

OFFICE OF FINANCIAL & PROGRAM AUDIT



January 2013

Quarterly Report

FAIRFAX COUNTY BOARD OF SUPERVISORS
AUDITOR OF THE BOARD

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Table of Contents

EXECUTIVE SUMMARY	2
STUDY BRIEFINGS.....	3
DULLES METRORAIL PROJECT.....	3
PARK AUTHORITY BUDGET REVIEW	8
FAIRFAX-FALLS CHURCH COMMUNITY SERVICES BOARD	13
Infant and Toddler Connection (ITC) Billing Practices.....	14
Lead Agency Analysis	17
Copay and Fee-for-Service Policies and Practices	19
NORTHERN VIRGINIA TRANSPORTATION COMMISSION COUNTY TRUST FUNDS.....	25
FOLLOW-UP AND OTHER ONGOING ACTIVITIES	30
APPENDIX	32
LIST OF ACRONYMS.....	33

Office of Financial & Program Audit

QUARTERLY REPORT

EXECUTIVE SUMMARY

Dulles Metrorail Project

As of October 2012, MWAA reports that approximately \$2.3 billion of the original total \$3.2 billion Phase I budget has been expended (the \$3.2 billion budget includes \$2.7 billion in construction costs and \$.5 billion in MWAA specific finance costs). The MWAA Board approved a \$150 million increase to the construction budget on June 20, 2012. This increase results in a \$2.9 billion construction budget. MWAA assessed the main construction component of the Project as 83% complete through October 2012.

The overall Project schedule as estimated by DTP has changed from a 5 day lapse in July to a zero lapse in October. DTP projects the Project Revenue Operations Date (Project ROD) as January 2, 2014. MWAA has not changed the official start of revenue service for Phase I from December 4, 2013. The West Falls Church Yard is not included in the main project schedule. The Yard's completion date is anticipated as December 2013. This late completion date has introduced risk into the overall Project schedule.

Park Authority Budget Review

On September 25, 2012, the Board of Supervisors directed the Office of Financial and Program Audit (OFPA) to identify potential strategies or alternative recommendations to reduce the County's General Fund support of the Park Authority without impacting citizen utilization of programs, facilities and services (see Appendix). The goal was a 5 percent reduction in General Fund support representing \$1.13 million. Our report details three potential strategies for reducing General Fund support by approximately \$3.5 million in the fiscal year 2014/2015 budget.

Fairfax-Falls Church Community Services Board

The Board of Supervisors directed the Auditor of the Board to conduct a review of certain CSB activities in support of the County Executive's CSB Work Plan. OFPA was assigned 2 of the 27 work plan tasks. As requested, OFPA identified contracting and billing best practices for ITC, determined the fiscal impact of being a lead agency, and analyzed existing CSB co-pay and fee for service policies and practices. It is anticipated that OFPA's work on these items will be incorporated in the work plan updates and reports provided by the Office of the County Executive to the Board of Supervisors.

Northern Virginia Transportation Commission County Trust Funds

Public transit funds are received through the Northern Virginia Transportation Commission (NVTC) and maintained in trust for Fairfax County. OFPA reviewed NVTC and Fairfax County Department of Transportation (DOT) trust fund information for fiscal years 2009 to 2012 and DOT budget projections for fiscal years 2013 to 2018. Based on the information reviewed, OFPA determined that the balances in the Fund were maintained within the goals established by the Departments of Transportation and the Department of Management and Budget (DMB).

STUDY BRIEFINGS

DULLES METRORAIL PROJECT

The Audit Committee requested OFPA monitor Phase I of the Dulles Corridor Metrorail Project (Project) with a focus on the following areas: 1) Project Cost, 2) Start of Revenue Service and 3) Funding Obligations. Information used in this OFPA report is primarily based on the October 2012, MWAA Monthly Progress Report, dated December 3, 2012 and the Comprehensive Monthly Report for October 2012 issued by the Project Management Oversight Contractor (PMOC) for the FTA dated October 23, 2012.

PROJECT COST STRUCTURE

A. Phase I Budget

Phase I of the Project has an original budget of approximately \$3.2 billion, comprised of \$2.756 billion for construction plus \$.5 billion in MWAA specific finance costs. As of October 2012 approximately \$2.3 billion of Project funds have been expended.¹ The Project team assesses Phase I as 83% complete.² The overall budget utilization and construction completion rates are running in parallel.

In February 2012, MWAA recognized \$150 million in forecasted construction cost overruns.³ On June 20, 2012 the MWAA Board adopted a resolution increasing the original \$2.756 billion construction budget by \$150 million, resulting in a new construction budget of \$2.9 billion.⁴

The recent MWAA monthly reports note a \$71.8 million transfer (per direction from the FTA/PMOC)⁵ into the Contingency Budget. This transfer reflects the movement of budget resources (MWAA Finance Costs) which were outside of the original \$2.765 construction budget into construction categories and offsetting construction cost overruns. Additionally, the reports note a \$78.2 million increase in non-federal FFGA scope budget. Combined the transfer and increase equate to \$150 million consistent with the MWAA Board action in June of 2012 to increase the Project budget.

OFPA questioned the \$71.8 million (MWAA Finance Cost savings) transfer with MWAA Project Management on November 13, 2012. OFPA expressed a concern that the introduction of non-construction resources (MWAA Finance Cost savings) into construction elements of the project budget (Contingency) could eventually result in an overall increase in the construction budget. Project Management noted the concern and responded with assurance that the transaction presentment would have greater clarity at the end of the fourth quarter of 2012 and with the 2013 Project budget. OFPA will continue to monitor these transactions and the impact on the overall construction costs of the Project.

B. Change Orders

MWAA reports change orders in two broad categories: (1) Amended and Restated Design Build and (2) Utility Relocation. Through October 2012, there were \$92 million in total changes to the Design Build category⁶ which represent approximately 5.4% of the original Design Build estimate. There have been \$19.1 million in total changes to the Utility Relocation category, which represent 15.6% of the total

¹ MWAA October 2012 - Monthly Progress Report: Table 8, Page 22

² MWAA October 2012 - Monthly Progress Report: Page 4

³ MWAA February 2012 DCMP Phase 1, Monthly Cost Summary: Page 4.

⁴ Resolution No. 12-17; Adopted June 20, 2012

⁵ PMOC Report for July 2012, Dated August 31, 2012, page 6

⁶ MWAA October 2012 - Monthly Progress Report: Table 11, Page 31

original budget amount.⁷ There is approximately \$16.6 million in additional Contract Change Orders currently under evaluation by MWAA.⁸ Depending on the outcome of these evaluations all or a portion of these change orders could be applied against the contingency budget.

C. Allowance Items

There is a \$486 million budget for allowance items. The total awarded/recommended allowance items through October 2012 is \$602 million. Allowance Items contain a budget overrun of \$163.1 million, with 81% of the base allowance item budget complete.⁹ Overruns are funded by contingency budget drawdowns.

D. Contingency Utilization

Contingency funds are classified as federal and non-federal. The federal contingency had a starting budget of \$297.7 million. This budget was supplemented with the \$71.8 million transfer from MWAA finance cost savings. An additional transfer of \$19 million came from savings in Indexed Commodity Costs.¹⁰ This brings the total additions to Federal Contingency to \$90.8 million. The adjusted federal contingency budget is now \$388.6 million.

Through October 2012 - Utilized and Obligated Federal Contingency totaled \$371 million as reflected in the following MWAA chart. While the \$71.8 million MWAA Finance Cost transfer is reported in the table below, the MWAA report indicates that this transfer is not expected to be authorized until the end of 2012.¹¹

Federal Contingency Utilized and Obligated Summary, October 2012

CONTINGENCY PHASE	BUDGET	CONTINGENCY		
		CONTRIBUTION	TO-DATE	REMAINING
Phase 1 through 9	\$ 261,000,000	\$ 30,574,284	\$ 281,491,583 (Utilized)	\$ 10,082,701
Phase 10 through 12	\$ 36,762,579	\$ 60,225,716	\$ 89,197,429 (Obligated)	\$ 7,790,868
TOTAL	\$ 297,762,579	\$ 90,800,000	\$ 370,689,012	\$ 17,873,570

Source: MWAA October 2012 – Monthly Progress Report, Table 20, Page 45

The original non-federal contingency budget had been \$14.5 million through September 2012. In October of 2012 the estimated use of this budget line was increased to \$63.6 million. This increase combined with increases in other non-Federal budget categories (referred to as Interrelated Highway Improvements) total \$78.2 million.¹²

Concurrent Non-Project Activities (CNPAs)

Change orders for WMATA requested Emergency Trip Stations (ETS) and Traction Power Substations (TPSS) Remote Monitoring systems and other Concurrent Non-Project Activities (CNPAs) are considered by the FTA/PMOC to be outside of MWAA's agreement with WMATA.

⁷ MWAA October 2012 - Monthly Progress Report: Table 12, Page 32

⁸ MWAA October 2012 – Monthly Progress Report, Tables 13 & 14, Pages 33 & 34

⁹ MWAA October 2012 – Monthly Progress Report: Table 9, Page 26

¹⁰ MWAA October 2012 – Monthly Progress Report, Page 29

¹¹ MWAA October 2012 - Monthly Progress Report: Table 19, Page 44

¹² MWAA October 2012 - Monthly Progress Report: Table 8, Page 22

The PMOC's July 2012 assessment of CNPAs was approximately \$64 million, which is down from the \$94 million estimated in their earlier reports.¹³ As of November, the FTA had identified \$36.7 million of CPNAs.¹⁴ The determination of costs as a CPNA makes them ineligible for federal funding. However, CNPAs remain a Project cost.

