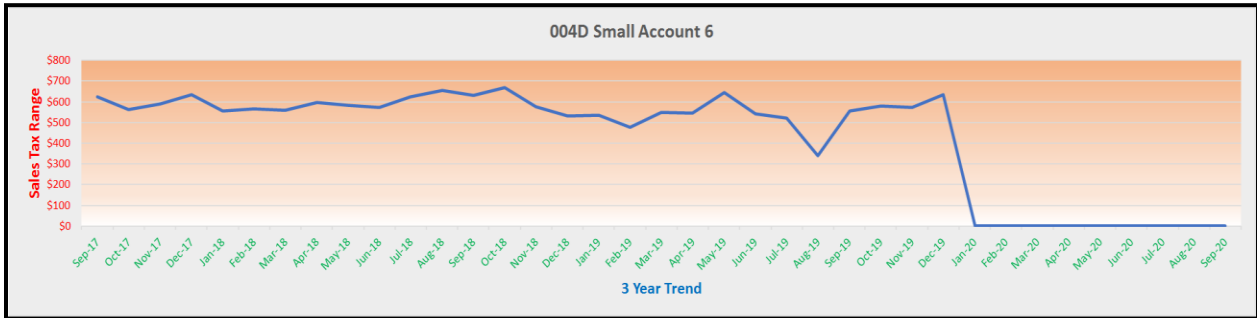
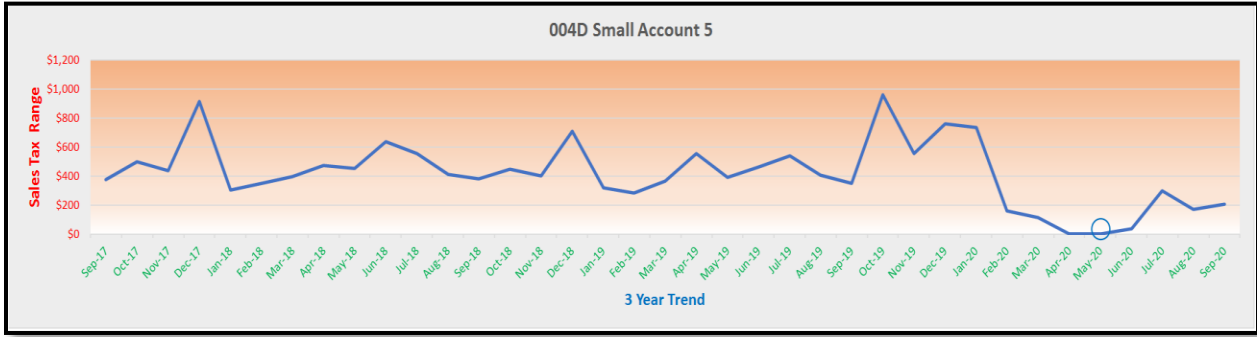
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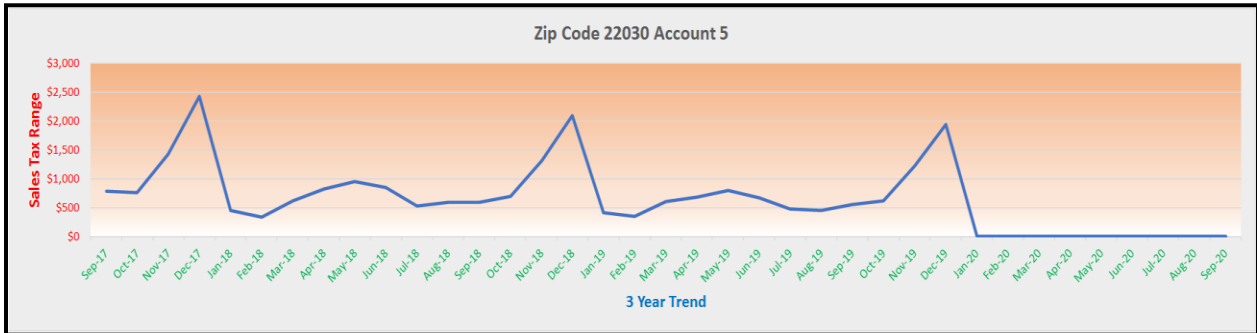
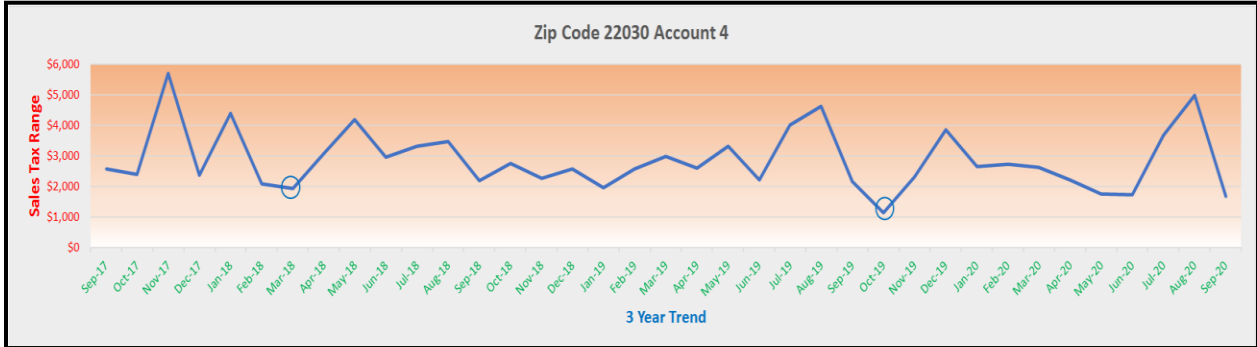
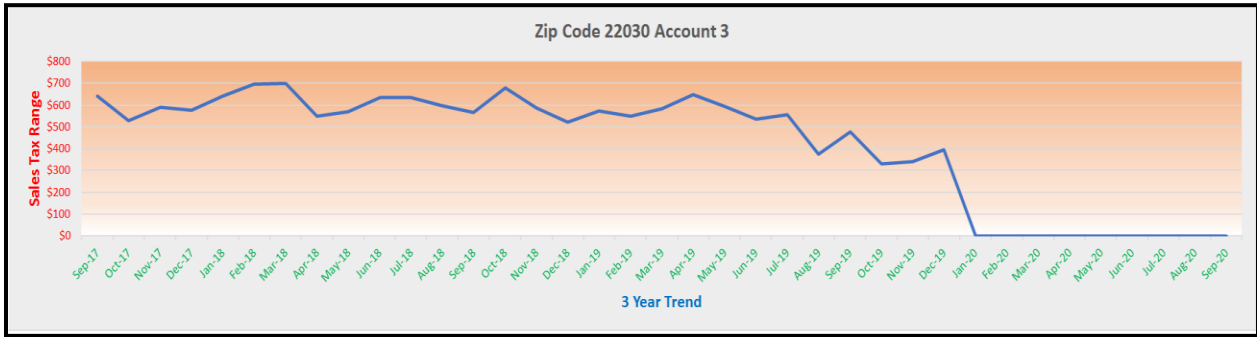
