OFFICE OF FINANCIAL & PROGRAM AUDIT

September 2011

Quarterly Report

FAIRFAX COUNTY BOARD OF SUPERVISORS

AUDITOR OF THE BOARD

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Office of Financial & Program Audit

QUARTERLY REPORT

EXECUTIVE SUMMARY

Dulles Metrorail Project

OFPA continues to monitor the Dulles Corridor Metrorail project around four risk factors: 1) Project Cost Structure, 2) Start of Revenue Service, 3) Funding Obligations, and 4) Phase II.

The Design Build Contract has recorded change orders of 1.75% of the contract amount, with 50.6% of the contracted amount expended. MWAA assesses this main construction component of the Project as 47% complete. Utility Relocation has recorded change orders of 17.73% of the contract amount. MWAA assesses the relocation activity as 99% complete. Approximately 72% of the Project's $297.7 million contingency fund has been committed. Approximately 66% of the Project's $485.7 million allowance budget has been committed. Phase 1 funding obligations for the County have not changed.

The overall project schedule changed from a 71day reported schedule lapse in April 2011 to a 188 day lapse in July 2011. The substantial changes in the projected Revenue Operations Date do not include the long documented disagreements between MWAA and DTP concerning the West Falls Church Yard.

Telecommunications Billing Review

The County has separate agreements with phone companies to provide landline and wireless services. The County's landline phone provider, Verizon, has consistently overbilled the County for phone services. Since 2006, the Department of Information Technology has successfully recovered over $3.1 million from Verizon for overbilled phone service charges. The County Attorney's Office is currently reviewing what recourse, if any, the County has to ensure that Verizon complies with the acceptable billing practices. We identified additional cost savings opportunities for the County's new wireless contracts, including pay-per-use rates for wireless devices and negotiating exemptions and waivers for discretionary fees and services.

Retirement Systems Investments in Fairfax County

The Audit Committee requested a study of the opportunities for pension fund activities to participate in economic activity within and proximate to Fairfax County. The committee specified that any investment considerations would have to comply with the governing laws and risk parameters set by the Board of Trustees for each retirement plan. The study found that the Retirement Plans already have significant investments within the Fairfax economy and that specific formalization of this activity will require considerable administrative effort without the certainty of any corresponding increase in benefit to the pension plans or county.

Affordable Housing – Eligibility

OFPA's study of the Department of Housing and Community Development (HCD) concluded this quarter with a review of HCD's income eligibility policies and procedures for continued occupancy in the Public Housing Program and the Fairfax County Rental Program. Policies and procedures are used by the agency to implement income eligibility requirements that are largely determined by the funding source through which the units were built or acquired. Our study observed a direct link between the funding source used to acquire units and the subsequent income eligibility requirements of prospective tenants. Properties and units in the Public Housing Program and the Fairfax County Rental Program are funded by federal, state and local resources and combinations thereof. Innovative layering of multiple funding sources adds needed units to the inventory of the programs. It also, however, adds complexity to the income eligibility requirements as income requirements often differ between funding sources. The complexity of financial and program requirements make a strategic and documented approach critical to ensuring compliance and effective management of the Public Housing Program and the Fairfax County Rental Program. OFPA worked with the Department of Housing and Community Development in the development of recommendations that are designed to improve program management.

Transportation Grants – Status of Projects

As a follow-up to our March 2011 report, we agreed to provide the Audit Committee with information related to the status of the projects funded with federal and state grant monies. We found that the County still has a highly decentralized transportation grants management process. The Department of Transportation and the Department of Public Works and Environmental Services are continuing efforts to reconcile expenditures and revenues for each transportation grant. It is important to identify all grant expenditures that are eligible for reimbursement to ensure that state and federal revenues offset the costs that were paid with County funds.

STUDY BRIEFINGS

DULLES METRORAIL PROJECT

The Audit Committee requested OFPA to monitor the Dulles Corridor Metrorail Project (Project) with a focus on the project costs and project timeframes. Current estimates for the project place total costs at approximately $6.5 billion (Phase 1 & 2). OFPA is tracking four risk areas: 1) Project Cost Structure, 2) Start of Revenue Service, 3) Funding Obligations, and 4) Phase II. Currently only Phase I is being tracked as an active project.

PROJECT COST STRUCTURE

Change Orders

The MWAA report divides change orders into two broad categories: (1) Amended and Restated Design Build (contract), and (2) Utility Relocation. Through April 2011, there were $29.9 million in total changes to the Amended and Restated category, which represents 1.75% of the original total contract amount. MWAA assesses this project phase as 47% complete.

There have been $22.9 million in total changes to the Utility Relocation category, which represents 17.73% of the total original contract amount. MWAA assesses this project phase as 99% complete.

The following table presents summary information regarding the change orders, a comparison between full funding and expenditures to date, and the critical path timeline. At the Audit Committee's request, the table has been expanded to include a percent complete of the total project and to show changes based on the current cost estimate to completion. This summary enables the Committee to easily assess the month-to-month changes in these areas. The latest Monthly Progress Report received was through July 2011. The latest Project Management Oversight Contractor report received was for July 2011.

Summary of Dulles Metrorail Monthly Cost Report

	May-11	June-11	July-11
Amended and Restated Design Build Change Orders			
Design Build, w/Highways (original)	$ 1,712,504,538	$ 1,712,504,538	$ 1,712,504,538
Design Build, w/Highways (est. at completion)	$ 1,837,824,272	$ 1,837,824,272	$ 1,834,397,331
Monthly Changes $		$ -	$ 9,641,284
Change to Date $	$ 20,312,145	$ 20,116,942	$ 29,906,686
Expended to Date	$ 861,448,695	$ 898,109,319	$ 927,779,215
Spend Down % of Original Contract	50.30%	52.44%	54.18%
Spend Down % of Estimate at Completion	46.87%	48.87%	50.58%
Monthly Changes % of Original Contract	0.00%	0.00%	0.56%
Changes to Date % of Original Contract	1.19%	1.17%	1.75%
MWAA Stated % Complete	40%	42%	47%
Utility Relocation Change Orders			
Utility Relocation Contract (original)	$ 129,016,151	$ 129,016,151	$ 129,016,151
Utility Relocation Contract (est. at completion)	$ 169,484,168	$ 172,878,049	$ 177,458,972
Monthly Changes $	$ -	$ -	$ -
Change to Date $	$ 22,873,173	$ 22,873,173	$ 22,873,173
Expended to Date	$ 154,417,746	$ 158,133,109	$ 158,094,392
Spend Down % of Original Contract	119.69%	122.57%	122.54%
Spend Down % of Estimate at Completion	91.11%	91.47%	89.09%
Monthly Changes % of Original Contract	0.00%	0.00%	0.00%
Changes to Date % of Original Contract	17.73%	17.73%	17.73%
MWAA Stated % Complete	99%	99%	99%
FFGA (Estimate at Completion)			
Right of Way	$ 66,920,154	$ 66,920,154	$ 66,920,154
WMATA; Vehicles, Procurement & Proj Mgmt	$ 271,635,628	$ 271,635,628	$ 271,635,628
Preliminary Engineering	$ 100,730,999	$ 100,730,999	$ 100,730,999
MWAA; Proj Mgmt Support & Gen Conditions*	$ 191,151,690	$ 192,939,294	$ 197,439,294
FFGA Contingency	$ 91,204,961	$ 87,251,381	$ 83,533,637
FFGA Finance Cost	$ 509,984,571	$ 509,984,571	$ 509,984,571
Original Amount	$ 1,364,904,075	$ 1,364,904,075	$ 1,364,904,075
Estimate at Completion	$ 1,231,628,003	$ 1,229,462,027	$ 1,230,244,283
Expended to Date	$ 342,407,557	$ 346,483,446	$ 349,808,336
Spend Down % of Original Contract	25.09%	25.39%	25.63%
Spend Down % of Est. at Completion	27.80%	28.18%	28.43%
Interrelated Hwy (Estimates at Completion)			
Right of Way	$ 21,399,987	$ 21,399,987	$ 21,399,986
MWAA; General Conditions*	$ 1,663,029	$ 1,663,029	$ 1,663,029
Contingency	$ 3,680,403	$ 2,452,497	$ 516,260
Original Amount	$ 59,255,098	$ 59,255,098	$ 59,255,098
Estimate at Completion	$ 26,743,419	$ 25,515,513	$ 23,579,275
Expended to Date	$ 19,197,805	$ 19,230,162	$ 19,255,797
Spend Down % of Original Contract	32.40%	32.45%	32.50%
Spend Down % of Est. At Completion	71.79%	75.37%	81.66%
Monthly Cost Report			
Total Project Cost (Original)	$ 3,265,679,863	$ 3,265,679,863	$ 3,265,679,863
Expenditure to Date	$ 1,377,471,803	$ 1,421,956,037	$ 1,454,937,740
Estimate to Complete	$ 1,888,208,060	$ 1,843,723,826	$ 1,810,742,123
Estimate at Completion	$ 3,265,679,863	$ 3,265,679,863	$ 3,265,679,863
Percent Expended	42.18%	43.54%	44.55%
Critical Path Timeline			
Variance from Official Start Date of 12/4/13	-56	-89	-188
Unofficial Revised Start of Revenue Service	February 7, 2014	March 12, 2014	June 19, 2014