Removing these costs from the overall Project would require WMATA or another source to fund them. The following from the PMOC report leaves little indication that WMATA will accept these costs:

“MWAA acknowledges that WMATA will contribute no funding, that the FTA and VDOT budgets are fixed, and that the local funding partners bear a percentage of the non-FFGA budget overruns; all principles understand their financial responsibility and all budget overruns will be managed according to the agreed funding plan.”¹⁵

Much of the CNPA costs are related to system upgrades which will become standard across the WMATA system. These requirements were set after the original design for the Project was complete. As such, in other areas of the Metro system the upgrades will be treated as capital improvements/replacements. If these costs were to be treated as typical capital improvement/replacements they would not be apportioned to the Fairfax County (16.1%) or the Toll Road users (54%) share of the final Project construction costs.

Budget Summary

Additional budget authorization and cost savings have provided \$169 million to address project cost overruns. Of this, \$17.9 million remains available to offset the estimated \$16.6 million in additional Contract Change Orders currently under evaluation by MWAA. Additional contract change orders, allowance item, contingency or CNPA overruns will need to be managed by internally generated savings to avoid the need for additional budget increases.

START OF REVENUE SERVICE FOR PHASE I

Overall Project Schedule

The MWAA report for October 2012 reports no schedule variance between the DTP Projection and the mitigated recovery schedule's Project ROD of January 2, 2014. The official MWAA projected Project ROD is December 4, 2013. The forecasted substantial completion date is projected for August 29, 2013.¹⁶

¹³ PMOC Report for July 2012, Dated August 31, 2012, page 5

¹⁴ PMOC Report for October 2012, Dated November 30, 2012, Page 31

¹⁵ PMOC Report for October 2012, Dated November 30, 2012, Page 31

¹⁶ MWAA October 2012 - Monthly Progress Report: Table 23, Page 48

The Table below shows construction progress through September.

CONSTRUCTION PROGRESS THROUGH OCTOBER 2012			
GUIDEWAYS/ TRACKWAYS and SYSTEMS	% COMPLETE	STATIONS	% COMPLETE
O-3 (DCR) Track way	100%	Tysons East	63%
Tysons East Guide way	100%	Tysons Central 123	57%
Tysons West Guide way	100%	Tysons Central 7	45%
O-9 (DIAAH) Track way	99%	Tysons West	46%
Systems	28%	Wiehle Avenue	71%
Track work	82%		

Source: PMOC Monthly Report for October 2012, page 4

The West Falls Church Yard is excluded from the above projections and has a tentative completion date of December 20, 2013. MWAA noted it is working with WMATA on mitigation plans for the start of revenue service without the availability of the yard for rail car service or storage. During a tour of the yard construction site, MWAA also reported that it is working with WMATA to mitigate the impact of the WFC Yard availability on interoperability and systems tests.

The reported schedules note that the WFCY will not be available until after the Project's Scheduled Substantial Completion Date (SSCD) which is forecasted for August 29, 2013. The SSCD date is significant in that it marks the availability of the Project for full testing, training and integration. This testing, training and integration will lead to operational readiness for revenue service and the acceptance of Phase I of the Project by WMATA. The planned December 2013 WFCY completion date does not include systems integration into the mainline system.¹⁷

MWAA reports that: "As of October 31, 2012, the overall Project Systems Testing program stood at about 23% complete, inclusive of both the K Line and the N Line. The breakdown by individual system elements is 23.5% for ATC, 6% for Communications and 39.3% for Traction Power, or about 23% overall, with no testing of the WFC Yard systems complete at this date."¹⁸

Systems Construction at 28% complete and overall system tests at 23% (excluding the WFCY) result in a need to continue aggressive completion of the construction schedule and the overall testing schedule while monitoring the WFCY implications. MWAA and WMATA are jointly undertaking preliminary tests as a strategy to ensure these requirements are accomplished within the existing schedule.

PHASE II Contract Schedule (Anticipated)

During October 2012 through January 2013 MWAA will have issued a draft request for proposals (RFP) and developed a short list of qualified firms. Meetings with the short listed firms are expected to extend into January 2013. The following table is the anticipated schedule, up to the contract award recommendation. The actual construction schedule will be determined with the contract award.

¹⁷ PMOC Report for October 2012, Dated November 30, 2012, Page 24

¹⁸ MWAA October 2012 - Monthly Progress Report: Page 75

Activity	Date
Issue Final RFP	February 2013
RFP Technical Proposals Due	March 2013
Technical Proposal Evaluation (Pass/Fail)	April 2013
Price Proposals Due	April 2013
Contract Award Recommendation	May 2013

FUNDING OBLIGATIONS OF FAIRFAX COUNTY

Based on the current funding agreement, Fairfax County is obligated to pay 16.1% of the total project costs. This will include a proportionate share of the \$150 million budget increase approved by the MWAA Board in June 2012. OFPA will continue to monitor the Project construction costs. With Phase II receiving approval to move forward; any cost over or under funds in Phase I will be combined with the costs in Phase II to determine the final project cost.

RECOMMENDATION

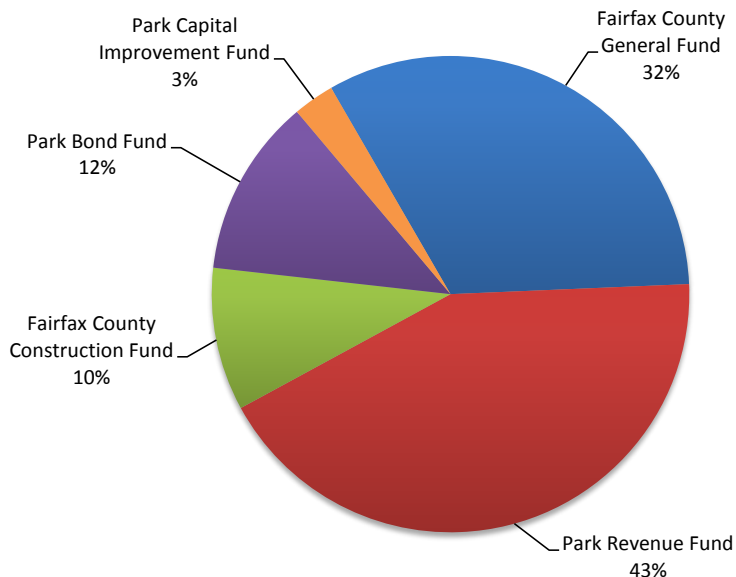
The Board of Supervisors should consider making a request for a report with recommendations, from County staff as to the nature of the CNPAs and their impact on the Project budget with identified alternatives aimed at relieving the Project Funding Partners (including the County and Toll Road users) of these costs.

PARK AUTHORITY BUDGET REVIEW¹⁹

The Fairfax County Park Authority is responsible for maintaining and operating public parks and recreational facilities. The Park Authority accounts for revenues and expenditures in five separate funds: (1) Fairfax County General Fund, (2) Park Authority Revenue Fund, (3) Fairfax County Construction Fund, (4) Park Authority Bond Fund, and (5) Park Capital Improvement Fund. Under the terms of a Memorandum of Understanding between the Park Authority and the Fairfax County Board of Supervisors, the Park Authority Board maintains fiduciary responsibility for the Park Authority Revenue Fund, the Park Authority Bond Fund, and the Park Authority Capital Improvement Fund.

In fiscal year 2012, the Park Authority's expenditures totaled approximately \$98 million. Fairfax County supported 42 percent of the Park Authority's total fiscal year 2012 expenditures (32 percent from the Fairfax County General Fund and 10 percent from the Fairfax County Construction Fund).

**Fairfax County Park Authority
Fiscal year 2012 Expenditures**



	Fairfax County General Fund	Park Authority Revenue Fund	Fairfax County Construction Fund	Park Authority Bond Fund	Park Authority Capital Improvements Fund	Total
Personnel*	29,658,629	25,985,677	1,649,763		218,976	57,513,045
Operating Expenditures	5,392,869	13,038,144	4,477,569	169,962	198,829	23,277,373
Capital Projects/Equipment	23,020	148,231	3,353,704	11,648,157	2,304,236	17,477,348
Debt Service		3,507,107				3,507,107
Recovered Costs**	(3,184,393)	(948,850)				(4,133,243)
Total Expenditures	31,890,125	41,730,309	9,481,036	11,818,119	2,722,041	97,641,630

Sources: Reports generated from Fairfax County's financial system (FOCUS) for fiscal year 2012 and the Park Authority's fiscal year 2012 draft Comprehensive Annual Financial Report (CAFR).

*Personnel expenditures include fringe benefits. ** Recovered costs represent personnel expenditures that were reallocated to other funds.

¹⁹ On September 25, 2012, the Board of Supervisors, through the Audit Committee, directed the Office of Financial and Program Audit (OPFA) to identify potential strategies or alternative recommendations to reduce the County's General Fund support to the Park Authority without impacting citizen utilization of programs, facilities and services (see Appendix).

Recommended Strategies to Reduce General Fund Support

To develop strategies for reducing General Fund support, OFPA staff interviewed the Park Authority Director, Chief Financial Officer, and Fiscal Administrator. We also analyzed Park Authority expenditure and revenue transactions in the County's financial system, reviewed the Park Authority's budgets and carryover packages for the past ten fiscal years, analyzed the Park Authority's Comprehensive Annual Financial Reports (CAFRs), and reviewed the Park Authority's proposed budget reductions for fiscal years 2009, 2010, 2011, and 2012.

