

# Department of Finance

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LOB #17

## **FINANCIAL CONTROL AND GOVERNANCE**

### **Purpose**

LOB #17, Financial Control and Governance, represents two main program areas of activity as follows: 1) centralized financial operations and governance; and, 2) debt issuance and compliance. Each program area plays an essential role in ensuring proper controls are in place over key financial areas and accounts with the County. This LOB includes promulgation and oversight of countywide financial policies and procedures, performing timely reconciliations of the County's bank accounts, verifying and reconciling investment transactions and interest earned, treasury management, oversight and processing of unclaimed property, debt issuance and related reporting and post issuance compliance requirements, and other financial activities/duties required of the Treasurer under the Code of Virginia.

### **Description**

The program area of centralized financial operations and governance covers a myriad of critical functions that are integral in keeping the day-to-day operations of the County running smoothly, including:

- Bank reconciliations are performed daily on 28 Fairfax County bank accounts. Annually, more than 300,000 disbursements go out of these accounts and 90,000 batched deposits are received. These reconciliations protect the County from fraudulent activity against these accounts and ensure that monies received and disbursed from the accounts are identifiable and appropriately authorized.
- Treasury management performs daily monitoring and verification as well as monthly reconciliation of all investment activity conducted by the Investments and Cash Management division within Finance. This independent oversight process ensures that investment transactions are properly recorded and interest earnings are apportioned appropriately.
- Staff conducts daily positive pay monitoring. This fraud detection service provided through the County's primary bank requires that each check presented to the bank appear on a list of authorized payments submitted by the County. Any disbursement that is questioned by the bank must be reviewed and researched by Finance staff to ensure it is an authorized payment.
- In the role as Treasurer, the Director of Finance has a number of financial responsibilities mandated or administratively required by the Commonwealth of Virginia including but not limited to: conducting APA local disbursement reconciliation; certifying monthly Children's Services Act (CSA) reporting; and, remitting state monies to the Commonwealth (e.g., law library fees, sheriff's fees, and other designated fees collected by external parties). In addition, Finance staff within this program are responsible for the annual remittance of unclaimed property.
- Governance functions performed within this LOB focus on safeguarding the County's funds by ensuring that all departments comply with sound financial and accounting practices and fiscal integrity standards. Staff are responsible for:
  - Developing and overseeing adherence to financial policies and procedures.
  - Grants management – recent sweeping changes to the federal guidance on grants management (Uniform Guidance) has required extensive training and outreach efforts by Finance staff to ensure all grant recipient departments are aware of the requirements set forth in the Uniform Guidance. Ongoing monitoring of departments' adherence to this guidance is necessary to avoid audit findings and potential loss of federal funding.
  - Outreach and training. Financial management support is decentralized in the County. To meet the statutory responsibility for the conduct of financial operations, this program conducts ongoing outreach efforts including department site visits, training and other learning opportunities. As an example, over 200 County departmental staff participate annually in the year-end closing conference which provides decentralized department staff with training on procedures needed to 'close the books' at the end of the fiscal year.

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Bonds are a form of long-term borrowing used by most local governments to finance public facilities and infrastructure. Bond financing makes it possible to build facilities and infrastructure based on future population estimates and to spread the cost equitably over the useful life of the facilities. Once a bond is sold, a number of critical activities must occur:

- Debt service payments must be made on time and correctly.
- Continuing disclosure requirements must be met. These are rules established by the Municipal Securities Rulemaking Board (MSRB) and enforced by the Securities and Exchange Commission (SEC) which require municipal bond issuers to disclose annually important information to investors through the Electronic Municipal Market Access (EMMA) website.
- Arbitrage rebate/yield restriction must be calculated. The IRS code indicates that “a bond is not tax-exempt unless the issuer of the bond rebates to the United State arbitrage profits earned from investing proceeds of the bond in higher yielding nonpurpose investments”.
- Post issuance compliance requirements must be adhered to. In order to maintain a bond’s tax-exempt status, the IRS also requires bond issuers to establish and follow procedures as to how the proceeds of a bond are used and how the proceeds of a bond are invested.

The Debt Issuance and Compliance program has responsibility for ensuring each of these activities is completed accurately and within the prescribed timeframes.

The functions noted and efforts performed within the Financial Control and Governance LOB, along with senior leadership, serve as the backbone of the entire County’s financial operation.

## Benefits

LOB #17, Financial Control and Governance, performs essential daily operational activity, important debt management, and oversight of the decentralized financial activities of County departments and agencies. The LOB provides a significant benefit to the County by serving as a key component in ensuring that strong financial controls are in place and operating effectively throughout the organization. This is in alignment with tenets of the County’s *Ten Principles of Sound Financial Management*. The oversight role of Finance benefits the County through the formation of policy/procedure guidance, training decentralized financial staff, and serving as a financial customer service resource and outreach coordinator. The LOB also serves to ensure that mandated and administratively required financial activities are carried out in accordance with the [Code of Virginia](#) regarding the Treasurer function as well as federal regulatory requirements.