Source: MWAA Monthly Progress Reports from November 2010 through July 2011.

Cost Contingency Use

The tracking of contingency fund use is helpful in monitoring the progression of a project and its financial commitments. Contingency funds are classified as federal and non-federal and are tracked separately by MWAA. In the event there are unspent contingency funds in one project phase, those funds are moved to the Project's contingency reserve account. Any positive amount in that reserve account is used prior to the contingency allocation for the next project phase. As shown in the table below, the Full Funding Grant Agreement (FFGA) federal contingency had a starting balance of $297.7 million. Through project phases 1-5, $176.9 million has been utilized.

CONTIN.	CONTIN.	DESCRIPTION	PHASE	CONTINGENCY	UTILIZED	REMAINING
1		FFGA	$ 59,000,000		$ 22,179,347	$ 36,820,653
	1R	Contingency Reserve From Phase 1		$ 36,820,653	$ 36,820,653	$ 0
2		Station Design Complete **(Note 1)**	$ 40,000,000		$ 4,429,829	$ 35,570,171
	2R	Contingency Reserve From Phase 2		$ 35,570,171	$ 32,457,931	$ 3,112,240
3		Utility Relocation Complete	$ 40,000,000		$ -	$ 40,000,000
	3R	Contingency Reserve From Phase 3		$ 43,112,240	$ -	$ 43,112,240
5		NATM Tunnel Mined	$ 38,000,000			$ 38,000,000
	5R	Contingency Reserve From Phase 5		$ 81,112,240	$ 81,112,240	$ 0
4		Aerial and Station Foundations Complete	$ 23,000,000		$ (84,001)	$ 23,084,001
6		K-Line Tie-In Complete	$ 19,000,000			
7		Guideway Complete	$ 19,000,000			
8		Train Control Complete	$ 17,000,000			
9		Substantial Completion	$ 8,000,000			
10		Revenue Operations Date	$ 34,762,579			
		TOTAL	$ 297,762,579		$ 176,915,998	$ 120,846,581
Note 1	This amount is subject to adjustment pending the Airports Authority's decision on the FTA directive to fund the costs associated with reintroduction of TPSS # 7 and #9 from nonfederal funding.					

Source: MWAA progress report for July 2011 (Table 17).

It is important to note from the table that the contingency utilization was not established on a linear basis. Meaning earlier project phases are allocated a greater percentage of the contingency than the latter stages, due to their size and complexity.

Not reflected in the above table is an additional $37.3 million of Federal Contingency that has been obligated for project phases 6 through 10. Since those obligations have not been utilized they are detailed outside of the above MWAA table in their monthly report. To summarize the status of the Federal Contingency, of the original $297.7 million budget, $176.9 million has been utilized and $37.3 million obligated – leaving a balance of $83.5 million still available through July 2011, or 28% of the original allocation. There are approximately $34.6 million in possible contingency change orders under evaluation and negotiation by MWAA.

Allowance Items

There is a $485.7 million budget for allowance items. There are 17 major allowance items, each of which may contain several sub-projects. Total awarded costs through the July 2011 report are $319.4 million, representing 65.74% of the allowance budget. A listing of allowance item descriptions follows:

ALLOWANCE ITEM #	DESCRIPTION	ALLOWANCE BUDGET W/COMMODITY ESCALATION
C-1	Trackwork	$81,431,330
C-2	Wiehle Parking Garage (By others)	$29,091,684
C-3	Station Finishes & MEP	$88,834,891
C-4	WFCY Sound and Box Platforms	$6,686,211
C-5	Pedestrian Bridges	$13,614,891
C-6	Site Development	$44,898,579
C-6A	Site Development - Non Fed	$18,687,604
C-7	Installation of Public Art	$633,862
C-8	Communications and Security	$25,827,090
C-8A	Communications and Security - Non Fed	0
C-9	Fire Suppression	$2,667,214
C-10	Elevators and Escalators	$38,732,282
C-11	Spare Parts	$5,515,011
C-12	WFCY S&I Building	$29,039,015
C-13	Traction Power Supply	$59,318,269
C-13A	Traction Power Supply - Non Fed	$716,079
C-14	ATC Supply	$27,944,840
C-14A	ATC Supply - Non Fed	0
C-15	Corrosion & Stray Currents	$1,579,685
C-16	Contact Rail	$10,555,341
C-17	During Construction	0
TOTAL ALLOWANCE ITEMS - FEDERAL and NON-FEDERAL		**$485,773,879**

Source: MWAA July 2011 Monthly Report – Table 9, p. 25

Contingency and Allowance Items Under Review

There is a significant project team review and verification for costs prior to their assignment against the respective budget balances noted in the Sections above. Through the July MWAA monthly report (the latest available for the September 2011 Audit Committee Meeting) the percent of the Contingency and Allowance item budgets being utilized decreased or remained the same from April 2011.

Contingency and Allowance Budget Used				
	April	**May**	**June**	**July**
Contingency Used/Obligated	75.5	69.4%	70.7%	72.0%
Allowance Item Used/Obligated	65.7	65.7%	65.7%	65.7%

The current costs under review for Allowance Items had a significant increase of approximately $50 million this quarter. Given the substantial amount of negotiation, reclassification and cost allocation undertaken by the MWAA Project Team, it is very difficult to project with certainty the determination of the final cost of items currently under review.

The MWAA monthly reports show a difference of approximately $54 million between the Project Team and Dulles Transit Partners (DTP) on Allowance Items under active review. This is a slight reduction from the $56.5 million reported in our previous quarterly report.

Utilizing the reported DTP requests for change orders and the lower or budgeted amount for Allowance Items, the pending utilization of the Contingency budget decreased, while the pending utilization of the Allowance Item budget increased. Even with these changes it is apparent the Contingency and Allowance Item budgets have significant demands on them relative to the Project's 47% completion.

Percent of Budget Committed Inclusive of Costs Under Review/Negotiation				
	April	**May**	**June**	**July**
Contingency	91.5%	81.9%	82.3%	83.6%
Allowance Items	80.8%	88.0%	91.4%	91.5%

The Project Management Oversight Contractor (PMOC) recently noted that the <u>federal portion</u> of Allowance Items may exceed budget projections during the next several months.[1]

[1] Comprehensive Monthly Report – July 2011 (Dated August 25, 2011) p.4 & p. 26

START OF REVENUE SERVICE FOR PHASE I

This section discusses areas that present a potential risk to the start of revenue service, exclusive of overall construction and engineering risks.