1. Strategy #1: Cost Recovery for County General Fund Support Services (Annual)

The County's General Fund pays over \$3 million per year for administrative overhead and central services that support the Park Authority's operations. Central services include information technology services, central building costs, telecommunications, vehicle services, and legal counsel. For example, the Fairfax County Department of Information Technology maintains the central data center and servers that host the Park Authority's systems. The Park Authority currently allocates a portion of its County General Fund personnel costs to its other funds, thereby reducing (or recovering) those costs. On a limited basis, the Park Authority allocates some central support services costs to its other funds. Currently, all of the Park Authority's annual \$3 million central support services and administrative overhead are paid for out of the General Fund.

**Park Authority Overhead Costs Supported by the Fairfax County General Fund
Fiscal Years 2009 to 2013**

	2009	2010	2011	2012	2013 (Budget)
Information Technology Services	723,418	723,418	723,418	723,418	723,418
Assigned Agency Vehicles	641,230	692,572	537,395	677,720	726,087
Vehicle Replacement	362,306	352,287	343,304	391,354	342,537
Fuel (Central Vehicle Services)	310,372	266,934	362,927	442,118	358,900
County Legal Services	164,215	171,637	205,110	204,960	205,000
Telecommunications	254,970	254,182	227,197	281,612	302,690
Utilities	297,956	234,959	293,546	273,559	219,332
Refuse Disposal	256,108	262,586	256,973	229,999	177,800
Central Building Costs*	230,000	230,000	230,000	230,000	230,000
Total Overhead Costs	3,240,575	3,188,575	3,179,870	3,454,740	3,285,764

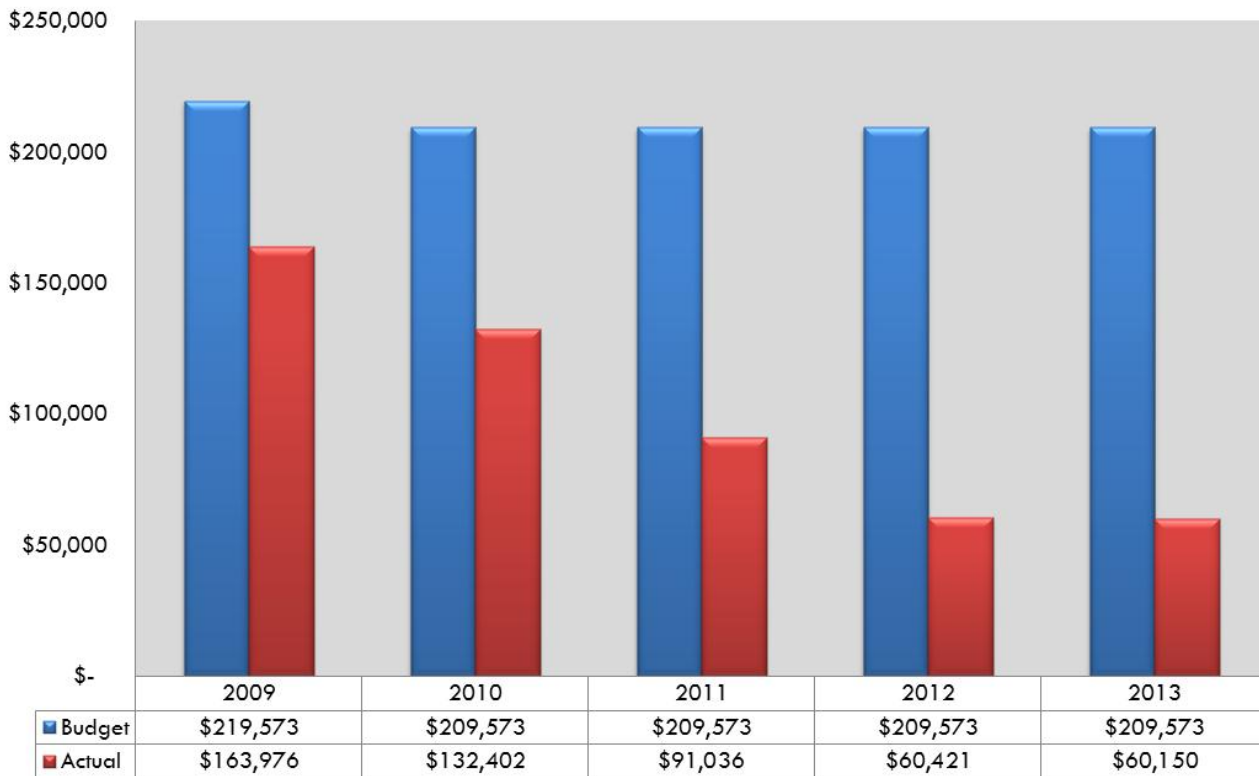
*Central building costs are estimated based on the Facilities Management Department's cost allocation factor applied to occupied square footage.

Based on an analysis of the Park Authority's expenditure activity, OFPA recommends allocating a percentage of central support services and administrative overhead costs to two primary benefitting funds – the Park Revenue Fund (170) and the Park Capital Improvement Fund (371). This strategy is consistent with the Park Authority's current practice of allocating a portion of County General Fund personnel costs to other funds and the County's practice of allocating some General Fund costs on a limited basis (cost recovery) to other benefitting special revenue funds. For example, the Facilities Management Department charges the Cable Communications and Solid Waste special revenue funds for their proportionate share of the Government Center's building costs.

2. Strategy #2: Reduction in Underutilized County General Fund Budget Line-Items (Annual)

The Park Authority currently receives General Fund support for fuel in three separate budget line-items. The primary budget line-item represents fuel provided through the Department of Vehicle Services. The fiscal year 2013 General Fund budget for this fuel line-item is \$358,900. There are two additional General Fund line-items for fuel that represent direct deliveries from the County's fuel vendor. The fiscal year 2013 General Fund budgets for direct delivery unleaded fuel and diesel fuel are \$126,249 and \$124,082, making the Park Authority's total combined fiscal year 2013 General Fund fuel budget \$609,239. However, for the past five fiscal years, the Park Authority has not spent substantially more than \$450,000 in General Fund fuel costs. Therefore, we are recommending a \$150,000 reduction in the Park Authority's General Fund direct combined fuel budgets for fiscal year 2014. We are also recommending a \$109,000 reduction in the Park Authority's underutilized General Fund budget for trips and tours based on prior year expenditures and trends for the past four fiscal years (see table below).

**Park Authority Trips and Tours General Fund Budget to Actuals
Fiscal Years 2009 – 2013***



*Actuals for fiscal year 2013 represent an estimate based on prior year expenditure activity. Actual expenditures for fiscal year 2013 will be reported on June 30, 2013.

3. Strategy #3: One-time Transfers from Reserves

During the past 10 years, the County's General Fund has provided both direct and indirect financial support for the Park Authority's revenue operations. From fiscal year 2002 to fiscal year 2012, the Park Authority transferred over \$5.1 million from the Park Revenue Fund and \$465,000 from the County's General Fund to the Park Capital Improvement Fund. During that time, the Park Authority's Park Capital Improvement Fund has grown from \$10.9 million to over \$25 million. A substantial portion of the \$25 million Park Capital Improvement fund balance is committed, but unrestricted, and can be used to cover a variety of costs currently supported by the General Fund. Therefore, we are recommending two one-time transfers totaling \$1,085,000 from the Park Capital Improvement Fund.

**Park Capital Improvement Fund
Transfers In and Fund Balances
Fiscal Years 2002 – 2012**

Fiscal Year	Direct Transfers In from the County General Fund	Direct Transfers In from the Park Revenue Fund	Fund Balance
2002	-	1,379,575	10,923,995
2003	-	922,720	13,317,025
2004	-	-	13,618,761
2005	465,000	900,000	14,805,853
2006	-	210,000	17,029,498
2007	-	-	20,302,732
2008	-	800,000	23,973,758
2009	-	-	21,791,894
2010	-	160,000	32,285,670
2011	-	800,000	25,481,870
2012	-	-	25,180,941
Total Transfers In	465,000	5,172,295	

Sources: Fairfax County budget documents for fiscal years 2002 to 2012 and the Park Authority's Comprehensive Annual Financial Reports (CAFRs). Approximately \$12 million of the \$25 million fund balance for fiscal year 2012 was committed, but unrestricted.

Summary and Conclusion

The table on page 6 provides a summary of the proposed strategies and the corresponding line-items that compose a potential \$3.5 million reduction to the Park Authority's General Fund support. The three proposed strategies outlined in our report and in the following summary table are consistent with the county-wide request for agencies to submit recommendations for how a 5 percent budget reduction could be achieved. In addition, our proposed strategies provide the Park Authority with the flexibility to build upon their existing strategies during the fiscal years 2014 and 2015 budget process.

**Summary of Potential Strategies to Reduce County General Fund Support
Park Authority - Fiscal Years 2014 and 2015 Budget**

Strategy	Budget Line-Item	Estimated Reduction in General Fund Support	Occurrence
Cost Recovery for Support Services/Allocation to Other Funds	Computer Services	506,393	Annual
	Telecommunications	211,883	Annual
	Central Building Costs	161,000	Annual
	Utilities	153,532	Annual
	Assigned Agency Vehicles	435,652	Annual
	Vehicle Replacement	205,522	Annual
	Fuel (Central Vehicle Services)	215,340	Annual
	Refuse Disposal	106,680	Annual
	County Legal Services	123,000	Annual
	Total Cost Recovery	\$ 2,119,002	Annual
Reductions in Underutilized General Fund Budget Line-Items	Unleaded Gasoline (Direct Delivery)	70,000	Annual
	Diesel Fuel (Direct Delivery)	80,000	Annual
	Trips and Tours	109,000	Annual
	Total Line-Item Reductions	\$ 259,000	Annual
One-Time Transfers from Reserves (see Note)	Park Contingency Project (#004534)	800,000	One-Time
	Site Information Management-ParkNet (#004749)	285,000	One-Time
	Total Reserve Transfers	\$ 1,085,000	One-Time
TOTAL		\$ 3,463,002	

Note: As of November 2012, the balance in the Park Contingency project was \$3,293,318 (composed of accumulated interest earnings). Although the reported fiscal year 2013 budget for the Site Information Management Project is \$693,885, the actual balance for this project as of November 2012 was \$978,886 (composed of budget carryover transfers).