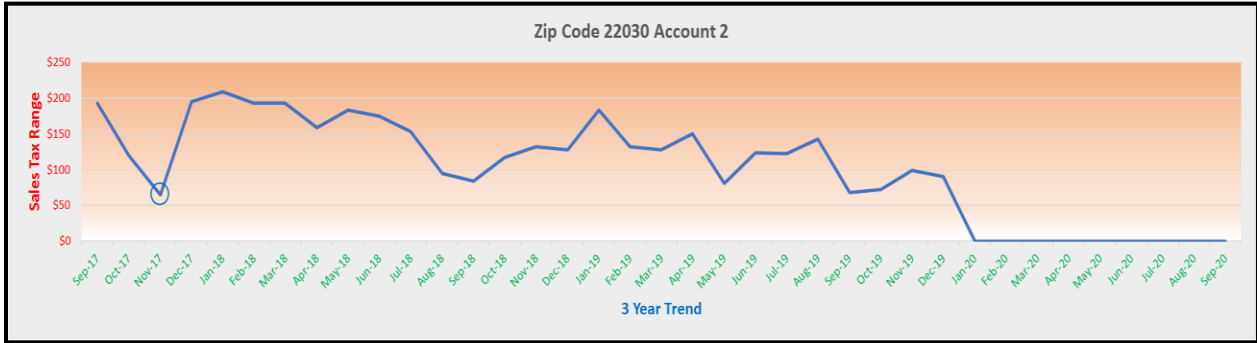
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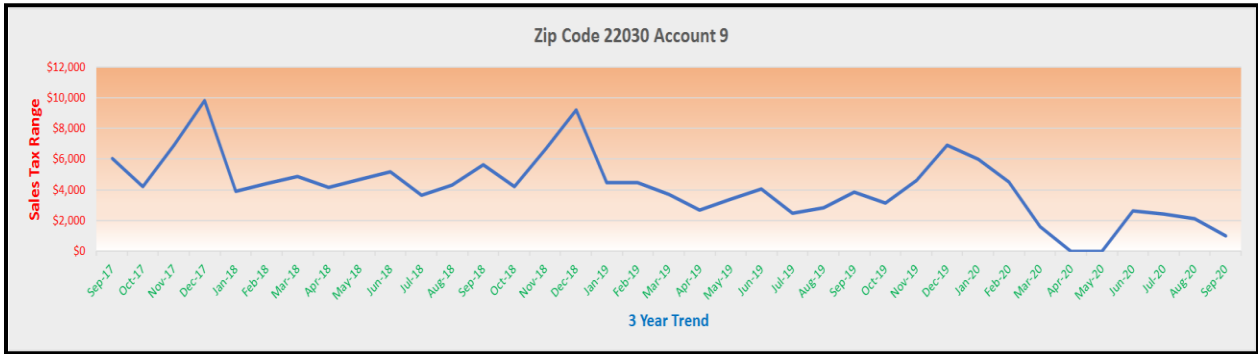
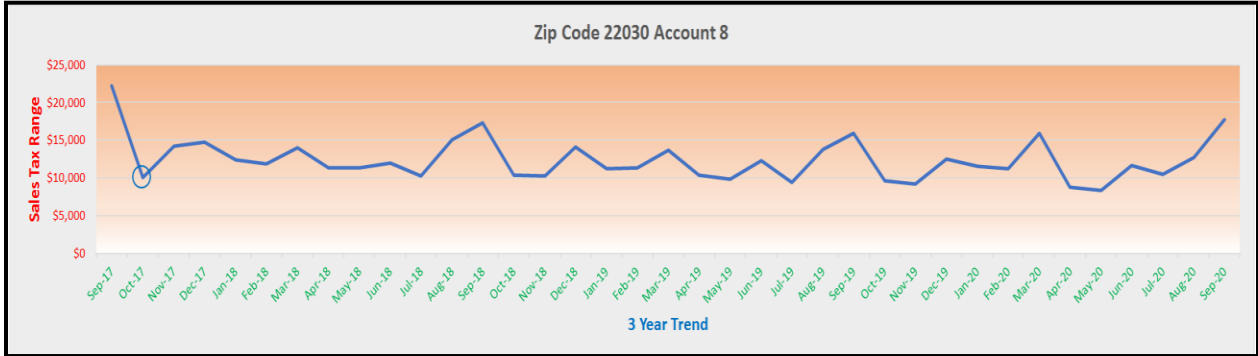
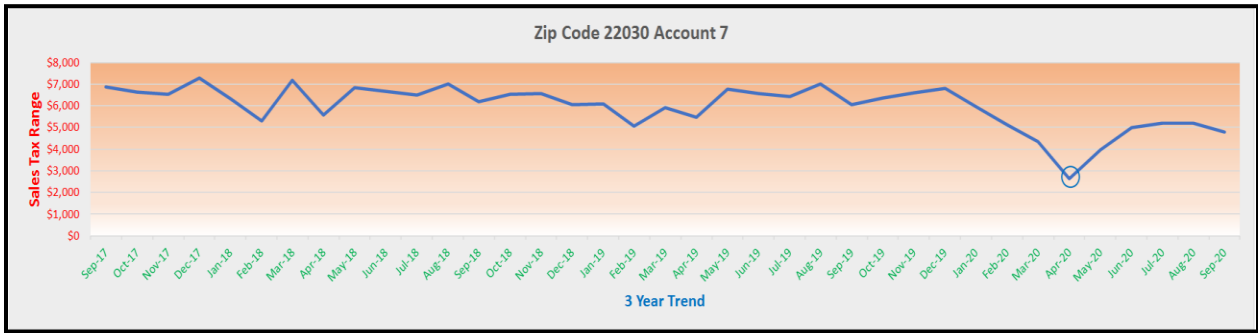