Overall Project Schedule

The MWAA report for July 2011 now anticipates a lag of 188 days with the start of revenue operations as June 2014.[2] (Note the official schedule has not been changed.) The recovery of the schedule lag is contingent upon MWAA and DTP actions. The MWAA Project Team disagrees with DTP's projection of a 188 day delay. The Project Team disagreement with DTP is based on the estimated time to complete specific tasks and the sequencing of follow on activities.[3] The MWAA Project Team notes that "DTP is not meeting the Recovery Schedule dates both in terms of extensions of planned durations and significant shortfall in achieving planned start and finish dates, Project-wide."[4] MWAA notes that it is continuing to work with DTP to address this performance.

West Falls Church Yard (WFC)

Disagreement between the MWAA project team and DTP on the schedule for WFC Yard continues. In June 2010, DTP resubmitted a request for change for the WFC yard, showing a completion date in January 2014.[5] WFC was removed from the project critical path in the MWAA June 2010 report. MWAA has not accepted the DTP plans for the WFC Yard and previous MWAA Monthly Progress Reports note that DTP and MWAA discussions are ongoing. The Project Team's previous analysis was that WFC can be completed by the original scheduled date of July 31, 2013.

In discussion with OFPA, MWAA project management held the prospect that a resolution to the WFC Yard issues may be forthcoming soon. Unless MWAA can resolve the WFC Yard issues one can only expect that continued schedule delay will eventually lead to additional costs due to related and dependent scheduling issues or the need to accelerate construction.

Rail Car - Capacity, Delivery and Testing

MWAA and WMATA faced challenges in having the new rail cars delivered to the Silver Line with significant lead time to allow for full operational testing and deployment on the new (Phase I) rail line. The procurement cycle has been completed for the rail cars and did incur cost overruns. MWAA and WMATA have been exploring ways to mitigate the overruns. MWAA is removing Vehicle Procurement from their risk matrix. MWAA notes "As there is no specified cost penalty to the Project for failure to provide new cars for the Revenue Operations Date, the schedule risk *remains Unchanged since September as well*." (MWAA italics) MWAA further notes that having completed the procurement they will remove this risk from their tracking matrix.

OFPA requested assurance from WMATA that there was sufficient excess rail car capacity to meet Silver Line testing needs and start of revenue service if delivery of the new cars is delayed. WMATA is noted in the MWAA monthly report as stating that they will be able to support the Project needs with existing rail cars if the supplier is unable to improve the delivery schedule.

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[2] MWAA July 2011 – Monthly Progress Report, p. 45
[3] MWAA July 2011 - Monthly Progress Report, p. 41
[4] MWAA July 2011 - Monthly Progress Report, p.42
[5] MWAA November 2010 - Monthly Progress Report, p.41

This was prior to the March 2011 earthquake and related tsunami in Japan. These events are impacting several subcontractors of the rail car manufacturer Kawasaki. The July MWAA report notes that "… the resulting potential impact to the Project from any railcar procurement delay still is yet to be quantified. The Project team continues to coordinate with WMATA to evaluate and mitigate any potential delays to the Project and the ROD."[6] (ROD = Revenue Operations Date)

The projected delivery schedule for the first rail cars (pilot set of four) is based on 30 months from the notice to the builder to start work. The notice to the contractor was sent on August 16, 2010. This results in the first rail cars arriving in approximately January of 2013. The delivery of the final cars in the order could be as late as January 2015.[7] WMATA has requested an improved mitigation plan from Kawasaki.[8]

FUNDING OBLIGATIONS OF FAIRFAX COUNTY

Based on the current funding agreement, Fairfax County is obligated to pay 16.1% of the total project costs. If Fairfax County decides not to proceed with Phase II of the project, the obligations would be for 16.1% of the final cost for Phase I. The Phase I activities will continue in 2011 through at least the early part of 2014. Over the next 6 to 12 months, as significant project phases are completed, the ability of MWAA to complete the Phase I - Design Build contract within budget will become apparent.

PHASE II

Phase II Costs

The County along with all the funding partners are working to reduce the project cost to as close to the preliminary estimate of $2.5B as possible; and to develop a funding plan that would minimize impacts to the Dulles Toll Road users.

RECOMMENDATION

There are no recommendations for this quarter. OFPA will continue to monitor the Project.

[6] MWAA July 2011 - Monthly Progress Report, p.71

[7] Comprehensive Monthly Report – July 2011 (Dated August 25, 2011) p. 27

[8] Comprehensive Monthly Report – July 2011 (Dated August 25, 2011) p. 2

TELECOMMUNICATIONS BILLING REVIEW

Overview

The County has separate agreements with phone service companies to provide landline and wireless (mobile phone) telecommunications services. Verizon is the County's primary provider for standard landline phone services. Wireless phone service providers offer coverage in different service areas and may provide unique equipment options, such as specialized mobile-to-mobile communications devices. To ensure that staff have adequate coverage and the necessary telecommunications equipment to carry out their duties, the County uses three primary wireless carriers – Verizon, Sprint, and AT&T.

Given the scale and cost of the County's phone services and the phone companies' history of questionable billing practices, it is important for the County to closely monitor and review the billing records of its phone service providers. Verizon, Sprint, and AT&T have each paid considerable fines, penalties, and settlements to government agencies and private individuals for misleading and, in some cases, fraudulent billing practices. In April 2011, the U.S. Department of Justice announced a $93 million settlement agreement with Verizon to resolve allegations that the company overcharged the federal government for voice and data telecommunications services.

Verizon Consistently Overbilled the County for Phone Services

The Department of Information Technology (DIT) monitors the County's landline phone service contracts with Verizon. As part of its monitoring efforts, DIT identified significant billing errors in the Verizon landline phone accounts. Since 2006, DIT has successfully recovered over $3.1 million from Verizon for overbilled phone service charges. As shown in the table below, the recovered costs include charges for services that were billed above the contract rates, unjustified late payment charges, erroneous long distance rates, and unauthorized third party charges.

OVERBILLED CHARGES RECOVERED FROM VERIZON
Calendar Years 2011 – 2006

	2011*	2010	2009	2008	2007	2006	TOTAL
Services Billed Above Contract Rates	$ 134,305	$ 1,345,729	$ 685,032	$ 74,799	$ 243,444	$ 64,810	**$ 2,548,119**
Unjustified Late Payment Charges	$ 7,305	$ 2,036	$ 76,115	$ 223,411	$ 27,323	$ 7,389	**$ 343,579**
Erroneous Long Distance Charges	$ 9,578	$ 145,018	0	0	0	0	**$ 154,596**
Unauthorized Third Party Charges	$ 96,376	0	0	$ 987	$ 2,465	$ 1,695	**$ 101,523**
TOTAL	**$ 247,564**	**$ 1,492,783**	**$ 761,147**	**$ 299,197**	**$ 273,232**	**$ 73,894**	**$ 3,147,817**

*As of September 6, 2011.

Verizon overbilled the County for a variety of services, including charges for Primary Rate Interface (PRI) lines, Dial Tone tariffs, and Centrex lines. For example, Verizon charged the County $650 for PRI lines instead of the contract rate of $500. Verizon also charged the County a dial tone tariff of $15.60 per phone line instead of the contract rate of $12.00. In addition, Verizon allowed outside parties to make unauthorized charges on the County's phone accounts. DIT staff indicated that the Verizon landline accounts have now been blocked to prevent unauthorized third party charges.

DIT continues to negotiate with Verizon to ensure that the County is appropriately reimbursed for billing errors. The County Attorney's Office is currently reviewing what recourse, if any, the County has to ensure that Verizon complies with acceptable billing practices.

Lack of Transparency in Billing Records

A typical wireless phone bill for the County has at least 10 different billing categories. These categories include Monthly Access Charges, Long Distance Charges, Roaming Charges, Call Forwarding Charges, Directory Assistance Charges, Regular Minute Charges, Data Charges, Mobile-to-Mobile Charges, Messaging Charges, and Equipment Charges. Only one of the County's three wireless companies provides standard billing reports that clearly show the detailed usage and charges for each billing category combined for all of the County's wireless numbers and accounts. In addition, the wireless companies have a general billing category labeled "Additional" or "Other." However, these charges are not clearly explained or described on the invoices. OFPA staff questioned Sprint regarding the basis for its additional charges billing category. According to a Sprint billing representative, the additional charges are related to "Universal Assessment" fees, which appear to be allowable discretionary fees that Sprint has elected to charge the County.