FAIRFAX-FALLS CHURCH COMMUNITY SERVICES BOARD

On June 5, 2012, the Board of Supervisors directed the Auditor of the Board to conduct a review of certain Fairfax-Falls Church Community Services Board (CSB) activities under the direction of the County Executive's Office. The intent was for these reviews to be incorporated into the County Executive's CSB Work Plan. The scope and objectives of the reviews were outlined in a July 3, 2012, memo from the County Executive to the Board of Supervisors. The memo contained a work plan of 27 action items to address both short-term and long-term requirements for ongoing service planning and financial management. OFPA was asked to address two of the actions items:

- **Action Item 1.5:** Identify best practices for contracting and billing for Infant Toddler Connection (ITC). This action item included a fiscal analysis of the costs of being a Part C Lead Agency.
- **Action Item 1.6:** Analyze existing co-pay and fee-for-service policies and practices to identify potential enhancements.

As requested, OFPA identified contracting and billing best practices for ITC, determined the fiscal impact of being a Part C Lead Agency, and analyzed existing co-pay and fee-for-service policies and practices for CSB. We have reviewed our findings and recommendations with the appropriate department heads and provided a copy of our report to the Office of the County Executive in October 2012. It is anticipated that OFPA's work on these items will be included in the updates and reports provided by the Office of the County Executive to the Board of Supervisors.

Infant and Toddler Connection (ITC) Billing Practices

ACTION ITEM 1.5: IDENTIFY BEST PRACTICES FOR CONTRACTING AND BILLING FOR INFANT AND TODDLER CONNECTION (ITC) ²⁰

The Fairfax-Falls Church Community Services Board (CSB) – Infant and Toddler Connection (ITC) program contracts with a private billing company to bill and collect fees in accordance with state-established rates for early intervention services. ITC's collections revenues for early intervention services totaled over \$2.8 million in fiscal year 2012, approximately 44 percent of its total non-General Fund revenues.

To identify best practices for ITC's billing and contracting, the Office of Financial and Program Audit (OFPA) reviewed ITC's current and past billing strategies, analyzed monthly reports provided by ITC's private billing contractor, reviewed billing requirements established by Virginia under Part C of the Individuals with Disabilities Education Act (IDEA), and interviewed early intervention service providers with ITC billing experience. As discussed below, OFPA identified three primary best practices that will help ensure that the County's ITC collection revenues are effectively maximized and sufficiently safeguarded.

1. **Establish Performance Measures for Billing and Collections** – Performance measures are a key component of effective billing contract oversight. Setting baselines for collection rates (amount collected vs. amount billed) as well as performance measures for billing timeliness and minimizing unpaid balances help to ensure that billing contractors are maximizing collections revenue. ITC's billing contractor stated that his company should not be subject to billing and collections performance measures because the ITC program is complicated and unique. However, given that there are 40 early intervention systems in Virginia, the contractor's opinion should not preclude ITC from developing billing performance measures that meet the needs of its program.
2. **Ensure Financial Reports Provide a Reliable Basis for Monitoring and Oversight** – Financial reports are another key component of effective billing contract oversight. ITC's billing contractor provides monthly reports showing the amounts billed, amounts adjusted, and amounts collected. However, the contractor's categories of collection revenues do not align with the County's financial system, making it difficult to establish reliable baselines for revenue projections and trend analyses. In addition, the monthly reports do not provide a breakdown or explanation of billing "adjustments" that totaled \$3.2 million in fiscal year 2012. Although adjustments are common for early intervention services, without a summary level breakdown or explanation, there is no way to verify the adjustments or to distinguish between discretionary adjustments, traditional write-offs, and insurance contract adjustments.
3. **Conduct Audits of the Billing Contractor's Financial Records** – ITC's billing contractor is responsible for billing and collecting millions of dollars on the County's behalf. Under the provisions of the ITC billing contract, the County has the right to audit the financial records of the contractor to substantiate any amounts reported and to evaluate the contractor's efficiency and effectiveness. Periodic on-site audits of the billing contractor's books and records will help ensure that the reported billed, adjusted, and collected amounts are accurate.

²⁰ Under Part C of the Individuals with Disabilities Education Act (IDEA), the Virginia Department of Behavioral Health and Developmental Services established standard service charges (rates) for families to cover the costs of certain early intervention services. If families are unable to pay the full rates, they may be eligible for a sliding cost share fee scale established by the Virginia Department of Behavioral Health.

OFPA discussed these best practices with managers from ITC and the Fairfax Department of Administration for Human Services (DAHS). DAHS is currently developing an action plan to work with ITC to implement the best practices noted in our report.

Past and Current Billing Strategies

ITC has employed several different billing strategies over the years. Prior to October 2009, ITC contracted with private early intervention service providers to bill and collect family fees and private insurance and retained the responsibility for billing Medicaid within CSB. In October 2009, ITC centralized billing and contracted with a private company to bill and collect early intervention fees from Medicaid, private insurance companies, and families. Because the early intervention service providers did not provide ITC with detailed financial information, it was not possible to conduct a full cost benefit analysis of past and current billing strategies. However, the following table provides a comparative analysis of ITC's past and current billing strategies.

Comparison of ITC Past and Current Billing Strategies

Past Billing Strategy	Current Billing Strategy
Decentralized billing and collections with multiple early intervention service contractors	Centralized billing and collections with one private billing company
20% fee for billing services (calculated from gross collections revenues)	6.75% fee for billing services (calculated from gross collections revenues)
Client payment method impacted access to services.	Guaranteed access to services regardless of client payment method
In network with most primary Blue Cross and Blue Shield private insurance providers	In network with most primary Blue Cross and Blue Shield private insurance providers (as of July 2012)
Limited access to financial information	Full access to financial information
Multiple points of contact for client payments and billing inquiries.	Single point of contact for client payments and billing inquiries
ITC could not retain a portion of revenues to offset administrative costs.	ITC is allowed to retain a portion of collection revenues to offset administrative costs.

ITC Collection Revenues

Several factors have impacted collections revenues over the past five fiscal years. These factors include increasing caseloads and changes to the Medicaid reimbursement rates for early intervention services. ITC's initial transition to centralized billing services also impacted collections revenues. During the initial transition to centralized billing through a private billing contractor, ITC encountered significant challenges in gaining acceptance into private insurance companies' networks. According to ITC, being "out of network" caused delays in billings and made it difficult to access the all the client information necessary to bill. After an initial period of suspended billing, ITC's billing contractor began billing for fiscal year 2010 services in fiscal year 2011. After a prolonged period of contract negotiations and discussions, ITC management reported that, as of July 2012, the program is now "in network" with most primary Blue Cross and Blue Shield private insurance providers.

In addition to collections revenues, ITC also receives state and federal Part C grant funding and contributions from other local jurisdictions. The table below provides a summary of actual revenues by source from fiscal year 2008 through 2012:²¹

**Fairfax Infant Toddler Connection Revenues by Source
Fiscal Years 2008 – 2012**

	2008	2009	2010	2011	2012
State - Part C Grants	1,050,957	995,818	848,758	1,027,686	1,162,912
Federal - Part C Grants	881,514	857,262	1,101,049	1,354,340	1,897,004
Subtotal - Part C Grant Revenue	1,932,471	1,853,080	1,949,807	2,382,026	3,059,916
Collections - Medicaid	356,065	561,080	856,964	2,332,176	2,309,797
Collections - Private Insurance	210,285	191,073	43,420	632,181	287,623
Collections - Family Fees	141,847	115,866	92,308	128,295	274,812
Subtotal - Collections Revenue	708,197	868,019	992,692	3,092,652	2,872,232
Fairfax City	41,117	41,117	41,117	41,117	41,117
Falls Church City	18,636	18,636	18,636	18,636	18,636
Federal ARRA	N/A	N/A	589,400	537,140	396,566
Other	N/A	N/A	N/A	N/A	159,288
Subtotal - Other Revenue	59,753	59,753	649,153	596,893	615,607
Total Revenues (excluding General Fund)	2,700,421	2,780,852	3,591,652	6,071,571	6,547,755

Source: Actual revenues posted to the County's financial system: FAMIS for fiscal years 2008 through 2011; FOCUS for fiscal year 2012.

²¹ From fiscal year 2010 through 2012, the ITC program received federal American Recovery and Reinvestment Act (ARRA) grant monies to offset the costs of providing early intervention services. According to ITC management, the ARRA grant for Part C funding ended in fiscal year 2013.

Lead Agency Analysis

ACTION ITEM 1.5: DETERMINE IF THE COUNTY'S STATUS AS A LEAD AGENCY CONTINUES TO BE FINANCIALLY FEASIBLE.²²

To determine the financial feasibility of the County's status as a lead agency, Office of Financial and Program Audit (OFPA) staff identified the specific expenditures and revenues associated with the Fairfax-Falls Church Community Services Board (CSB) major lead agency activities for fiscal year 2012. We reviewed revenue and expenditure reports from the County's financial system, analyzed fiscal year 2012 Part C financial reports, and worked with ITC and CSB management to develop estimates of personnel and other administrative costs. Based on this analysis, OFPA determined that Part C local lead agency activities during fiscal year 2012 resulted in a net cost to the County's General Fund of approximately \$1.2 million, conservatively estimated.