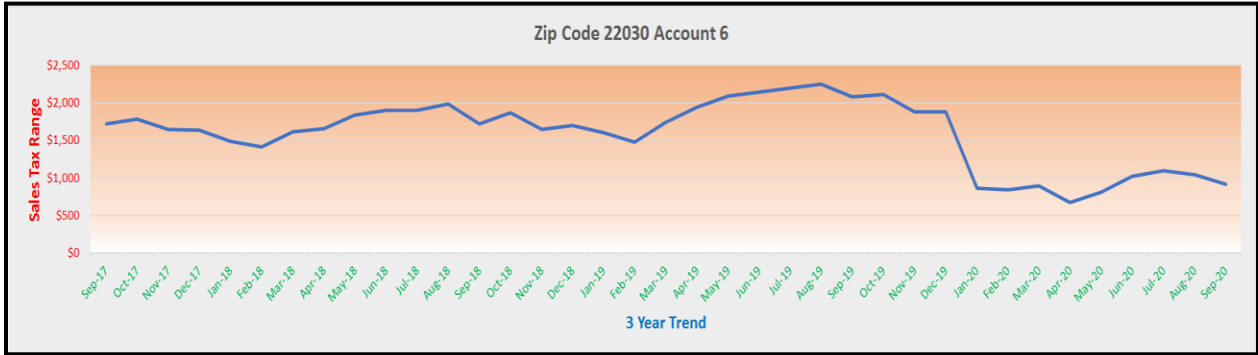
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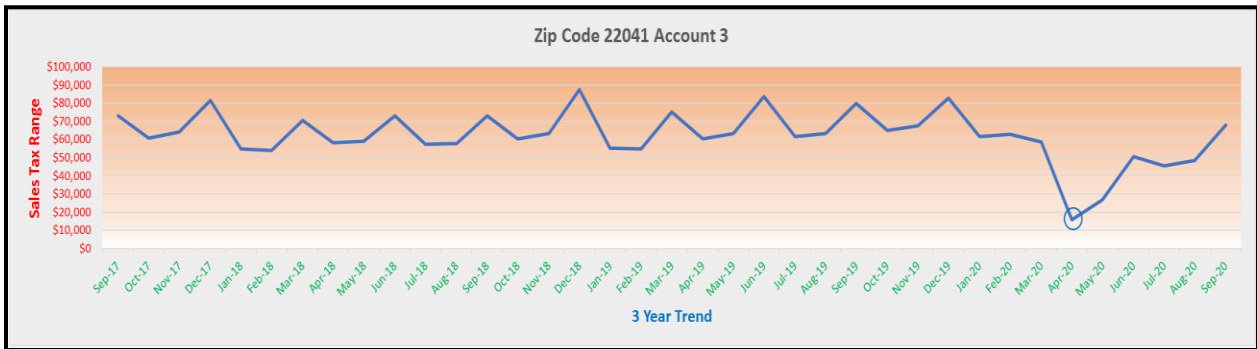
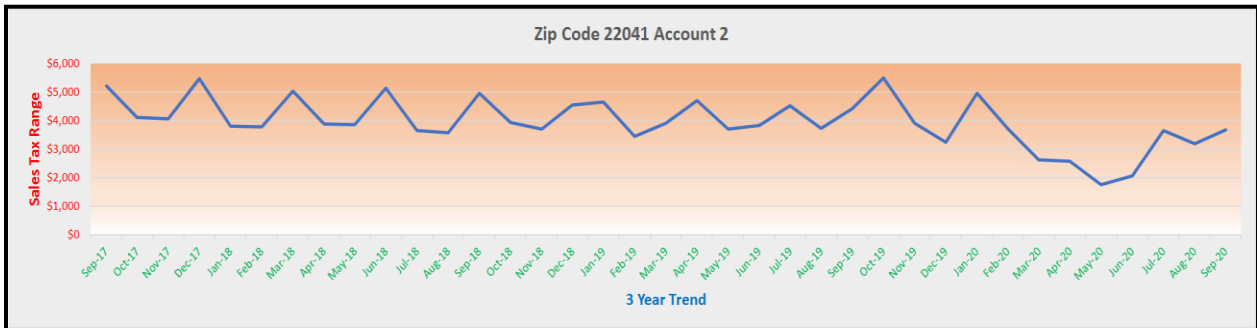
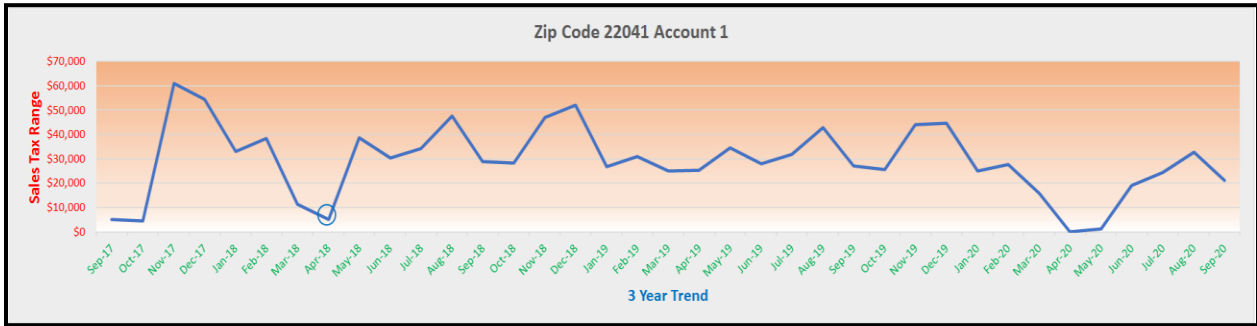
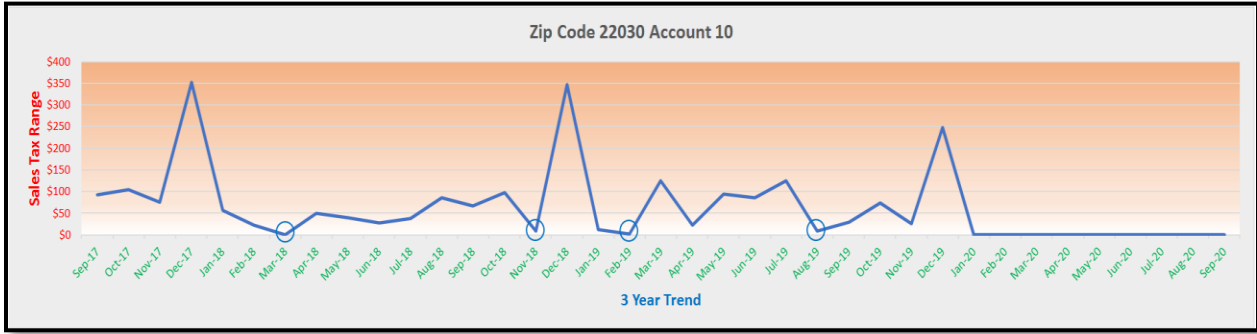