The contract agreements with the County's wireless service providers contain an audit clause that allows the County to inspect and review the billing records and documents related to all costs incurred under the contract. The agreements also require the wireless service providers to retain these records for a period of three years after the contract termination date. The following is an excerpt from the audit clause of the contracts:

> *The Contractor shall maintain books, records and documents of all costs and data in support of the services provided. Fairfax County or its authorized representative shall have the right to audit the books, records and documents of the Contractor…[t]o check or substantiate any amounts invoiced or paid which are required to reflect the costs of services, or the Contractor's efficiency or effectiveness under this contract. These provisions for an audit shall give Fairfax County unlimited access during normal working hours to the Contractor's books and records under the conditions stated above.*

OFPA and DIT staff requested five years of billing data from the County's wireless providers. AT&T stated that they could only provide 16 months of billing data. Sprint stated that they could provide 4 years of billing data. Verizon did not respond to our request.

Opportunities for Cost Savings

The current wireless contracts with Verizon, Sprint, and AT&T are set to expire in 2014. DIT is now in the process of evaluating responses to County-issued Requests for Proposals (RFPs) for wireless voice and data services. The contract selection process for wireless services will provide an opportunity for DIT to renegotiate contract terms and achieve cost savings for the County as well as improved broadband wireless capabilities critical to public safety agencies. Specifically, DIT could explore options for government pay-per-use rates for wireless devices that have been set aside for emergencies. DIT could also negotiate waivers for discretionary fees and charges. For example, DIT could request an exemption from paying Directory Assistance charges for which the County is currently charged up to $1.99 per call. It is also anticipated through negotiations that DIT will be able to achieve consolidated voice/data plans that were not available in the past. To help reduce landline phone service costs, DIT is currently in the process of identifying and disconnecting unused phone lines in the County's libraries, which will result in significant savings.

Recommendations

- DIT should work with the Department of Purchasing and Supply Management (DPSM) to identify options for ensuring that Verizon bills the County in accordance with the contract rates.
- DPSM should ensure that any new telecommunications contracts include an audit clause that allows the County to review and access billing records. In addition, DIT should ensure that the wireless service providers provide adequate and detailed billing reports to help manage and monitor the contract costs.
- During the next contract negotiation cycle, DIT should consider requesting exemptions and waivers for discretionary fees and other service charges, such as Directory Assistance.

RETIREMENT SYSTEMS INVESTMENTS IN FAIRFAX COUNTY

The Audit Committee requested a study of the opportunities for pension fund activities which could facilitate economic activity within and proximate to Fairfax County. The committee specified that any investment considerations would have to comply with the governing laws and risk parameters set by the Board of Trustees for each retirement plan. Two examples of such investment structures offered are public/private partnerships based within Fairfax County and Virginia Venture Funds with Fairfax County activities.

OFPA met with the Executive Director and Chief Investment Officer (CIO) of the Retirement Administration Agency (RAA) to discuss the suggestions. The Executive Director and CIO have contributed to and reviewed this study.

Overview

Retirement benefits for Fairfax County employees are provided through three separate defined benefit public retirement systems.

1. Employees' Retirement System[9] (For County employees not served by the other two systems and Schools employees not served by the Virginia Retirement System and the Fairfax County Educational Employees Supplementary Retirement System.)
2. Uniformed Retirement System (Fire and Rescue personnel, Uniformed Sheriff employees, Helicopter Pilots, and certain staff in Public Safety Communications)
3. Police Officers Retirement System (Sworn Police Officers only)
   Note - The majority of Fairfax County Public School Employees are members of the Virginia Retirement System, which is a State wide pension plan.

Three separate Boards of Trustees govern and are responsible for carrying out the provisions of each of the three pension plans (Plans) as established by County ordinance. Each Board is responsible for establishing the investment objectives, strategy, and policy for their Plan and for investing Plan assets. The Boards oversee the entirety of their respective Plan including setting asset allocation parameters, hiring and firing contracted investment managers and advisers, monitoring results, and adapting the programs to the changing investment environments and needs of the Plan.

Each Board of Trustees consists of members elected by the active employee populations, served by the corresponding Plan; as well as members appointed by the Board of Supervisors and ex officio members. The Employees' and Police Officers Boards also include a member elected by the retirees. Each Board of Trustees elects a Chairman (or President) from among their membership. The County Director of Finance is an ex-officio member and by ordinance serves as Treasurer of each Board.

Under the direction of the Boards of Trustees, the Retirement Administration Agency (RAA) is responsible for the day-to-day functions of the Plans. RAA staff implement the strategies and policies established by the Boards and ensure timely delivery of member services and benefits. RAA staff oversee investment management firms employed by each of the three Boards and ensure adherence to contracts entered into by the Plans.[10]

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[9] The Employees' Retirement System includes certain Fairfax County Public Schools employees (food service, custodial, bus drivers, part-time and substitute teachers, maintenance staff).

[10] In addition to RAA staff oversight, the Uniformed Retirement System Board of Trustees also employs an outside consulting firm (NEPC) that works with agency staff in oversight of investments for the Uniformed System.

Pension Plan Funding
The three Pension Plans (Plans) receive funding through

- Employee contributions based on a fixed percentage of pay
- Employer (County) contributions based on a variable percentage of employee pay as determined by an actuarial analysis
- Returns on investments

The Board of Supervisors approves the employee and employer contribution rates as part of the County's annual budget process. Separate annual actuarial analyses are conducted for each Plan. Each analysis considers the return on the Plan's investments and other financial and demographic factors to determine the required annual contribution rate on the part of Fairfax County as the employer.

Investment Responsibility
Investments are monitored and managed by each Plan's Board of Trustees, relying on the professional staff of the RAA for strategic advice, implementation and management/oversight of the contracted investment managers. Each of the three Plans has a separate and specific Investment Policy that identifies investment objectives, guidelines and performance standards set by the Board of Trustees. RAA staff, on behalf of the Boards of Trustees, oversee the contracted investment managers' performance.

RAA staff does not engage in any day-to-day investment decisions. Nor does RAA staff undertake any direct buy/sell investment activity. There are 48 contracted investment managers across the three Systems. Of these 48 managers 17 serve more than one Plan and eight serve all three. The following table lists the investment managers for the Plans.

Fairfax County Retirement Systems Investment Managers
As of August 2011

Investment Managers	Employees' Retirement System	Uniformed Retirement System	Police Officers' Retirement System
Acadian Asset Management, Boston, MA		X	X
Advisory Research, Chicago, IL		X	
AQR Capital Management, Greenwich, CT			X
Artio Global Investors, New York, NY	X	X	
Ashmore Investment Management, New York, NY		X	
Blackrock, San Francisco, CA	X	X	
BlueCrest Capital Management, New York, NY		X	X
BNY Mellon Cash Investment Strategies, Pittsburgh, PA	X	X	X
Brandywine Global Investment Management, Philadelphia, PA	X	X	
Bridgewater Associates, Westport, CT	X	X	X
ClariVest, San Diego, CA			X
Cohen & Steers Capital Management, New York, NY	X	X	X
Columbia Wanger Asset Management, Chicago, IL	X		
Dearborn Partners, Chicago, IL	X		
DePrince, Race & Zollo, Winterpark, FL	X		
Dodge & Cox Investment Managers, San Francisco, CA			X
Dorset Energy Fund, Hamilton, Bermuda		X	
Doubleline, Los Angeles, CA	X	X	X
Enhanced Investment Technologies (INTECH), Palm Beach Gardens, FL	X		
First Quadrant Partners, Pasadena, CA	X		
FrontPoint Partners, Greenwich, CT	X	X	X
Goldman Sachs, Tampa, FL			X
Gramercy Advisors LLC, Greenwich, CT	X	X	X
Grantham Mayo Van Otterloo & Co, Boston, MA			X
HarbourVest Partners, LLC, Boston, MA		X	
JP Morgan Investment Management, New York, NY	X	X	
King Street Captial Management, LLC, New York, NY		X	
Loomis Sayles & Co, Boston, MA			X
LSV Asset Management, Chicago, IL	X		
MacKay Shields LLC, New York, NY	X		
Marathon Asset Management, London, England	X	X	
McKinley Capital Management, Anchorage, AK			X
Metwest Asset Management, Los Angles, CA			X
NCM Capital Management, Durham, NC		X	
Oaktree Capital Management, Los Angeles, CA			X
OrbiMed Healthcare Fund Management, New York, NY		X	
Pantheon Ventures, Inc., San Francisco, CA		X	
PIMCO, Newport Beach, CA	X	X	X
Post Advisory Group LLC, Los Angeles, CA	X		
Pzena Investment Management, New York, NY	X		X
Ramius, New York, NY		X	X
Sands Capital Management, Arlington, VA	X		
Shenkman Capital Management, New York, NY	X		
Stark Investments, St. Francis, WI	X		
The Clifton Group, Minneapolis, MN	X	X	X
Trust Company of the West, Los Angeles, CA	X		
UBS Realty Advisors LLC, Hartford, CT		X	
Victory Capital Management, Cleveland, OH		X	