Part C Lead Agency Financial Feasibility Summary Fairfax-Falls Church Community Services Board Fiscal Year 2012

LEAD AGENCY MAJOR ACTIVITIES	Expenditures	Revenues	Difference (General Fund)
Timely Service Entry			
Assessment for Service Planning	(432,264)		
Intake	(106,969)		
Part C Grant Revenues - Intake		35,657	
Total Timely Service Entry	(539,233)	35,657	(503,576)
System Operations			
Administration	(121,590)		
System Management	(305,398)		
Public Awareness/Child Find	(11,960)		
Other System Costs	(21,337)		
Billing Contract (Private Vendor)	(224,398)		
Collection Revenues Used to Offset Billing Costs		103,959	
Total System Operations	(684,683)	103,959	(580,724)
Data Collection and Reporting			
Data Collection	(125,287)		
Part C State Financial Reporting	(25,195)		
Total Data Collection and Reporting	(150,482)	- 0 -	(150,482)
TOTAL	\$ (1,374,398)	\$ 139,616	\$ (1,234,782)

²² To facilitate the implementation and management of local early intervention systems under Part C of the Individuals with Disabilities Education Act (IDEA), the Virginia Department of Behavioral Health and Developmental Services contracts with 40 local lead agencies throughout the state. The Fairfax-Falls Church Community Services Board (CSB), through the Infant Toddler Connection (ITC) program, has served as a local lead agency since 1994.

Section 2.2-5304 of the Code of Virginia creates three broad areas of responsibility for local lead agencies: (1) Establish and administer a local system of early intervention services in compliance with Part C of the Individuals with Disabilities Education Act (IDEA), (2) Implement consistent and uniform policies and procedures consistent with state requirements, (3) Manage relevant state and federal early intervention funds allocated from the state.

Within the broad framework of lead agency responsibilities established in the Code of Virginia and the Part C contract between CSB and the Virginia Department of Behavioral Health, OFPA worked with Infant Toddler Connection (ITC) and CSB management to identify three major categories of lead agency activities: Timely Service Entry, Systems Operations, and Data Collection/Financial Reporting.

- **Timely Service Entry** – Section 2.1.2 of the Part C contract requires the lead agency to facilitate the timely entry of children and families into the early intervention system. These costs include ITC staff time related to evaluations of eligibility, assessments for service planning, and the development of Individualized Family Service Plans (IFSP) for all eligible children and families within the required 45-day timeline. ITC must also ensure the timely initiation of services, which is defined in the Part C contract as 30 calendar days from the date the family signs the IFSP. In fiscal year 2012, CSB allocated approximately \$36,000 of its Part C grant budget to offset service entry intake costs.
- **System Operations** – Sections 2.1.2 and 2.1.4 of the Part C contract require the lead agency to administer a local system of early intervention services. System Operations costs include ITC staff time related to a variety of lead agency administrative and managerial functions, which include monitoring service practitioners, ensuring compliance with federal and state regulatory requirements, employing a System Manager to facilitate oversight and coordination of local system, and implementing a comprehensive child find system and public awareness campaign. Section 2.1.1 of the Part C contract requires the lead agency to seek reimbursement from Medicaid, private insurance companies, and families for certain services. The costs of these activities include the administrative cost of ITC's contract with a private billing company. ITC is allowed to retain a portion of collection revenues to offset the costs of the billing contract.
- **Data Collection and Financial Reporting** – Section 2.1.2 of the Part C contract requires the lead agency to collect and enter child-specific data into the Virginia Department of Behavioral Health's Infant and Toddler Online Tracking System (ITOTS). Data collection costs include ITC staff time related to collecting and entering data into the online system within the required timelines and in the required formats. According to ITC management, data collection costs could be significantly reduced or eliminated if the State developed an automatic interface between ITOTS and ITC's case management system (CODE). The automatic interface would eliminate the need for ITC staff to perform manual data entry. Section 2.1.1 requires local lead agencies to monitor and manage Part C grant revenues and prepare and submit to the Virginia Department of Behavioral Health quarterly fiscal reports showing budgeted to actual revenues and expenditures by service categories. Financial Reporting costs include Department of Administration for Human Services staff time related to monitoring Part C grant revenues and preparing and submitting the required quarterly financial reports to the Virginia Department of Behavioral Health.

Copay and Fee-for-Service Policies and Practices

ACTION ITEM 1.6: ANALYZE EXISTING CO-PAY AND FEE-FOR-SERVICE POLICIES AND PRACTICES TO IDENTIFY POTENTIAL ENHANCEMENTS

OFPA analyzed existing fee-for-service and copay policies and practices agency wide. A common requirement was identified: CSB programs are required by their respective state and federal governing regulations and contracts to maximize individual as well as private insurance payment sources. The potential enhancements identified in this report are based on this requirement. It is anticipated that these enhancements will support improvements to the agency's reimbursement system and further maximize available revenue from fees and copays.

Potential Policy Enhancements

The CSB Board is designated by the state as an Administrative Policy Board. The Board's administrative duties regarding fees are set out in the Code of Virginia and the State Performance Contract. The state code requires that the CSB Board institute a reimbursement system to specifically maximize collection of fees from individuals and third party payers. Last reviewed in July 2010, CSB Board Policy Number 2120 (Reimbursement of Services) has a limited number of policy statements related to maximization of fees from individuals and third party payers.

The state performance contract requires that the CSB Board approve a method to determine a consumer's ability to pay. Current CSB Board policy states a consumer who is unable to pay may be granted a subsidy. This current policy statement does not establish a method to evaluate a consumer's ability to pay as required by the contract. The method to determine ability to pay is currently located in CSB Regulation 2120.1 which is adopted by the Executive Director and incorporated by reference into Policy Number 2120. The state requires the method to be approved by the CSB Board in accordance with state and federal regulations.

OFPA identified two potential policy enhancements within these administrative requirements:

1. Provide an opportunity for the CSB Board to evaluate the current guidance provided in CSB Board Policy Number 2120 (Reimbursement of Services) and consider policy updates to support a reimbursement system that maximizes fees from individuals and third party payers.
2. Provide an opportunity for the CSB Board to consider a separate policy establishing a method to evaluate consumer's ability to pay fees as required by the State Performance Contract.

Potential Practice Enhancements

Working within the existing CSB Board policy framework, OFPA identified several practice enhancements to improve alignment to existing CSB Board policy. The practice enhancements identified will ensure CSB Board Policy implementation and improve reimbursement system processes and oversight.

Current CSB Board Policy 2120:	Potential CSB Practice Enhancements:
Every service provided has a cost and source of funding	<ul style="list-style-type: none"> • Conduct comprehensive and recurring analyses on costs of all services provided and the performance of the agency's reimbursement system. • Generate data for use by the CSB Board and management to evaluate the agency's reimbursement system.
A single fee will be established for each service <u>related to established unit cost</u>	<ul style="list-style-type: none"> • Strengthen Unit Cost Analysis provided to CSB Board and agency management <ul style="list-style-type: none"> ○ Develop consistent methodology for direct and indirect cost calculation ○ Capture units of service for all services provided ○ Improve number of cost calculations provided (Only 30% of the service line items listed on the most recent CSB report had unit cost calculations linked to FY11 expenses, some costs noted as "historical costs"). ○ Ensure unit cost data for the 13 services that are provided at no cost to the consumer are included in comprehensive routine analyses reviewed by the CSB Board and management. (Regulation 2120.1) • Develop fee proposals according to CSB Board Policy and provide rationale to CSB Board for recommended changes to the fee basis (FY13 fee proposal includes change to residential fee basis from fee per day based on cost to a fee based on % of consumer income per month).
Annual review of fees	<ul style="list-style-type: none"> • Ensure process and timetable for consistent annual review of fees and cost of services provided. (Last review conducted in 2010 was based on FY09 costs to establish fees for FY11 that were still in use as of September 2012).
Payment for services shall be sought from: consumer, third party payers, other legally responsible parties and extended payment plans	<ul style="list-style-type: none"> • Standardize site cashiering operations. (Current cashiering operations are inconsistent from site to site, lack leadership, and include a combination of CBS and DAHS staff). • Standardize and document process to establish payment plans at sites and through centralized billing. • Maximize fee collection from third party payers by ensuring pre-authorization. Procedural documents detailing a third party payer pre-authorization process were not provided to OFPA. In March 2012, Internal Audit recommended implementation of a process to ensure pre-authorization is performed. Agency management indicated that implementation is still pending.

<p>Negotiate alternative methods of payment <u>before</u> a subsidy is granted that uses local and state revenue</p>	<ul style="list-style-type: none"> • Evaluate current procedures and practices that support subsidy evaluations conducted upon a consumer’s entry to the CSB system. (The <i>Financial Responsibility Agreement</i> signed by consumers new to the system includes a <i>Fee Subsidy Agreement</i>. Current practice is to apply subsidies across the board at the time the consumer enters the system, and not to negotiate alternative methods of payment before subsidies are granted or consider alternative methods of payment, such as private insurance.) • Evaluate current procedures and practices that support subsidy evaluations conducted on consumers using insurance to pay for services. (While the <i>Fee Subsidy Agreement</i> notes that the subsidy does not apply to services covered by insurance, OFPA noted that other jurisdictions interviewed do not routinely conduct subsidy evaluations on consumers entering the system that will use insurance to pay for services). • Standardize subsidy and supplemental subsidy evaluation. Eligibility criteria and documentation requirements need to be better defined. Current practice and adherence to policy varies depending on the staff conducting the subsidy evaluation. A process to spot audit eligibility determinations and ensure sufficient controls should be documented, implemented and tested.
<p>Annual review of subsidy eligibility</p>	<ul style="list-style-type: none"> • Standardize and document the process for conducting annual review of consumers’ continued subsidy eligibility. (Site operations appear inconsistent, annual review not currently addressed in <i>Account Management Practice Guide</i>.)

