



# **INTERNAL AUDIT REPORT**

*Lynn Scully, Internal Auditor*  
Town of Trumbull, CT

**Revenues – Fee Revenue**

**January 2009**



**Lynn R. Scully**  
Internal Auditor

Tel (203) 452-5064  
Fax (203) 452-1005  
[lsully@trumbull-ct.org](mailto:lsully@trumbull-ct.org)

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**Mrs. Kathleen McGannon, Chairperson**

Board of Finance  
Town of Trumbull  
5866 Main Street  
Trumbull, CT 06611

Mrs. McGannon,

I respectfully submit the enclosed report entitled Revenues – Fee Revenues.

This review began several months ago and involved selected Town of Trumbull Departments, including Trumbull Public Schools (TPS). It was designed to address the following objectives:

- ◆ Provide an overview of the different sources of fee revenue from the various departments of the Town of Trumbull (hereafter the “Town”) and how they have evolved over the past several years;
- ◆ Obtain an understanding of how fees are determined, collected and accounted for; and
- ◆ Identify opportunities for strengthened controls and efficiencies with respect to the Town’s fee revenue processes.

Many representatives of the Town (including TPS) participated in this study. Their willingness to share information and ideas on the subject matter is greatly appreciated.

Thank you for the opportunity to provide this information to the Board of Finance.

Very Truly Yours,

*Lynn Scully*, Internal Auditor

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## **A. Introduction**

The following report represents several months of review and analysis of fee revenue for the Town.

This review was designed to address the following objectives:

- ◆ Provide an overview of the different sources of fee revenue from the various departments of the Town of Trumbull (hereafter the “Town”) and how they have evolved over the past several years;
- ◆ Obtain an understanding of how fees are determined, collected and accounted for; and
- ◆ Identify opportunities for strengthened controls and efficiencies with respect to the Town’s fee revenue processes

Section B of this report provides an overview of fee revenue throughout the Town, including the methodologies used to establish and evaluate fees; the current collection processes and other relevant information. Section C contains findings and recommendations resulting from this review, which are presented as opportunities for Town administrators to improve controls and efficiencies in the area of fee revenues.

**B. Fee Revenue Overview**

As illustrated below, fee revenue represents approximately 3 percent of budgeted revenue for the Town:

<b>2008-2009 REVENUE (budgeted)</b>			
R-1	PROPERTY TAXES	119,249,834	90%
R-2	EDUCATION PROGRAM GRANTS	1,670,377	1%
R-3	EDUCATION GRANTS OTHER	3,913,168	3%
R-4	STATE PROGRAM GRANTS	111,899	0%
R-5	STATE REVENUE OTHER	878,559	1%
R-6	TOWN PROGRAM REVENUE	-	
<b>R-7</b>	<b>TOWN PERMITS, FEES AND FINES</b>	<b>3,997,995</b>	<b>3%</b>
R-8	TOWN REVENUE OTHER	1,150,000	1%
R-9	INTER FUND TRANSFERS	487,812	0%
	FUND BALANCE	700,000	1%
		<hr/>	
	<b>TOTAL</b>	<b>132,159,644</b>	<b>100%</b>

It's important to note, however, that the direct and indirect costs associated with providing these fee-related services is likely a far greater percentage of the Town's annual budget.

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**Departmental Sources of Fee Revenue**

Overall, currently anticipated fee revenues are approximately 3% less than they were at 6/30/2004. The following information has been excerpted from a 08-09 Town Budget work file:

<b>R-7 TOWN PERMITS, FEES AND FINES</b>						
	<b>AUDITED 6/30/2004 03-04</b>	<b>AUDITED 6/30/2005 04-05</b>	<b>AUDITED 6/30/2006 05-06</b>	<b>AUDITED 6/30/2007 06-07</b>	<b>PROJECTED 6/30/2008 07-08</b>	<b>BUDGET 6/30/2009 08-09</b>
FIRE MARSHAL	41,306	41,958	57,378	52,431	44,286	25,000
TOWN CLERK	1,353,023	1,367,461	1,209,641	1,286,877	814,757	900,000
ENGINEERING	42,544	40,487	58,919	32,518	21,681	25,000
PLANNING & ZONING	92,958	87,381	41,300	40,889	49,355	62,000
POLICE	32,995	56,055	7,761	32,200	34,535	28,000
BUILDING	952,204	639,398	719,965	689,078	533,877	460,000
TUITION/RENTALS-BD. OF ED.	564,444	806,679	1,018,171	1,015,750	1,028,128	1,000,000
DISPOSAL AREA	247,257	258,644	223,010	192,019	223,262	240,000
HEALTH DISTRICT REIMB	29,864		3,400	15,000	11,376	19,076
COUNSELING CENTER	13,195	11,970	13,810	12,964	12,878	13,456
EMERGENCY MEDICAL SERVICES	658,512	571,573	653,311	825,431	762,635	1,000,000
HIGHWAY-COMPOST	-		59,074	63,650	45,964	80,000
CELL TOWER RENTAL FEES	92,336	129,513	140,574	153,702	149,283	109,534
TLC-IN MISCELLANEOUS	21,854		32,880	32,800	32,881	35,929
SALE OF LAND			14,400	585,600	-	
BOE-WORKS FUND*				2,078,233	-	
TRUMBULL DAY		-	-	-	-	
	<b>4,142,492</b>	<b>4,011,119</b>	<b>4,253,594</b>	<b>7,109,142</b>	<b>3,764,897</b>	<b>3,997,995</b>
% Change		-3%	6%	67%*	-47%*	6%

\* For FYE 6/30/2007, a one-time \$2+ million works fund balance was paid to the Town. Without this payment the percentage change would be an increase of 18% for 6/30/07 and a decrease of 25% for 6/30/08.

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For the current fiscal year, it is anticipated that the majority (73%) of the Town's fee revenue will be generated through recording fees, building rentals and emergency services.

FIRE MARSHAL	25,000	1%
<b>TOWN CLERK</b>	<b>900,000</b>	<b>23%</b>
ENGINEERING	25,000	1%
PLANNING & ZONING	62,000	2%
POLICE	28,000	1%
BUILDING	460,000	12%
<b>TUITION/RENTALS-BD. OF ED.</b>	<b>1,000,000</b>	<b>25%</b>
DISPOSAL AREA	240,000	6%
HEALTH DISTRICT REIMB	19,076	0%
COUNSELING CENTER	13,456	0%
<b>EMERGENCY MEDICAL SERVICES</b>	<b>1,000,000</b>	<b>25%</b>
HIGHWAY-COMPOST	80,000	2%
CELL TOWER RENTAL FEES	109,534	3%
TLC-IN MISCELLANEOUS	35,929	1%
SALE OF LAND		
BOE-WORKS FUND-REC'D		
BOE-WORKS FUND		
TRUMBULL DAY		
	<b>\$ 3,997,995</b>	<b>100%</b>

**Establishment of (and accounting for) Fee Revenue**

Some departmental fees are dictated by the State (e.g. Town Clerk), while others are established and approved by various Town commissions or department heads. These fees are estimated annually by Town Department Heads at the beginning of the budget process.

Some departments account for fee revenues in software applications (the Building Department uses permit software, for example) or in Excel spreadsheets, word processing documents, manual ledgers or "none of the above." Departments are responsible for collecting these revenues and routinely depositing funds into the Town's bank account. Deposit slips and supporting documentation is then forwarded to the Town's Revenues Clerk for recording into the MUNIS system via journal entry.

### **C. Findings and Recommendations**

The following findings and recommendations are operational in nature and are intended to assist Town administrators in identifying opportunities for strengthened controls and cost savings.

#### **1. Subsidiary Ledgers for Fees**

##### **a. Finding re: Detail Maintained by Departments for Fee Revenue:**

While some departments are able to easily track fee revenues with software applications, others do not maintain much more than copies of the bank deposit slip.

##### **Recommendation:**

Because the type of fees and transaction frequency vary greatly from department to department, it is difficult to dictate what level of fee revenue detail should be maintained within a department. At the very least, each type of transaction, amount collected and the nature of the instrument (cash or check) should be tracked along with the associated dates.

##### **b. Finding re: Reporting for Fee Revenue:**

With the exception of bank deposit slips and transaction forms, there are no routinely provided reports detailing amounts collected and the status of outstanding fee revenues.

Without detailed reports, the Town's Finance Department has no way of determining the following:

- status of fees due (i.e. any outstanding balances);
- what fees have been waived or written off as uncollectable; or
- any trends in transactions or collections.

Further, department heads do not receive any reports of revenue activity recorded within MUNIS.

##### **Recommendation:**

Detailed reports should be provided to the Finance Department so that fee revenue activity can be properly monitored. Monthly revenue reports should be provided by Finance to department heads. This will allow for routine reconciliation with subsidiary records, which should facilitate year-end closing procedures.

c. **Finding re: Using MUNIS for Fee Revenue:**

The capability of MUNIS (the Town's financial software) to accommodate subsidiary revenue data has not been adequately explored.