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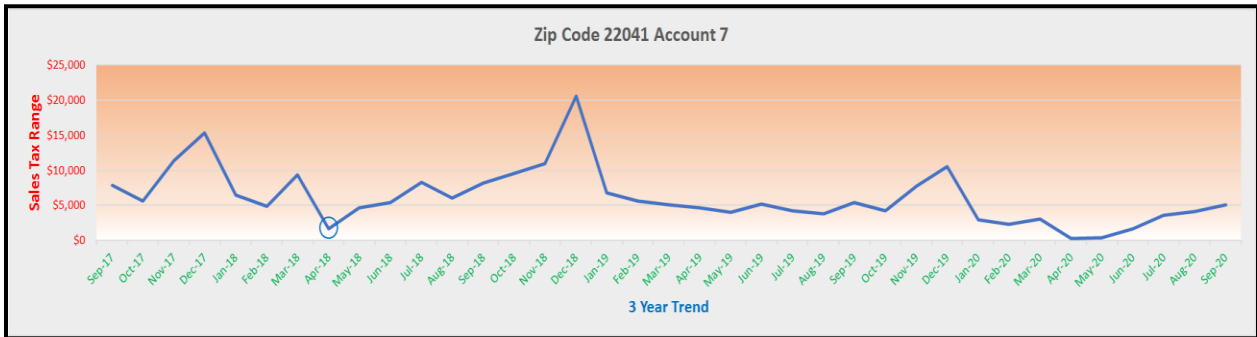
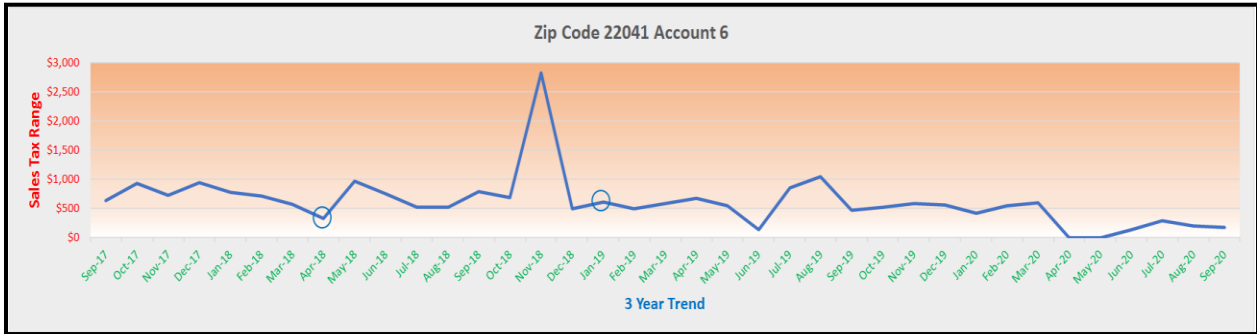
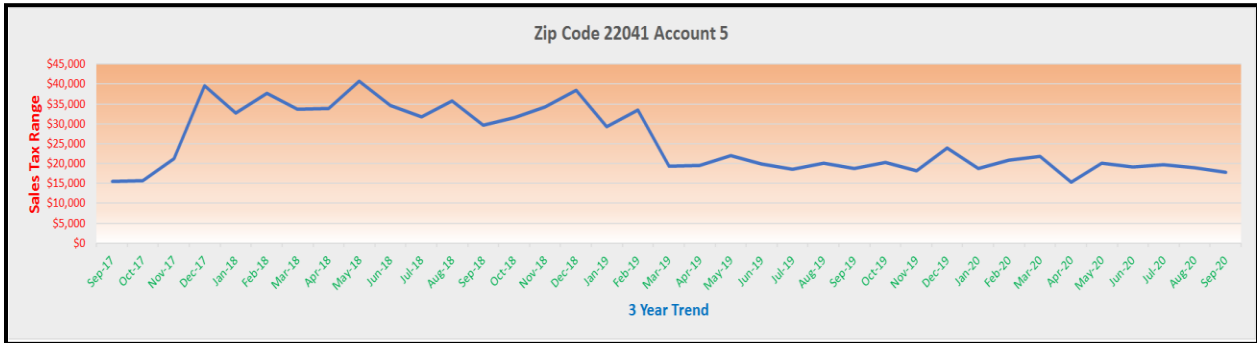
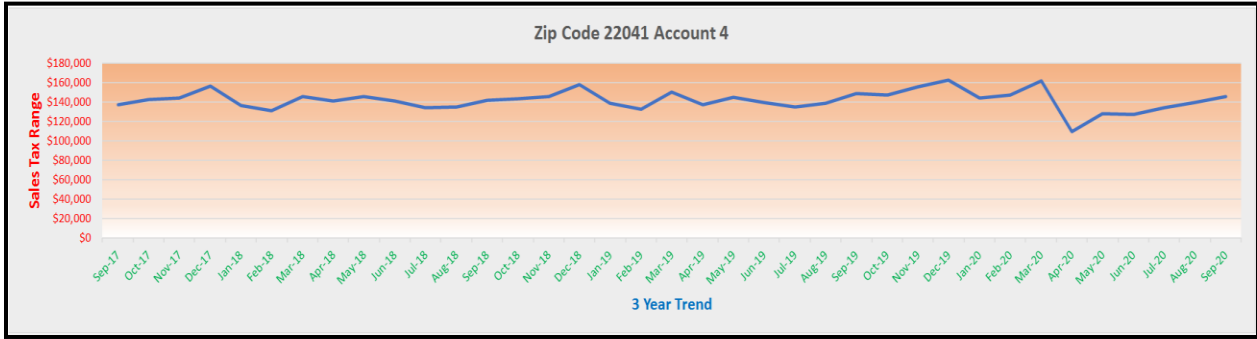