ACTION ITEM 1.6: DETERMINE IF THE CSB IS MAXIMIZING FAMILY/INDIVIDUAL COPAYS. COMPARE CSB COPAY POLICIES TO OTHER JURISDICTIONS

To determine if the CSB is maximizing individual/family copays, OFPA requested data on copays billed/collected and reviewed agency copay practices. We included in the scope of our review all insurance requirements a consumer may have (copays as well as deductibles and co-insurance). All of these insurance requirements are inter-related and offer similar opportunities for revenue maximization.²³

Maximization determinations are typically based on data. In the case of this copay review, two important data points are needed to determine maximization: copays billed and copays collected. The CSB does not discreetly track consumer copay/deductible/co-insurance charges and payments. Therefore our determination of current maximization efforts was not based on data as the agency does not currently capture the data needed for this determination. We focused our efforts, instead, on the agency's current practices related to the identification and collection of copays, deductibles and co-insurance.

A consumer's specific health insurance plan determines the copay/deductible/co-insurance charges. Therefore, the CSB's opportunity to maximize charges established by insurers is through the following:

- Identifying the copay/deductible/co-insurance charges required by insurers
- Applying the charge to the consumer's account
- Collecting the charge from the consumer

Currently the CSB identifies a consumer's copay/deductible/co-insurance charge from the Explanation of Benefits (EOB); a document received from the insurer after the CSB has filed a claim. The charges are applied to the consumer's account from the EOB by the centralized billing staff. Bills mailed monthly show balances due for past services received. This EOB method of identification is typical for the medical industry and we found the jurisdictions we interviewed also used EOB's to verify copay, deductible and co-insurance charges consumers are required to pay.

The CSB's limited use of the information once it was verified, however, is not typical or consistent with industry standards or the practices of other jurisdictions reviewed. The CSB uses verified insurance charges from EOBs to bill for prior services only. The verified charges for copays and co-insurance are not accessed by site personnel for current transactions. CSB staff reported that all copay/deductible/co-insurance charges are billed and that copays, in particular, are not collected prior to a service being received. The agency's *Account Management Practice Guide* describes "pay-as-you-go" collection efforts and provides general guidance for site staff on accepting payments and alerting consumers to past due balances but does not specifically address copay/deductible/co-insurance identification or collection upon each visit.

²³ **Copay** is a form of medical cost sharing between the consumer and the health insurance provider. Copay obligations are fixed dollar amounts that a health insurance provider requires a consumer to pay when a medical service is received. The health insurance provider is responsible for the balance of the cost of the service received by the consumer. The amount of the copay is dependent on the provider, the specific plan with that provider and the type of service received.

A **deductible** is a fixed dollar amount that a consumer pays before the health insurance provider starts to make payments for covered medical services. A consumer's health insurance plan may have both individual and family deductibles. Some plans have separate deductibles for specific services (hospital deductible/admission). Deductible amounts may be dependent on the CSB's status with the health insurance company (in-network/out-of-network). Some plans require a deductible be met for specific services before a copayment can be applied.

Co-insurance is another form of medical cost sharing that requires a consumer to pay a percentage of medical expenses after the deductible amount is paid. Once a deductible and co-insurance are paid by the consumer, the insurance provider is responsible for the rest of the reimbursement for covered benefits typically capped at an allowed charge. The consumer could also be responsible for any charges in excess of the plan's allowed charge. Percentage rates for co-insurance are often dependent on the CSB's status with the health insurance company and the type of service received.

Literature on the electronic health record system installed earlier this year promotes front desk copay processing capability as a system feature. CSB staff reported that decisions were made prior to the system's implementation to not utilize all of the system's copay features.

In addition to identifying consumer insurance charges from the EOB, the CSB maintains a clearinghouse service subscription that provides information on consumer plan benefits including copay/deductible/co-insurance requirements. OFPA observed that the current clearinghouse subscription provides limited information to identify copay charges related to mental health, substance abuse and developmental services.

Inclusive in this review were the copay practices of the Infant Toddler Connection (ITC) program. ITC services are billed by ITC's billing contractor and include copays, deductible and co-insurance charges. To determine maximization, OFPA requested the same data from ITC's billing contractor as was requested from CSB management. The ITC billing contractor does not discreetly track consumer copay/deductible/co-insurance charges and payments. Our determination of ITC's current maximization efforts was also not based on data as the contractor does not currently capture the data needed for this determination. We focused our efforts, instead, on the contractor's current practices related to the identification and collection of copays, deductibles and co-insurance and ITC's oversight of the contractor. (Detailed discussion of ITC contractor oversight is in Work Plan Action Item 1.5.)

ITC's billing contractor pulls insurance contact information collected by ITC service coordinators from ITC's system and verifies copay/deductible/co-insurance charges with the insurer. If the ITC contractor cannot verify copay charges for a specific service prior to billing the consumer, ITC management has directed the contractor to apply a standard \$25 copay charge to the consumer's account. Consumers are requested to verify copay obligations with their insurance company if they are billed the standard copay. The \$25 standard copay charge was recommended by the billing contractor based on industry knowledge. ITC staff noted that account adjustments are done to account for actual copay charges if and when the contractor receives verification.

OFPA contacted six Virginia jurisdictions to compare copay policies and practices.²⁴ Practices reviewed consistently utilized EOBs to identify and apply copay, deductible and co-insurance charges to consumer accounts. Some jurisdictions interviewed reported having front desk processes to collect copays during office visits.

²⁴ Arlington County, the City of Alexandria, Loudoun County, Prince William County, Henrico County, and the Cities of Hampton and Newport News were contacted for comparison purposes.

To maximize copay and other insurance charges, OFPA recommends that the CSB focus on the following:

- Evaluate all available resources to identify copay/deductible/co-insurance charges required by insurers (EOBs, clearinghouse subscriptions, online sources). Determine if better tools are available from other sources.
- Develop and document the process to ensure that copays, deductibles and co-insurance requirements are verified for every consumer using insurance to pay for services.
- Revisit decision to not utilize full system copay capability for CSB services; evaluate system feature
- Include copay/deductible/co-insurance collection performance in overall agency reimbursement system analysis.

The above recommendations to maximize copay (and other insurance charges) are designed to work in concert with the potential policy/practice enhancements identified in this report and with other aspects of the County Executive's Work Plan. In order to collect copays during office visits, the agency must ensure a robust reimbursement system is in place that is based on policies and practices (as required by the state) that support maximization of individual and third party payment sources. OFPA anticipates that the results of the overall Work Plan, the policy/practice enhancements identified in this report, and the above copay recommendations will form the framework needed for potential copay/co-insurance/deductible collection capability at CSB sites in the future.

NORTHERN VIRGINIA TRANSPORTATION COMMISSION COUNTY TRUST FUNDS

Overview

Public transit funds are received through the Northern Virginia Transportation Commission (NVTC) and maintained in trust for Fairfax County and other member jurisdictions. OFPA reviewed NVTC and Fairfax County Department of Transportation (DOT) trust fund information for fiscal years 2009 to 2012 and DOT budget projections for fiscal years 2013 to 2018 for this report. Based on the information reviewed, OFPA determined that the balances in the Fund were maintained within the goals established by the Departments of Transportation and the Department of Management and Budget (DMB) during fiscal years 2009 to 2012.

Fairfax County Trust Fund Revenue Sources

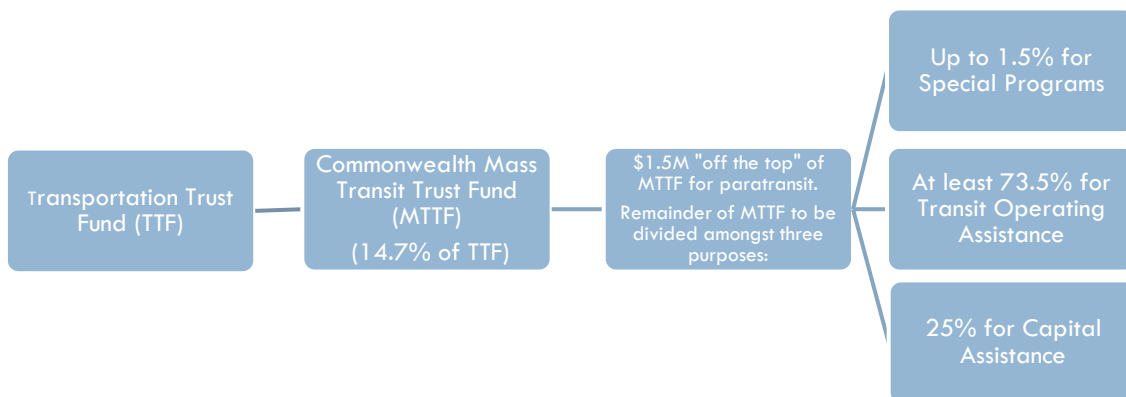
There are three primary sources of revenue for the Fairfax County Trust Fund (Fund) maintained at NVTC:

Source of Revenue	Approximate % of Fund
State Aid	75.5%
Fuels Tax	23.8%
Interest	.7%

NVTC applies for and receives State Aid on behalf of its five Washington Metropolitan Area Transit Authority (WMATA) member jurisdictions, and receives Fuels Tax on behalf of all six of its member jurisdictions. NVTC holds these funds in trust for the jurisdictions' restricted use, and disburses the funds at the request of each jurisdiction. Interest is earned on the balances held at NVTC. NVTC maintains individual accounting for funding requests, receipts, disbursements and remaining balances of the member jurisdiction trust funds. NVTC's financial statements are audited annually by an independent Certified Public Accounting firm.