Source: Retirement Administration Agency.

Investment Policy Parameters

As custodians of public funds, government investment activities are typically amongst the most conservative in the industry. The *Code of Virginia* enumerates parameters on the conduct of investment activities for public funds. The setting of these parameters by the General Assembly is a clear expectation that these funds are received with the expectation of a relatively short-term need and the protection of the principal balance is more important than any ancillary benefit of interest earned.

Pension funds, while managed by government employees and Boards are by the necessity of their purpose treated very differently; and in fact, are very different from public funds. Once the employer/employee contributions are transferred to the retirement systems, they are to be held in trust for the Plan participants (retirees) and only used for the purpose and benefit of those Plan participants. Pension funds are considered long horizon investors, as they are expected to provide resources for Plan participants after a typically long career often spanning decades. Investment earnings on these funds have long been considered an appropriate and necessary component in building the required resources to provide the benefits promised to the Plan participants. As such, interest earnings are not considered an ancillary benefit in the management of these resources, but rather a key component of performance.

The *Code of Virginia* does not set parameters for the investment products, duration or risk for pension funds. Instead reliance is placed on what is known as the prudent person rule. Specifically, *Code of Virginia 51.1-803.A* states in part:

> "…funds… shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims."

Guidance for the development of investment policies and practices can also be found in Federal Law in the Employee Retirement Income Security Act of 1974 (ERISA). While local government retirement plans are exempt from this law, all three of the Plans have voluntarily adopted the ERISA standards in their individual investment policies. While ERISA provides guidance for the development of investment policies and sets fiduciary expectations for investment managers, it does not provide specificity as to investment products or strategy.

Consideration of Audit Committee Suggestions

The dominant motivation behind the Audit Committee request for this study was to determine if resources generated in Fairfax County could be simultaneously utilized for the benefit of the retirement plans and the local economy. During the study, OFPA and the RAA met to discuss the intent and the practicality of the suggestions.

In order for an investment product to be utilized, it must be within the investment strategy approved by the Board of Trustees for the individual plan. Such strategies are developed within a risk assessment of the investment types. Moreover, how that risk fits within the overall Plan strategy as assigned to separate investment managers, is carefully considered. As an example, some investment managers are chosen based on their skill and experience with relatively stable 'blue chip' equities. Additional managers are chosen for their skill and experience with more specialized areas such as real estate investment trusts (REITS), foreign exchange or commodities.

It is critical to understand that the RAA and Boards of Trustees select expert firms for separate strategy specialties (or combinations); they do not select individual investment instruments for those firms. The investment contracts with the individual firms are considered full discretion. This means that the managers are selected for and given parameters to operate within their contract specialty, such as REITS, U.S Equity or commodity futures. Within that category, the managers are not told which specific or range of transactions to undertake. The investment managers are held responsible for their performance, without the assignment of transactional level instructions.

Were the Plans to start to direct specific investment transactions, a shift in fiduciary responsibility would occur. This shift would require the Plans to significantly adjust their investment policies and relations with investment managers. Such a shift would require the Plans, probably through the RAA, to acquire the on-staff expertise to make the individual buy and sell recommendations or execute transactions. Also, hiring an outside manager specific to Fairfax County REITS or venture funds would mean that portfolio diversity (hence risk mitigation) would be changed.

Current Plan Investments in or Proximate to Fairfax County

OFPA and the RAA discussed the level of Plan investments currently attracted to the Fairfax County economy through the normal activity of the current investment managers. A central understanding in this study is that Fairfax County is an attractive and rewarding area for investors of many types. The RAA attempted to determine the Plan's current investment footprint within the County. The following summary recaps the results of this RAA effort:

> "While not specifically targeting Fairfax County, the vibrant nature of the local economy certainly attracts capital and the managers hired by the Systems (Plans) certainly find attractive investments in Fairfax as a normal by-product of their investment processes. For example, each of the three systems has investments in Real Estate Investment Trusts (REITs). We have estimated that Fairfax County properties represent about 3.25% of the U.S. REIT portfolio and 1.5% of the Global REIT portfolios. Currently, this represents investments of about $7.3 million. In addition, the Systems currently have about $10 million invested in equity and debt of corporations with headquarters in Fairfax County. This does not include direct investments in companies which, while not headquartered here, have a substantial presence in the County. Nor does it include indirect holdings in companies through investments in a variety of commingled funds. For example, our private equity holdings include interests in 56 venture and buyout firms located in Fairfax County."

There was some discussion by the Audit Committee as to the appropriateness and opportunities for the Plans to invest in fixed income type (bond) products issued by Fairfax County. There are significant legal, diversification and accepted practice restraints on this type of activity. Detailing these restraints would require a lengthy addition to this study. Beyond legal issues, retirement plan purchase of county debt would lead to practical problems in terms of diversity and yield as well.

The Plans do have an active fixed income program as part of their overall investment strategy as summarized in the following table:

Retirement Plan Fixed Income (FI) Composite				
Plan	***FY 2010***	***FY 2009***	***FY 2008***	***FY 2007***
Employee				
Overall FI Rating	BBB	A	A	A
FI %LT Invest Grade*	41.7%	34.5%	33.0%	30.0%
FI Portfolio Size	$756,678,875	$586,615,440	$756,447,508	$595,290,579
Net Plan Assets	$2.469 B	$2.039 B	$2.764 B	$2.783 B
Police				
Overall FI Rating	A	A	AA	AA
FI %LT Invest Grade*	30.9%	23.3%	7.0%	8.0%
FI Portfolio Size	$2,180,336	$224,164,030	$262,929,893	$222,895,805
Net Plan Assets	$.836 B	$.706 B	$.868 B	$.932 B
Uniform				
Overall FI Rating	AA	AA	AA	AAA
FI %LT Invest Grade*	10.2%	4.6%	1.0%	2.0%
FI Portfolio Size	$246,401,383	$216,955,060	$326,305,094	$244,428,440
Net Plan Assets	$.991 B	$.867 B	$1.081 B	$1.108 B

Source: Plan CAFRs for relevant fiscal year
*FI = Fixed Income; LT = Less Than Investment Grade

The RAA in their participation in this study provided the following, which addresses both the direction to the investment managers, and the prospect of Fairfax County issued fixed income products in the overall investment strategies for the Plans.

> "In keeping with their fiduciary responsibilities, the Boards have not directed their investment managers to pursue any programs of economically or socially targeted investments for Fairfax County or Virginia. The global investment programs of each of the Retirement Systems are well diversified geographically as well as by type of investment. It is extremely unlikely that our investment managers would hold municipal debt issues, including Fairfax County debt. The lower yields available from municipal bonds would rarely, if ever, be attractive for non-taxable entities when compared to competing investments."

