

LOB #15

PAYMENT OF COUNTYWIDE OBLIGATIONS

Purpose

In accordance with Virginia Code § 15.2-826, the Director of Finance will have charge of the disbursement of County funds. Payments of Countywide Obligations are handled through the vendor maintenance, accounts payable and check writing operations. This LOB handles all payments for products and services for the County and FCPS. The process ensures accurate recording of expenditures and prompt payment of vendor invoices. Payment of Countywide Obligations also includes employee reimbursement for local and non-local travel.

Description

Payment of Countywide Obligations is centralized in the Department of Finance to capture the benefits of process expertise, consistent best practice standards, and oversight of proper payment disbursement. The LOB has three distinct programs: vendor maintenance, accounts payable, and payment disbursement. In FY 2012, the County implemented a new financial system (FOCUS) with an Accounts Payable module designed to enhance central accounts payable controls while furthering efficiencies gained through electronic accounts payable processes. Centralizing accounts payable operations ensures a strong separation of duties for the procurement to payment process.

Working with the Internal Revenue Service's Tax Identification Number (IRS TIN) matching program, the vendor maintenance program validates vendor information and taxpayer identification numbers. As such, all vendor records go through extensive review which ensures accurate reporting. This maintenance and oversight occurs for more than 31,000 business vendors. The vendor file also maintains records for County employees, petty cash accounts, and jurisdictions for garnishments and liens. As required by the IRS, the vendor maintenance program completes annual tax reporting for non-employee compensation to vendors that provide a service to the County. Form 1099-MISC Miscellaneous Income, 1099-S Proceeds from Real Estate Transactions, 1099-INT Interest Income, and 1042-S Foreign Person's US Source Income were all filed by the program in calendar year 2014. Additionally, the vendor maintenance program continues efforts to convert vendors to electronic disbursements, a more cost efficient method of vendor payment.

The accounts payable program ensures valid invoices are processed in accordance with Fairfax County policy as well as the Virginia Public Procurement Act and prompt payment requirements. In accordance with these guidelines, the program issues vendor payments within 30 days of invoicing and receipt of goods. Timely payments include targeting all discounts available by contract or by invoice. All invoices are scanned prior to processing for optical character recognition (OCR) and electronic image storage. The scanned images initiate the invoice payment process. The program processes payments for vendor invoices, bonds, rental leases, and employee travel reimbursements for expenses incurred while conducting official County business. The program relies heavily on a decentralized initiation of payment requests and goods receipts which involve staff at agencies countywide.

The payment disbursement program is responsible for payments of all County and FCPS obligations. Through this program, more than 220,000 payments are disbursed annually. Payments issued include bond payments, employee reimbursements, payroll check issuances, retirement disbursements, tax refunds, and vendor invoices for goods and services. The centralized process provides oversight of the creation of all payment disbursements and controls the release of all printed checks and electronic payments.

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Benefits

This LOB provides payment for all services and materials used for the operations of the County and FCPS. Timely payment for goods and services ensures continuity of services to the County's residents and that interest earnings are maximized by not paying invoices far in advance of due dates. The centralized process allows for proper oversight and controls on the disbursement of County funds which provides stewardship over the County's financial assets. Containing the operations of accounts payable and vendor file maintenance within Finance allows for central control and oversight of all payment functions. The accounts payable program processes all travel expense reimbursements and monitors compliance with the County's travel policy.

The vendor maintenance program stays abreast of all IRS 1099 (and related forms) rules and requirements. The County is required to file annual 1099s (and related forms) by law and the program ensures the County's compliance with current IRS regulations. The compliance is required for more than 31,000 vendors, most of which are shared by multiple agencies and FCPS.

The policies, training, and customer service of this LOB ensure process knowledge and accounts payable standards are followed and understood by County agencies as well as County residents. This LOB answers more than 5,000 customer service inquiries annually and provides numerous training and workshop sessions each year.