**Recommendation:**

The costs and benefits of incorporating revenue transactions more directly by greater utilization of the Town's financial software should be investigated. This would potentially streamline some manually intensive revenue processing and allow for more timely capture of revenue data.

**2. Reporting in General**

a. **Finding re: Quarterly Financial Reports to the Town Council:**

The Town's Charter (Part I, Chapter III, Section 2(e)) states that the Office of the First Selectman shall:

*"Keep the Council fully informed on the financial condition of the Town by the issuance of quarterly reports of income and expense as to budgeted items."*

Such quarterly reports have not been provided to the Town Council for the past several years.

**Recommendation:**

In order to be in compliance with the requirements of the Town Charter, quarterly reports of income and expense should be provided to the Town Council by the Office of the First Selectman.

**3. Establishment of Fees**

a. **Finding re: Analysis of Fees:**

With the exception of a few departments, it does not appear that fees are adequately analyzed by department heads and/or commissioners.

**Recommendation:**

The direct and indirect costs associated with providing fee-based services should be carefully evaluated during the budget process. Information regarding fee rates of neighboring towns for similar municipal services should also be included in this analysis. This information should be provided to the Board of

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Finance and the Town Council as part of the budget approval process. While it is often perfectly appropriate to subsidize fee-based services, the decision to do so should be an informed one.

**4. Other Issues**

**a. Findings re: Spring Hill Road Parking:**

Since the spring of 1999, the Town Highway Department has maintained a storage/parking facility on Spring Hill Road (behind the School Bus Lot). This facility was intended for recreational vehicles (RV's, boats, trailers, etc.) and business equipment registered in Trumbull. Fee is \$20 per linear foot annually. It is billed by the Comptroller every 6 months. Contract, copies of vehicle registrations, proof of insurance, copies of bills and checks are maintained in a 3-ring binder for these receivables. There is no subsidiary ledger maintained for parking at the Spring Hill Road lot.

Two specific issues of concern arose regarding the Spring Hill Road parking receivables:

1. In reviewing the supporting documentation, it was determined that the Town had entered into a barter-type arrangement with Mansfield Construction/Michael Infante & Sons (also a major vendor to the Town – approximately \$350K in 07-08), where materials and/or services were to be provided to the Town in lieu of payment for parking. There was insufficient documentation in the files to determine if these materials and/or services were actually received by the Town.

Further, the following items were *not* on file:

- ◆ contractual agreement between Town and company for parking;
- ◆ inventory of what vehicles belonging to this company were parked on our premises;
- ◆ proof of registration and insurance.

In October, 2008, this company paid the Town \$5,868 for past due and current rent as a result of preliminary findings in this review. The company has yet to provide the aforementioned information and documents, however.

This type of arrangement does not accurately portray the Town's financial activity. Revenues are understated with respect to rental income and expenses are likewise understated by the unrecorded costs of the materials and/or services received. Another concern is that the Town could potentially be in violation of contractual arrangements with another vendor who won the bid to provide such materials and/or services.

2. Another company, A & A Paving, appears to have not been properly billed for

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the period 9/1/06 through 6/30/08. On 6/14/08, this company paid \$2,000 to the Town for parking, but it was unclear how to apply this payment due to the inaccurate billing. Prior to this payment, the last known payment from this company was in August 2005.

Regarding this company, the following items were *not* on file:

- ◆ contractual agreement between Town and company for parking;
- ◆ inventory of what vehicles belonging to this company were parked on our premises;
- ◆ proof of registration and insurance.

In October, 2008, this company paid the Town \$5,650 for past due and current rent as a result of preliminary findings in this review. The company has also subsequently provided a signed contract, inventory, proof of registration and insurance.

Both of these companies have relatives who presently work for the Town's Department of Public Works, which might give the appearance of preferential treatment.

**Recommendation(s):**

Barter arrangements should be strongly discouraged, as they are difficult to account for. Nevertheless, such transactions should be properly documented to ensure that revenues (rental) and expenditures (materials) are not understated and that the Town is in compliance with its contractual (bid) obligations.

An up-to-date subsidiary ledger and routine reporting of fee revenue balances (see recommendation # 1.a. & b.) would likely have brought these outstanding balances to the attention of the Finance Department.

All potential conflicts of interest should be properly disclosed to the Town's administration. Under such circumstances, additional controls can be instituted to monitor transactions and ensure that no preferential treatment is afforded such a company.