State Aid from the Commonwealth²⁵ originates in the Commonwealth's Transportation Trust Fund (TTF). Funding for the TTF is derived primarily from the State Sales and Use Tax, Motor Vehicles Sales and Use Tax, Motor Fuel Taxes and rental and vehicle license taxes/fees and interest. The State Code requires that 14.7% of the TTF revenue be allocated to the Mass Transit Trust Fund (MTTF).

The Commonwealth Department of Rail and Public Transportation (DRPT) administers the TTF transfer to the MTTF Trust fund. Revenues are distributed through the funds as depicted in the following diagram. NVTC applies for and receives the member jurisdiction shares of these revenues from the MTTF.



Source: Cambridge Systematics, Inc. June 13, 2011 Study for DRPT – Flow of Funds for the Virginia Department of Rail and Public Transportation

²⁵ State Aid from the Commonwealth is codified in the Code of Virginia §58.1-638

The Operating Assistance program of the MTF is supplemented by funding from the state recordation tax. The State Code also provides for a separate Mass Transit Capital Fund (MTCF) which is funded through external sources such as funds appropriated by the General Assembly and bond proceeds. Together these sources make up the State Aid category.

Motor Vehicle Fuel Sales Tax²⁶ The Motor Vehicle Fuel Sales Tax is predominantly based on 2.1% of the wholesale price of fuel sold to retailers within the county. For FY 2012, DOT reports that \$28 million was received in Fuels Tax and of this amount \$26.3 was disbursed to WMATA. All Fuels Tax receipts are required to be used for WMATA related transit expenditures.

Interest Earnings are the proportionate share of interest earned on cash held in trust on behalf of a member jurisdiction at NVTC. Interest earnings must be utilized for mass transit expenditures. For FY 2012, interest earnings were \$100,564.

All funds received by NVTC for the member jurisdictions must be used for mass transit. NVTC is required to make certain payments directly to WMATA on behalf of the member jurisdictions for local obligations. Funds are then further apportioned utilizing WMATA allocated subsidies and relative shares of local transit subsidies. Remaining available balances can be directed to County public transit programs such as; Connector Bus Service, WMATA and NVTC Balance Projects.

Trust Fund Reserve Goals

DOT and the Department of Management and Budget (DMB) reported efforts during the course of a fiscal year to set aside fund balances to meet three goals. The reserve goals as reported by DOT and DMB are as follows:

1. To stabilize (or level) the County's annual General Fund support to Metro and Connector Bus Services. The trust fund reserves are used to keep the County's annual General Fund transfer to Metro and Connector at approximately \$47 million.
2. To maintain a "rainy day" reserve of accumulated interest earnings of \$5.1 million, and an additional buffer of \$5 million against differences between budget estimates and actuals to ensure that DOT will not have to request additional funding from the Board of Supervisors. *(Total goal of \$10.1 million.)*
3. To maintain a reserve if funding or cash flow interruptions occur which require multi-jurisdictional negotiation or legislative action. The reserve amount represents 2 quarterly WMATA payments. *(During the last 17 quarters WMATA payments ranged from \$15.2 million to \$20.1 million. Excluding an unusual \$39.8 million payment made in FY 2009 and using the 16 'typical' payments, the two payment average would be \$34.4 million.)*

The three goals result in an estimated minimum balance requirement of \$44.5 million, plus what is determined by DOT and DMB, as being necessary to mitigate the County's General Fund contribution.

²⁶ Motor Vehicle Fuel Sales Tax is codified in 58.1-1720. Effective July 1, 2013 this code section is repealed and replaced with 58.1-2291 et al. This change in code sections is not expected to have an impact on the NVTC administration of the fuel tax receipts from the state.

Fairfax County Trust Fund Uses

Fund disbursements have increased from \$104.9 million in 2009 to \$106.1 million in 2012. As required by state code, uses must be transit related. Funds may be used in the year received or future years for qualified transit expenses. The use of funds in any year will have a corollary impact on the available balance in the next year.

Fairfax County Trust Fund Balances are maintained at NVTC. The table below shows the sources and uses with resulting fund balance for the trust fund from FY 2009 to FY 2012 on a cash basis. The table amounts exclude the funds required to be withheld and disbursed directly to WMATA by NVTC. Therefore, the table reflects resources available for Fairfax County transit purposes.

Fairfax County Trust Activity at NVTC (Cash Basis)				
Sources:	FY 2009	FY 2010	FY 2011	FY 2012
State Aid	84,252,004	73,253,241	50,305,279	76,617,712
Fuel Tax	21,416,924	19,849,994	22,884,860	27,870,437
Interest	1,146,577	218,734	140,937	100,564
TOTAL	106,815,505	93,321,969	73,331,076	104,588,714
Uses:				
WMATA	-87,475,912	-65,848,119	-68,283,175	-73,815,477
Fairfax Projects	-17,305,579	-17,159,798	-18,361,878	-32,201,878
NVTC Projects	-88,171	-148,430	-166,757	-93,103
TOTAL	-104,869,662	-83,156,347	-86,811,810	-106,110,458
Difference	1,945,843	10,165,622	-13,480,733	-1,521,744
Balance	65,953,248	76,118,870	62,638,136	61,116,392
Source: NVTC Trust Fund Fairfax County Activity Statements				

During the FY 2009 - 2012 period reviewed, total Fairfax County Trust Fund receipts have decreased from \$106.8 million to \$104.6 million. Disbursements from the Fund have increased from \$104.9 million in 2009 to \$106.1 million in 2012.²⁷

All funds received by NVTC for Fairfax County must be used for public transit. The majority of the funds received in a quarter are disbursed at the beginning of a quarter directly to WMATA as required by state law. Of the remaining amounts, DOT through action approved by the Board of Supervisors, may direct NVTC to pay additional obligations to WMATA or request reimbursement of other transit related expenses. The other transit related expenses have predominantly been related to Connector Bus Services during the period studied. Any funds not utilized in a fiscal period remain in the Fund and are available for future purposes.

Trust Fund Balance Fluctuations

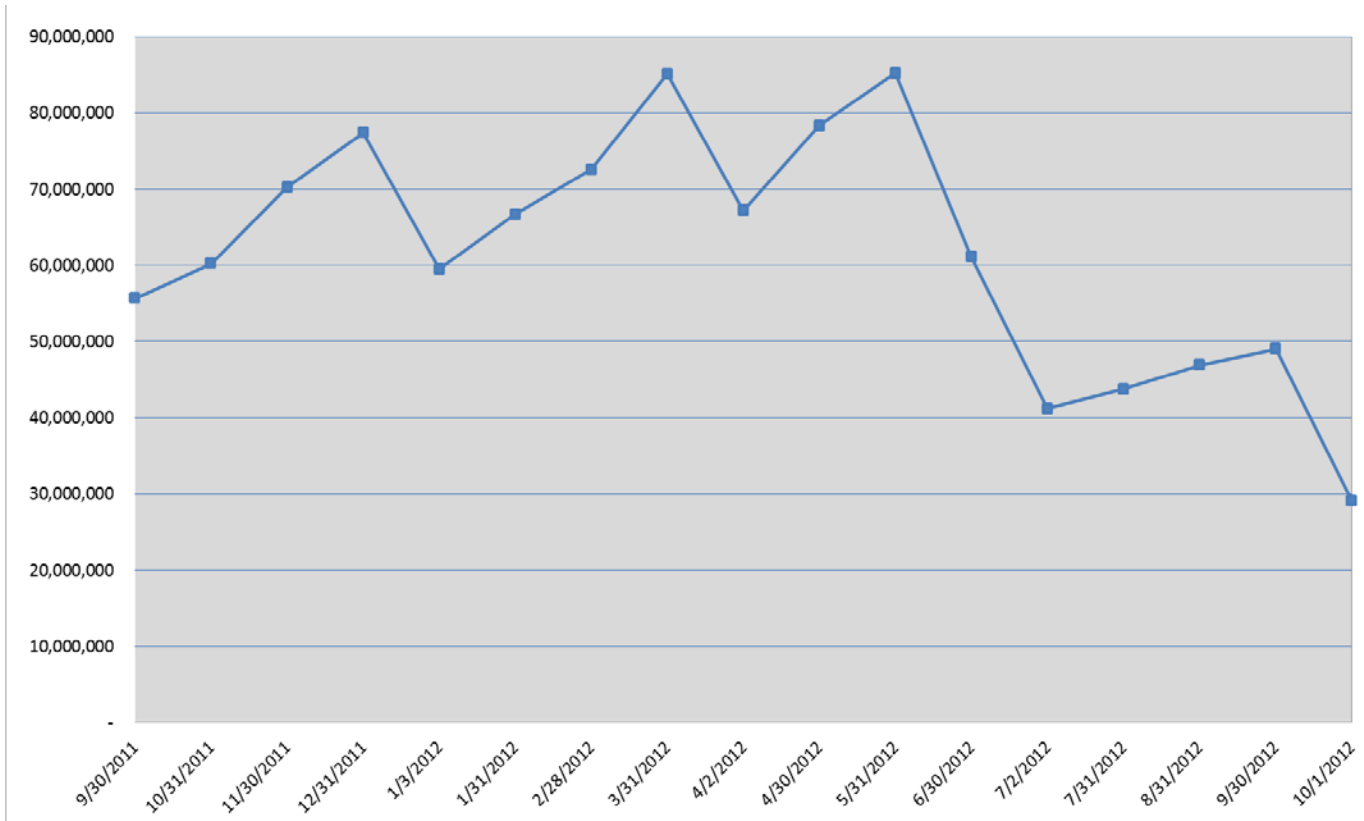
DOT reports that expenditure allocation and balance projection processes for the Fund are strategic in nature and rely on DOT and DMB staff professional experience and judgment. Reserve projections are not determined through a formula driven process (connected with depreciation schedules for example) that is documented. Rather fund balance utilization is judgmentally determined at a point in time based on actual cash flows. These decisions are made within the reserve goal framework.