Mandates

The LOB is fully mandated as detailed below:

- Virginia Code § 15.2-826 – Department of Finance, Director, General Duties; Virginia Code § 15.2-827 Expenditures and Accounts; require that the Director of Finance will have charge of the disbursement of County funds.
- IRS 1099 reporting for payments to non-employees for services performed on behalf of Fairfax County. All organizations making non-employee payments for services are required to report to the IRS the amounts paid per vendor. All versions of Form 1099 must be printed and mailed to the vendor as well. For calendar year 2014, the County reported taxable income to vendors with form 1099-MISC Miscellaneous Income, 1099-S Proceeds from Real Estate Transactions, 1099-INT Interest Income, and 1042-S Foreign Person's US Source Income.
- Virginia Public Procurement Act 2.2-4352 requires every agency of local government to promptly pay for the completed delivery of goods or services by the required payment date.

Trends and Challenges

The accounts payable operation is challenged by the timely approval of invoices. Annually, more than 65,000 invoices are received by the accounts payable program and are processed from scanning for image retention to posting for payment processing. The Department of Finance continues to improve processes through FOCUS to expedite invoices to agencies and increase efficiencies in the approval process. Efforts remain to coordinate with agencies on the approval of goods and services for payment and the reconciliation of their purchase orders.

Finance continues efforts to decrease the issuance of paper check payments through increased vendor participation in electronic disbursements. The staff in this LOB is actively contacting vendors to convert them to Automated Clearing House (ACH) payments. ACH is an electronic payment method that involves an electronic disbursement file communication to the County's primary bank. ACH payments are more cost effective and expedient forms of payment compared to printed checks. The department continues to explore other payment trends including the use of single account procurement cards as a payment method that earns a rebate per dollars spent, expanding the use of electronic data interchange (EDI), and other opportunities to optimize the amount of discounts achieved.

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Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #15: Payment of Countywide Obligations			
FUNDING			
<u>Expenditures:</u>			
Compensation	\$1,113,741	\$1,196,491	\$1,427,352
Operating Expenses	202,865	159,364	178,799
Capital Equipment	12,490	0	0
Total Expenditures	\$1,329,096	\$1,355,855	\$1,606,151
General Fund Revenue	\$0	\$0	\$0
Net Cost/(Savings) to General Fund	\$1,329,096	\$1,355,855	\$1,606,151
POSITIONS			
<i>Authorized Positions/Full-Time Equivalents (FTEs)</i>			
<u>Positions:</u>			
Regular	20 / 20	20 / 20	22 / 22
Total Positions	20 / 20	20 / 20	22 / 22

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Annual 1099s Produced and Filed with Internal Revenue Service	4,835	4,642	4,600	4,600	4,600
Invoices Processed	68,365	66,257	65,681	65,000	65,000
Total Disbursements	252,901	238,121	234,275	234,000	234,000
Percentage of Electronic Disbursements	32.52%	34.77%	35.68%	37.53%	40.15%

The “Annual 1099s Produced and Filed with the Internal Revenue Service” metric represents the number of vendors whose payments require tax reporting to the IRS. More than 31,000 vendors are reviewed for reportable status for their business and payment type. The volume is not expected to change and would not indicate a success or problem for the payment process. Instead, these totals represent the level of effort required by the LOB’s vendor maintenance program. The key factor to the volume is the number of vendors Fairfax County contracts business for services with. No change in the department’s processes would affect a change to the volume of 1099s produced.

The “Invoices Processed” metric has trended lower since FY 2013. The implementation of FOCUS with enhanced purchasing capabilities available through the FOCUS online marketplace along with increased procurement card usage contributed to the decrease in invoices processed by Finance. The decrease lessened between FY 2014 and FY 2015 and the expectation will be for this to level off. This was expected with FOCUS marketplace purchasing providing a new method for procuring certain goods. FOCUS provided an efficient centralized invoice process and this metric represents the total invoices processed by Finance. Procurement card usage and budget limitations are key factors in the number of invoices processed.

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The “Total Disbursements” metric represents the number of payments made through this LOB's programs. Payments are for vendor obligations, tax refunds, employee reimbursements, debt services, rental leases, and the County's human services benefits programs. The metric represents the volume of output required from the LOB to maintain all County programs and services to the residents of Fairfax County.

Payment disbursements by check, ACH, or wire show a trend towards electronic payments, as measured by the “Percentage of Electronic Disbursements” metric. The decrease in checks issued and increase in ACH disbursements represent savings to the County by reducing the cost of postage, check supplies, and printer maintenance costs. The increase in ACH payments is expected with the goal to add more vendors to the ACH payment method and reduce printed checks.