Conclusion
The intent of the Audit Committee inquiry with this study was to determine if opportunities existed for pension fund activities to facilitate economic activity within and proximate to Fairfax County. The results of the study are that there is little legal prohibition to many of the activities (excluding some fixed income activity) mentioned by the Audit Committee. However, the formalization and execution of such activity at the individual transaction level, directly by the Boards of Trustees and RAA may require considerable policy and operational restructuring to address portfolio diversity and risk mitigation.

The Audit Committee has requested a presentation, at the next quarterly meeting, from the Retirement Administration Agency to address how the retirement plans could stimulate additional investments in Fairfax County through the contract investment managers. The committee would like the RAA to explore increased involvement of Plan resources in Fairfax County without the RAA undertaking direct investment activity or compromising the risk management positions adopted by the Boards of Trustees.

AFFORDABLE HOUSING – ELIGIBILITY

Income Eligibility Review for Continuing Occupancy

OFPA's study of the Department of Housing and Community Development (HCD) concluded this quarter with a review of HCD's policies and procedures for the Public Housing Program and the Fairfax County Rental Program. We sought to review federal/state requirements that provide the parameters for the local policies and procedures for income eligibility.

The Public Housing (PH) program provides rental assistance for housing units that were built or acquired using federal public housing funds. The housing units in this program are located throughout the County and include townhouses, apartments, and condominiums. The Fairfax County Redevelopment and Housing Authority (FCRHA) owns 1,063 public housing units.

The Fairfax County Rental Program (FCRP) is administered by HCD and includes housing for families, single persons, seniors, and supportive housing for special populations. The Rental Program generally serves working households with incomes that are higher than households in the Public Housing Program. The FCRHA owns approximately 2,500 rental program units.

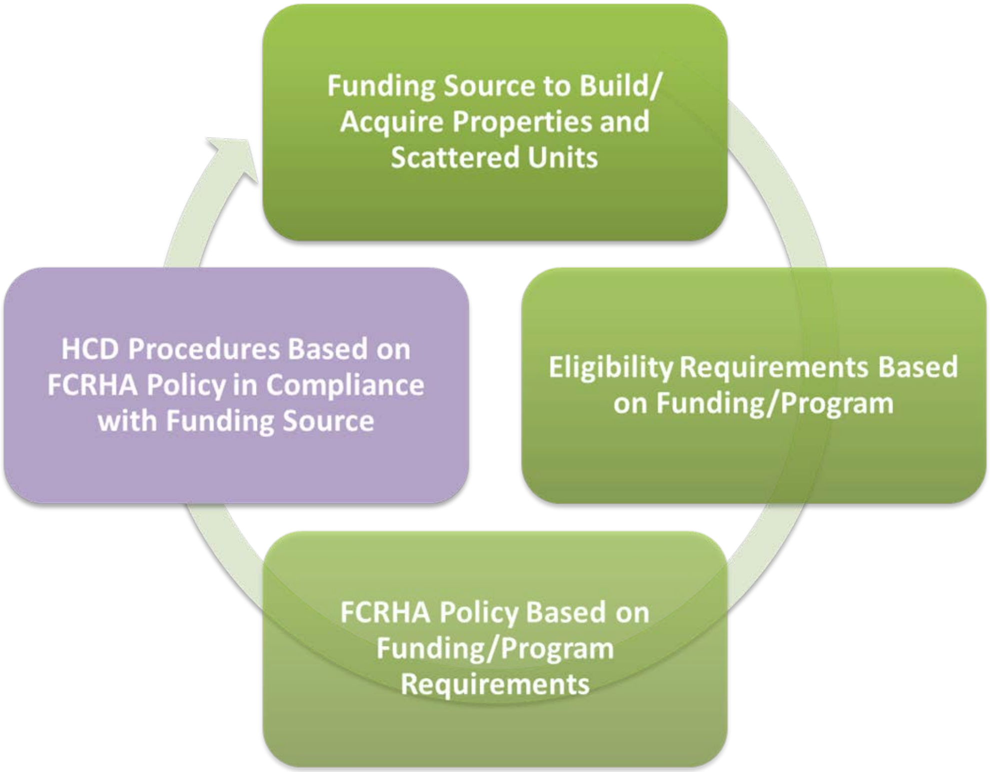
As previously reported in OFPA's June Quarterly Report, the demand for affordable units in both programs is greater than the supply. In June 2011, OFPA reported that there were over 10,000 unique applicants on the waiting lists for the properties HCD manages in the Public Housing Program and the Fairfax County Rental Program. The June 2011 Quarterly Report also provided a review of the 75 PH and FCRP properties, which combined have 3,624 housing units. During last quarter's study of waiting lists and properties, OFPA noted the important relationship between the funding source used to acquire or build units and the eligibility requirements used to fill them. The Audit Committee asked that we link funding source data of HCD managed properties to our continuing eligibility policy and procedure review.

Study Focus: Public Housing and Rental Program Policies and Procedures

Our study this quarter focused on HCD's income eligibility policies and procedures for continued occupancy in the Public Housing Program and the Fairfax County Rental Program. Policies and procedures are used by the agency to implement income eligibility requirements that are largely determined by the funding source through which the units were built or acquired. Our study observed a direct link between the funding source used to acquire units and the subsequent income eligibility requirements of prospective tenants. The link was most notable at initial admission to the programs. Less clear were the links between the funding source and the income eligibility requirements for tenants to continue in the program. This study sought to review HCD's policy and procedure documents that address continued eligibility in the Public Housing Program and the Fairfax County Rental Program.

Funding Sources Influence Income Eligibility Requirements and Add Complexity to Program Management

Property funding sources determine the income eligibility requirements for tenants being admitted to the PH and FCRP programs. Income requirements, especially at initial admission to a unit, are largely determined by the funding that brought the unit online and can differ from one property to another within the same program. Even in the Public Housing Program with the majority of units funded by a single source (HUD), initial income requirements differ based on the HUD regulations in place when that property was built or acquired.
The funding source plays a pivotal role in program management and evaluations to determine eligibility. The graph below depicts the relationship between funding sources, guiding policies, and procedures.



A significant number of units in the PH and FCRP combined inventory have layered financing from a variety of programs administered at the federal, state or local level. Layered financing of properties is important in maximizing available resources and obtaining the most units possible to address housing needs in the community. While layering of funding sources adds needed units to the inventory, it also adds complexity to the income eligibility requirements as income requirements often differ between funding sources.

The following table provides an overview of the complex funding layers that comprise the combined inventory of units in the Public Housing Program and the Fairfax County Rental Program.

PH and FCRP Property Funding Summary				
Funding Source	**Properties**		**Housing Units**	
Federal Public Housing	22	29.3%	998	27.5%
Federal Public Housing/Tax Credit	7	9.3%	62	1.7%
FCRP -Tax Credit/HOME/Project Based Voucher	7	9.3%	585	16.1%
FCRP – ADU/Magnet/HOME/County	18	24.0%	80	2.2%
FCRP - County	3	4.0%	912	25.2%
FCRP - 236/Tax Credit/Project Based Voucher	2	2.7%	440	12.1%
FCRP -CDBG/HOME /County	16	21.3%	547	15.1%
	75		3624	

Table and Definitions Source: Department of Housing and Community Development.

Federal Public Housing = Funds administered by the U.S. Department of Housing and Urban Development (HUD) for rental housing serving low income households owned and operated by local housing authorities such as the Fairfax County Redevelopment and Housing Authority (FCRHA).
Tax Credits = Federal low-income housing tax credits administered by Virginia Housing Development Authority (VHDA)
FCRP = Rental housing acquired by the Fairfax County Redevelopment and Housing Authority (FCRHA)
HOME = HUD allocation of Federal Funds by formula among eligible State and local governments
Project Based Voucher = Funding for project level housing acquisition through Federal Housing Choice Voucher Program (separate from federal rental assistance formerly referred to as Section 8).
County = Property acquired through the Penny Fund, Housing Trust fund, or other appropriations
ADU = Rental units acquired through the County's Affordable Dwelling Unit Program.
Magnet = County Workforce Housing within the FCRP
236 = Financing from Federal Housing Administration program
CDBG = Annual Community Development Block Grant funds through the U.S. Department of Housing and Urban Development (HUD). Use is subject to eligibility criteria established by Congress.