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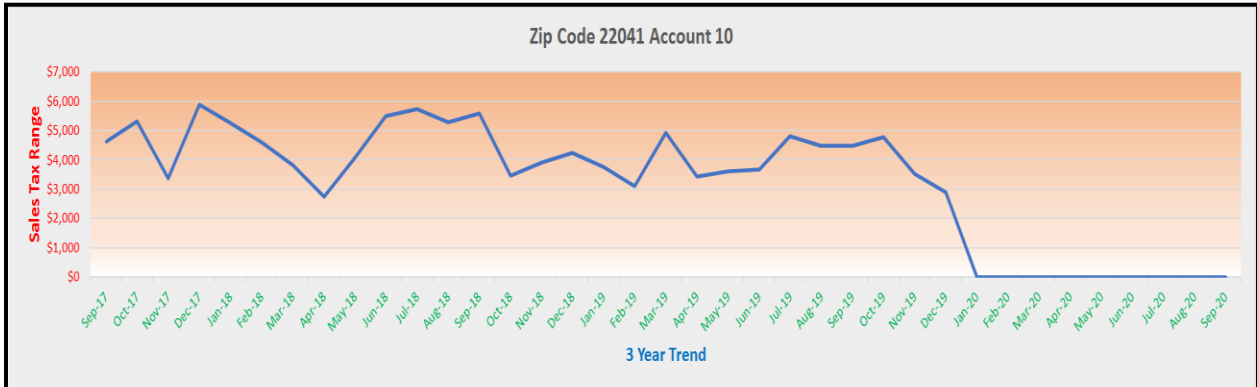
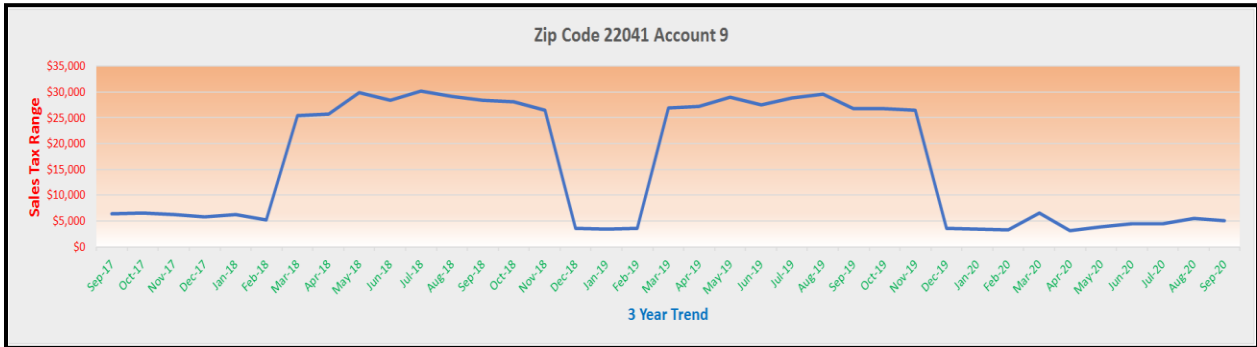
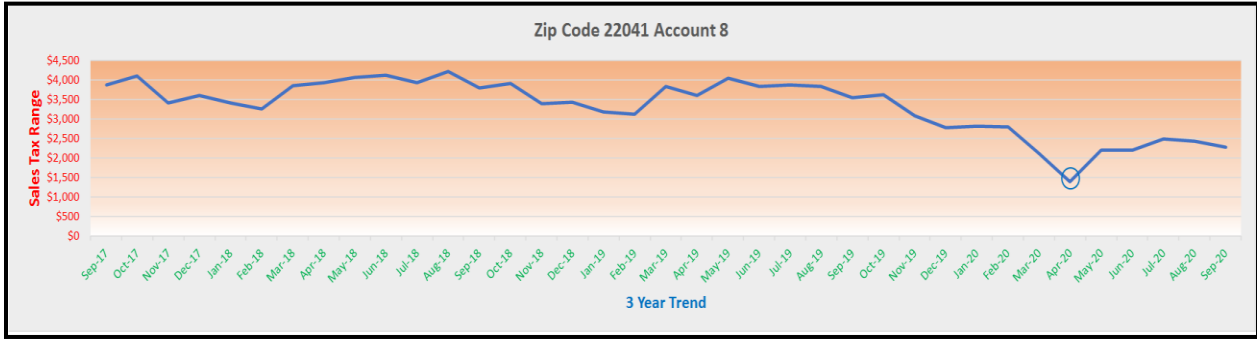
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ADDENDUM SHEET

OFPA (November 2020 /Agency Report and/or Debriefing)

11/24/2020

The table below lists discussions from the Audit Committee.

<i>Location in Document</i>	<i>Comments</i>

~End~

**Fairfax County
Office of Financial and Program Audit**

LIST OF ACRONYMS

AC	Audit Committee
BOS	Board of Supervisors
BPOL	Business, Professional and Occupational License
DTA	Department of Tax Administration
EESMC	External Entity Secure Messaging Center
FIPS	Federal Information Processing Standards
FY	Fiscal Year
IRMS	Integrated Revenue Management System
NIST	National Institute of Standards and Technology
OCA	Office of the County Attorney
OFPA	Office of Financial and Program Audit
VTAX	Virginia Department of Taxation

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