²⁷ NVTC Trust Fund Fairfax County Activity Statements (Cash Basis)

Cash flow is a primary consideration in the balances maintained at NVTC. Fluctuations are caused by disbursements to WMATA being required prior to the revenues for that quarter being received. The time between disbursement and receipt may only be days, but often cross accounting periods. Fund balances reviewed by OFPA for a one year period are presented below on a cash basis. This chart reflects the shifts in cash balances during the most recent year from a peak of \$85 million to a low of \$30 million.

Fairfax County NVTC Trust Daily Cash Balance

9/30/11 – 10/1/12



Source: NVTC Trust Fund - Fairfax County Quarterly Cash Flow June 30, 2008 to October 1, 2012

The Fund has shown the ability to operate below the \$44.5 million dollar level during fiscal year 2012. However, the point in time of when reserves drop below is as critical as the actual low point.

Future Trust Fund Balance Projections

Fund projections are developed collaboratively between DOT and DMB within the strategic framework noted above. DOT's future trust fund activity projections include increases in expenditure demands for fiscal years 2014 through 2018. These projected increases are predominately influenced by anticipated increased WMATA costs (related to the startup of the Silver Line) and projected Columbia Pike Street Car expenditures.

During the fiscal 2014 to 2018 timeframe, DOT's projections for receipts from State Aid and Fuels Tax remain constant (as of December 2012). DOT acknowledged using conservative revenue forecasts for future years citing concerns over federal sequestration, the Commonwealth's finances and continuation of the recession.

Fund Balance Goal Performance

OFPA reviewed fund balance data obtained from both NVTC and DOT from FY 2009 to FY 2012. NVTC's trust fund and cash flow statements were relied upon as they are connected to independently audited financial statements. OFPA compared NVTC actual Fund balance statements to a DOT operational spreadsheet and noted explainable variances due to accounting formats and timing.

OFPA found that DOT and DMB's reserve balance strategy to limit the total General Fund transfer for Metro and Connector at around \$47 million, was achieved during the study period. The General Fund transfers as reported by DOT for each of those years are as follows:

FY 2009 - \$40.89 Million

FY 2010 - \$28.97 Million

FY 2011 - \$39.40 Million

FY 2012 - \$45.76 Million

OFPA calculated that the reserve balance strategies for Goals 2 and 3 envision a combined reserve balance of approximately \$44.5 million. While the Fund balance dropped below this amount in October of 2012, to approximately \$30 million, this was just after a quarterly WMATA payment of \$19.9 million.

DOT and DMB note that positive fluctuations in the reserve balances over the course of the fiscal year are utilized during the third quarter review or carryover budget processes to address transit needs and potentially relieve additional demands on the County's General Fund.

FOLLOW-UP AND OTHER ONGOING ACTIVITIES

GENERAL FUND COST ALLOCATIONS

Our October 2012 quarterly report included a study on the County's General Fund cost allocations. Cost allocation is the process of identifying and distributing costs to benefitting departments, funds, or programs. We made the following recommendations in our report:

- The Department of Management and Budget (DMB) should review the current General Fund cost allocations to the special revenue and enterprise funds and identify additional central service costs supported by the General Fund that could be allocated to those benefitting funds, as appropriate.
- To help ensure full cost recovery for the General Fund and to standardize the current cost allocations, the County should consider developing and formalizing a full cost allocation plan in accordance with Generally Accepted Accounting Principles (GAAP).

The Board of Supervisors accepted the report and directed that our recommendations be forwarded to the Budget Committee for review.

In November 2012, County's Chief Financial Officer/Director of Management and Budget issued a memo to county executive managers and department directors regarding the allocation of General Fund indirect costs to other funds. The memo explained that, in lieu of developing a full cost allocation plan, DMB had decided to uniformly apply the indirect cost rate from the County's Federal OMB A-87 Indirect Cost Rate Plan (calculated at 11%) to the fiscal year 2013 budget for personnel expenditures for each identified fund. It is anticipated that the potential benefit to the General Fund will be between \$3 million and \$7 million, pending final negotiations with county department directors. In recognition of the benefits of indirect cost allocations, DMB will continue to efforts to develop a formal full cost allocation plan.

VENDOR EVALUATION REVIEWS – COUNTY FUEL PURCHASES

The Department of Vehicle Services (DVS) acquires most of the diesel and unleaded fuel (over 99%) used by the county. During FY 2011 and 2012 countywide fuel purchases, as reported by DVS, were approximately \$27.4 million and \$32 million respectively. County agencies and the Fairfax County Public Schools are charged for the product used as their vehicles refill at the various fueling points around the county or through other mechanisms.

The most used product type is diesel, which is acquired under a contract originating at the Washington Metropolitan Area Transit Authority (WMATA). This contract includes a Metropolitan Washington Council of Governments Rider Clause (COG Clause). This clause allows other jurisdictions to join purchasing power to achieve the best price and lowest cost of acquisition. Unleaded gasoline is acquired under a contract originating with Montgomery County Maryland. This contract likewise has a COG Clause which also allows area jurisdictions to pool their purchasing power.

Both contracts use a pricing index to determine the actual price charged per gallon. There can be further complexities in pricing. For example, prices are based on quantity levels and if the product is delivered or picked up at a commercial fuel terminal by a county owned and operated tanker truck.

Pricing Index Review

OFPA judgmentally selected FY 2011 and 2012 invoices for review from the county's primary fuel suppliers. In the case of DVS, the invoices selected were consistent with the contract pricing indexes and contract terms. Two other county agencies also acquired product under the diesel and unleaded fuel contracts. These agencies ordered product independently of DVS and therefore were invoiced directly by the vendors. OFPA found both agencies were unaware of the price indexing component of the respective contracts and other contract terms. An agency not being aware of and understanding the contract being used creates potential risk that the pricing, product and service will be inconsistent with the contract terms. However, given these agencies purchase less than 1% of the fuel in the course of a year, any potential corrections will likely be minimal.

The agencies involved recognize the potential risk of not understanding the contract terms. These agencies are currently reviewing prior invoices against the pricing indexes. With assistance from DVS, they are familiarizing themselves with the overall contract terms. If any refunds or credits result, those will be addressed with the two suppliers.

Corrective Measures

In addition to the corrective action and invoice review being executed by the two agencies, the Department of Purchasing and Supply Management (DPSM) is currently taking steps to remind all county agencies utilizing COG Clause type contracts that they must make themselves aware of the contract terms. Additionally, DPSM will re-emphasize the importance of knowing and understanding the terms of COG Clause type contracts in their regular training material and sessions as well as through their regular newsletters. DVS is also providing temporary assistance to the two agencies to help them improve their understanding of the contract terms and acquire access to the pricing index information.

APPENDIX



SHARON BULOVA
CHAIRMAN

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Board Matter
September 25, 2012

Referral to Audit Committee Work Plan
Park Authority Reductions

Recently, in response to the County Executive's request to all Fairfax County agencies and departments to submit recommendations for how a 5% reduction could be achieved, Fairfax County Park Authority staff released a list of potential cuts to members of the Park Authority Board. The deadline for Reductions to be submitted to the County Executive is September 28th.

At their meeting on September 12th, the Park Authority Board voted unanimously to request that the Board of Supervisors enlist the help of our Office of Financial & Program Audit (Auditor to the Board) to review that list of potential cuts and to identify other potential strategies or alternative recommendations to reduce General Fund support, without impacting citizen utilization of programs, facilities and services. This study should include a review of reserves that could assist in finding savings/reductions.

I would therefore move that the Board of Supervisors direct the Board's Audit Committee to include this review on the Committee's work plan and that results and any interim reports be shared with the Board and the Park Authority Board as development of the Fiscal Year 2014 Budget continues.

LIST OF ACRONYMS

CAFR	Comprehensive Annual Financial Report
CNPAs	Concurrent Non-Project Activities
CSB	Fairfax-Falls Church Community Services Board
DCMP	Dulles Corridor Metrorail Project
DAHS	Department of Administration for Human Services
DMB	Department of Management and Budget
DPSM	Department of Purchasing and Supply Management
DTP	Dulles Transit Partners
DPSM	Department of Purchasing and Supply Management
ETS	Emergency Trip Stations
FFGA	Full Funding Grant Agreement
FMD	Facilities Management Department
FTA	U. S. Federal Transit Administration
FY	Fiscal Year
ITC	Infant Toddler Connection
MWAA	Metropolitan Washington Airports Authority
NVTC	Northern Virginia Transportation Commission
OFPA	Office of Financial and Program Audit
PMOC	Project Management Oversight Contractor
ROD	Revenue Operations Date
TPSS	Traction Power Substation
WFCY	West Falls Church Yard
WMATA	Washington Metropolitan Area Transit Authority