Each of the above funding sources and combinations of funding sources have varying income eligibility requirements for initial admission to the program and continued occupancy. In our coordinated work with HCD during this study, the requirements for properties funded by tax credits were discussed as were others. HCD has interpreted funding eligibility requirements for tax credit properties to include disallowance of maximum income ceilings for tenants continuing occupancy. During the course of this study, OFPA and HCD contacted HUD and VHDA for further clarification on this issue and others. As of the writing of this report, clarification is still pending.

Routine Income Certification Conducted by HCD
HCD's tenant income certification process was reviewed, in part, in 2009 when the Audit Committee asked OFPA to review how HCD verified income eligibility for participants in the affordable housing rental programs (PH and FCRP included). The 2009 OFPA report described HCD's process to re-certify income at regular intervals but did not address the property funding determinants on income eligibility or the adequacy of the policies and procedures used to evaluate continued occupancy eligibility at re-certification.
Income re-certification of current tenants is overwhelmingly the largest number of income certifications conducted by HCD annually. This study found the process, as described in 2009, to remain largely the same. HCD conducts thousands of income re-certifications each year for tenant participants in PH and FCRP.

In our discussions with HCD about income certification and continued eligibility, we reviewed:

- HCD's documentation on income requirements determined by federal/state funding sources
- HCD's policies and procedures used to guide and conduct income eligibility determinations at re-certification
- System reports from HCD's automated tenant management system, YARDI

We also investigated the level of discretion local housing authorities have to establish income eligibility policies and procedures for continuing occupancy.

Study Observations
The innovative and layered funding used to expand the inventory of units in the Public Housing Program and the Fairfax County Rental Program has led to complexity in program eligibility requirements across the two programs. Procedures and policy documents were compiled by HCD staff during this study period to assist staff in income eligibility evaluations for continued occupancy and to respond to OFPA requests for policies and procedures to review for this study.

The following study observations have been reviewed with HCD staff:

- Documentation efforts begun during this study period will assist staff in conducting regular income re-certifications for continued occupancy.
- In properties that have multiple funding sources, documenting funding requirements for continued eligibility will provide clarity to staff and ensure compliance within a complex regulatory environment.
- References to federal, state and local regulations in agency procedures will provide clarity to critical program management documents.
- Regular updates to the Admissions and Continued Occupancy Policies will ensure compliance with funding requirements and effective management of units. [11]
- The capturing of agency practice in procedural documents will ensure consistent evaluation and application of program eligibility criteria to current and future clients.
- Clarification from HUD and VHDA will ensure HCD program compliance for continued occupancy and confirm the degree of local discretion available to address housing needs with limited resources.

Recommendations

Properties and units in the Public Housing Program and the Fairfax County Rental Program are funded by federal, state and local resources and combinations thereof. The complexity of financial and program requirements make a strategic and documented approach critical to ensuring compliance and effective management of the Public Housing Program and the Fairfax County Rental Program. OFPA recommends three actions to improve program management:

1. **<u>Document Basis for Program Criteria</u>**:
   OFPA recommends that HCD identify staff members who, as part of their regular duties, serve the agency in the role of liaison with HUD and VHDA. This recommendation will ensure that the policy changes and interpretations issued by HUD and VHDA that form the basis of local program implementation are incorporated into PH and FCRP policy and procedure documents on a timely basis. Agency liaisons will clarify policy questions, document responses from HUD and VHDA, brief management on program impacts and ensure regulations are documented.

   According to HCD officials, the department is establishing an Asset Management Division and is in the process of hiring a director for the division. Staff members with asset management experience are being transferred to the new division. The Asset Management Division will be tasked to act as liaison with HUD, VHDA and other investors and funders; ensure compliance with current policy and procedures; and provide quality control.

2. **<u>Document Specific Program Criteria by Property/Unit</u>**:
   OFPA recommends that HCD continue the development of procedural and reference materials, in particular, the consolidation into programmatic manuals begun during the course of this study. This recommendation will ensure clear guidance to staff and consistent administration of the programs. The procedural and reference manuals should not be static documents. As issues arise that are not covered or new interpretations become available, it is critical that HCD develop processes to brief staff and update manual documents.

[11] During the course of this study, HCD reported renewal of contracted consultant services used in the past to make periodic updates and improvements to policies.

3. **Conduct Procedural Audits**:
   OFPA recommends that HCD program managers continue on-going oversight and review of tenant files and conduct periodic procedural audits on tenant files to ensure compliance with updated policies and procedures. YARDI, the agency's automated tenant management system, should be fully utilized to develop reports to assist management in procedural reviews. YARDI reports should be produced and formerly reviewed on a regular basis with documented follow up on policy exceptions.

   According to HCD officials, a function of the new Asset Management Division will be to undertake quality control reviews of files to ensure compliance.

TRANSPORTATION GRANTS – STATUS OF PROJECTS

As a follow-up to our March 2011 report on the County's transportation grants, we agreed to provide the Audit Committee with information related to the status of the projects funded with federal and state transportation grant monies. This information is reported in the table on the next page.

In March 2011, we reported that the County's transportation grants management process was highly decentralized. This quarter, we found that the County still has a highly decentralized transportation grants management process. Expenditures and revenues related to transportation grants are still spread out over different projects and funds, which complicates efforts to reconcile and track financial activities related to the grants. For example, expenditures for transportation grants may be reported under different project numbers in a variety of different funds, including Fund 102 (Federal/State Grants), Fund 124 (County and Regional Transportation Projects), Fund 301 (Contributed Roadway Improvement Fund), Fund 303 (County Construction), Fund 304 (Transportation Improvements), Fund 307 (Pedestrian Walkway Improvements), and Fund 315 (Commercial Revitalization Program). In addition, payroll expenditures associated with transportation grant projects are recorded and tracked in a system separate from the County's main financial system (FAMIS). As a result, not all of the payroll expenditures are reflected in the grant accounts in FAMIS.

The Department of Transportation and the Department of Public Works and Environmental Services (DPWES) are continuing efforts to consolidate grant documentation and to reconcile expenditures and revenues for each transportation grant. It is important to identify all grant expenditures that are eligible for reimbursement to ensure that state and federal revenues offset the costs paid for with County funds.

Fairfax County Transportation Grants
Active as of August 2011

Federal/ State	Fund	Department	Grant Description	Grant Budget	Reported Expenditures*	Reported Revenues*	Ongoing Program	Preliminary Scoping	Design Review	Construction Phase
Federal	102	Transportation	CMAQ - Bus Shelters	2,266,377	2,177,887	2,157,611			✓	✓
Federal	102	Public Works	CMAQ - Burke Center Parking Facility	28,381,974	23,372,239	23,997,339	**Project Complete**			
Federal	102	Transportation	Richmond Highway Transit Improvements	4,670,146	658,448	832,268			✓	✓
Federal	102	Public Works	Seven Corners Transit Center	1,000,000	242,833	220,754				✓
Federal	102	Transportation	Countywide Trails	2,000,000	543,661	423,788			✓	✓
State	102	Transportation	Marketing and Ridesharing	700,000	700,000	700,000	✓			
State	102	Transportation	Employee Outreach	203,410	203,410	203,410	✓			
Federal	102	Transportation	Base Closure and Realignment Commission	3,485,975	2,235,845	2,122,740			✓	
State	102	Transportation	VNDIA: Telegraph Road-Beulah	4,250,000	4,250,000	1,022,703			✓	
State	102	Transportation	I-495 Hot Lanes TMP	680,000	121,572	93,062			✓	
State	102	Transportation	Tysons Corner Bus Shelters	100,000	31,837	31,837		✓		
Federal	102	Transportation	Richmond Highway Public Transportation	8,174,468	485,276	370,761			✓	
Federal	102	Transportation	Richmond Highway Transit Center	5,705,014	84,385	84,385		✓		
Federal	102	Police	I-95/495 Patrol Augmentation	2,158,147	542,144	542,144	✓			
Federal	102	Police	DMV Traffic Safety Programs	110,800	81,705	68,477	✓			
Federal	102	Police	Patrol Augmentation - Dulles Metrorail	3,418,531	783,516	709,900	✓			
Federal	307	Public Works	Trails Development	3,121,424	3,073,278	2,483,033			✓	✓
State	311	Transportation/Public Works	Dulles Corridor Slip Ramps	3,900,000	3,900,000	2,449,374	**Project Complete**			
Federal	311	Transportation/Public Works	Herndon Monroe Parking Garage	4,560,968	2,242,508	2,300,562	**Construction Complete (Project Ongoing)**			
Federal	370	Parks	Pohick Stream Valley Trail	836,000	8,468	-		✓		

* Expenditures and revenues reported in the County's financial system, FAMIS, as of August 2011. Grant expenditures may be reported under different project numbers and funds, which may result in reported revenues exceeding reported expenditures in the grant accounts. For the CMAQ-Burke Center Parking Facility, DPWES reported that the Virginia Department of Transportation (VDOT) inadvertently over-reimbursed the County. DPWES is currently working with VDOT to determine how the disposition of these revenues will be addressed.

PRIOR STUDIES FOLLOW-UP

FUTURE CONSTRUCTION ESCROWS

Our June 2011 report on future construction escrows identified future construction escrow deposits that appeared to have been misallocated. The report contained a series of recommendations designed to improve the administration of the future construction escrow program. The Department of Public Works and Environmental Services (DPWES) has expressed a commitment to implementing the recommendations and reporting the correction of the misallocated deposits. Since our June 2011 report, DPWES has worked with the Department of Finance to determine the nature of the difference between its future construction escrow deposit records and the County's financial system (FAMIS). DPWES has identified a group of additional deposits that were recorded in a summary file during the 1997 FAMIS system upgrade, which may account for a substantial portion of the difference.

While DPWES has confirmed that proffers and other types of deposits have been misallocated to the future construction escrow account, DPWES needs to ensure that its future construction escrows are properly recorded in the County's financial system before the individual status of the deposits can be properly determined. Accordingly, after meeting with the DPWES' Director, we agreed to jointly request that the Office of Internal Audit assist DPWES with the reconciliation process.

SCHOOL AGE CHILD CARE (SACC) REVENUE ANALYSIS

In the March 2011 Quarterly Report, OFPA identified improvements to help the School Age Child Care Program manage delinquent program fee accounts. Fees for child care are charged monthly on a sliding scale based on adjusted household income. The study found that the majority of delinquent accounts were in the highest income bracket that pays the full cost of the child care service provided. The March 2011 SACC recommendations were:

- Continue implementation of updated Department of Finance Billing and Collection Procedures to include the addition of administrative collection agent costs (20% of charges owed) to delinquent accounts. Our study found that delinquent SACC accounts did not include an additional 20% to cover the administrative costs of the collection service as allowed by state code and authorized by the Board.

- Impose a 10% late payment fee on accounts not paid by the due date. Our study found no penalty for late payment of a monthly bill and an analysis of accounts revealed a pattern of predictable delinquencies especially in the highest income bracket of the sliding fee scale.

Cost of Collection Agent Administrative Fee to be Paid by Delinquent Account Holders

State Code allows the county to add 20% of the amount owed to delinquent accounts placed with a collection agent to cover the administrative cost of the collection service. In addition, the Board, on May 11, 2010, authorized County agencies to retain the services of private collection agents and further directed that such agents be compensated directly by the delinquent account holder for the cost of the collection service (20% of amount owed for collection agent administrative fee).

SACC has worked with the contracted collection agent, Nationwide Credit Corporation (NCC), to add the 20% administrative cost of collection to all accounts placed with NCC beginning in June of this year. Accounts placed with NCC prior to June require notification to debtors and are currently being reviewed for administrative cost additions as well.

Late Payment Fee to Provide Incentive to Pay by Due Date
The SACC Program has developed a 10% late payment fee policy in response to the OFPA recommendation accepted by the Board. Enhancements to the billing system are required for implementation. Staff is working with the billing contractor and anticipates that system testing and acceptance will be completed by the end of this year and the late payment fees will begin to be applied in early 2012.

County Attorney Guidance Issued on Collection of Non-Tax Accounts
The County Attorney recently issued legal guidance and directives to the Department of Finance on the collection of delinquent non-tax revenue by county agencies. The guidance makes clear the enabling legislation that supports late payment fees of 10%, collection agent administrative costs add-ons of 20%, and subsequent Board actions directing county agency collection of delinquent accounts. OFPA is continuing discussions with the County Attorney, Department of Finance and SACC Program staff to ensure adherence to state code and Board of Supervisors' directives.

EMERGENCY MEDICAL SERVICES TRANSPORT FEE REVENUE ANALYSIS

EMS (Emergency Medical Services) transport fees were implemented in April of 2005 after the recognition that health insurance providers anticipate such fees and pay them in whole or part on a regular basis. The March 2011 Quarterly Report recommended that the Fire and Rescue Department (FRD) maximize opportunities to increase collections by 5-10% from insurance carriers by improving insurance information retrieval from hospitals.

Since OFPA's March 2011 Report to the Audit Committee, FRD staff have developed and implemented a plan for improved patient insurance information retrieval from hospitals. They have met regularly with INOVA Fairfax Hospital and Reston Hospital personnel to improve the transfer of insurance information to FRD's billing contractor. To date, the hospital organizations have been cooperative, business agreements have been established and signed and the new insurance information transfer process is in its final testing stage. Other INOVA facilities will be brought online to this new process as it becomes finalized. OFPA will continue to monitor the work being done by FRD and the billing contractor over the course of FY 2012 to determine progress on the goal of a 5-10% increase in insurance collections in FY 2012 over FY 2011. While OFPA believes this goal is still obtainable, FRD has reported claims issues in recent months with an insurance carrier that are ongoing as of the writing of this report. The County Executive and FRD are working to resolve the claims issues with the insurance carrier.

WIRELESS FACILITY LEASES ON COUNTY-OWNED PROPERTY

The recommendation made in the January 2011 Quarterly Report to acquire true market data via contracted services is being coordinated by the Facilities Management Department (FMD) and includes participation by both the Park Authority and Fairfax County Public Schools (Schools). A scope of work description has been completed and was released to firms with existing contracts to ensure tasks now detailed in the scope are not available by current contract vendors. Proposals from existing vendors were in the process of being reviewed at the time this report was printed.

FMD, the Park Authority and Schools have also been reviewing maps prepared by the Department of Planning and Zoning that identify current wireless facilities in the county.

LIST OF ACRONYMS

CAFR	Comprehensive Annual Financial Report
CMAQ	Congestion Mitigation and Air Quality
DIT	Fairfax County Department of Information Technology
DPSC	Fairfax County Department of Public Safety Communications
DPSM	Fairfax County Department of Purchasing and Supply Management
DPWES	Fairfax County Department of Public Works and Environmental Services
DTP	Dulles Transit Partners
EMS	Emergency Medical Services
FCRHA	Fairfax County Redevelopment and Housing Authority
FCRP	Fairfax County Rental Program
FFGA	Full Funding Grant Agreement
FRD	Fairfax County Fire and Rescue Department
FY	Fiscal Year
HCD	Fairfax County Department of Housing and Community Development
HUD	U.S. Department of Housing and Urban Development
MWAA	Metropolitan Washington Airports Authority
OFPA	Fairfax County Office of Financial and Program Audit
PH	Public Housing Program
PMOC	Project Management Oversight Contractor
PRI	Primary Rate Interface
RAA	Retirement Administration Agency
REIT	Real Estate Investment Trust
RFP	Request for Proposals
ROD	Revenue Operations Date
SACC	School Age Child Care
VDOT	Virginia Department of Transportation
VNDIA	Virginia National Industrial Defense Authority
WFC	West Falls Church
WMATA	Washington Metropolitan Area Transit Authority