## Mandates

This LOB is fully mandated as shown below.

### Code of Virginia Sections:

- § 2.2-3700 to 2.2-3714 Virginia Freedom of Information Act
- § 2.2-4300 to 4377 Virginia Public Procurement Act
- § 2.2-4400 to 4411 Virginia Security for Public Deposits Act
- § 15.2-826. Department of finance; director; general duties
- § 15.2-827. Same; expenditures and accounts
- § 15.2-829. Same; powers of county treasurer; deposit of moneys
- § 15.2-830. Same; claims against counties; accounts
- § 55-210.9 When intangible property held for owner by public agency presumed abandoned

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- § 55-210.12 Report and remittance to be made by holder of funds or property presumed abandoned; holder to exercise due diligence to locate owner
- § 58.1-3127 Treasurer to keep account of receipts and disbursements; books open for inspection

### Federal Mandates:

- 23 USC-Internal Revenue Code Subpart B Requirements Applicable to All State and Local Bonds, Sec 148-149
- PL 104-156 Single Audit Act Amendments of 1996
- 17CFR Part 240 Subpart A, Release No. 34-34961, File No. A7-5-94 Municipal Securities Disclosure
- 26CFR Part 1 TC9085 Arbitrage and Private Activity Restrictions Applicable to Tax-exempt Bonds
- Code of Federal Regulation, Title 2, Part 200 – Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), Subparts A-F

### Trends and Challenges

The County has been able to accomplish major capital improvements using long-term financing through General Obligation Bonds as well as through the use of alternative financing – all while maintaining the County’s fiscal integrity as required by the County’s *Ten Principles of Sound Financial Management*. Since the recent financial crisis, an even stronger emphasis has been placed on the municipal bond market by the Securities and Exchange Commission (SEC), the Municipal Securities Rulemaking Board (MSRB), and the IRS to ensure all continuing disclosure and post issuance compliance rules and requirements are adhered to. In FY 2015, this LOB was responsible for executing over \$360 million in principal and interest debt service payments for more than 30 outstanding bonds.

Within the last year, the federal government instituted sweeping grant regulatory changes not seen since the mid-1990s. The County receives more than \$202 million across over 530 federal and state grants, much of it subject to these new requirements. Additionally, the Affordable Care Act legislation has impacted the compliance requirements associated with those federal grant dollars. Continuous outreach and compliance oversight of these grant program dollars is necessary to educate and monitor the programs’ adherence to these requirements. Single audit findings as a result of non-compliance increases the overall cost of the County’s annual external audit, and could potentially result in a loss of grant dollars.

While Finance serves as the central oversight department for financial/accounting areas, there are decentralized staff and processing roles in departments and agencies throughout the County. Ensuring that staff in those agencies are properly trained and have knowledge of financial processes and necessary internal controls is a challenge, given the staff size in Finance in relation to the number of FOCUS system financial module users (1,850) and the number of staff involved in various parts of decentralized financial/procurement activities.

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## Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
<b>LOB #17: Financial Control and Governance</b>			
<b>FUNDING</b>			
<u>Expenditures:</u>			
Compensation	\$1,492,079	\$1,138,600	\$1,175,801
Operating Expenses	1,405,067	1,466,440	1,409,079
<b>Total Expenditures</b>	<b>\$2,897,146</b>	<b>\$2,605,040</b>	<b>\$2,584,880</b>
General Fund Revenue	\$335,712	\$332,522	\$330,426
<b>Net Cost/(Savings) to General Fund</b>	<b>\$2,561,434</b>	<b>\$2,272,518</b>	<b>\$2,254,454</b>
<b>POSITIONS</b>			
Authorized Positions/Full-Time Equivalents (FTEs)			
<u>Positions:</u>			
Regular	19 / 19	20 / 20	18 / 18
<b>Total Positions</b>	<b>19 / 19</b>	<b>20 / 20</b>	<b>18 / 18</b>

## Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Percent of bank reconciliations completed by the subsequent month	100%	100%	100%	100%	100%
Percent of debt service payments made on time	100%	100%	100%	100%	100%
Outreach/Compliance related customer inquiries	NA	1,307	834	830	830

The critical role that the Department of Finance has of maintaining the fiscal integrity of the County's funds requires that essential functions be executed on time and accurately. Highlighted in the metrics provided are two key functions within this LOB – bank reconciliations and payment of debt service. The Department of Finance is committed to ensuring that these functions happen without issue and have achieved 100 percent completion of these duties within the required timeframes. By establishing written procedures and ensuring sufficient staffing is in place to support these critical functions, this LOB intends to maintain 100 percent completion of these duties in the fiscal years ahead.

As part of the ongoing outreach and compliance efforts for this LOB, customer support is a vital component. This LOB responds to department financial staff questions regarding policies and procedures, employee travel and other operational questions. A large number of inquiries in FY 2014 was a result of the implementation of an improved feature within FOCUS for employee vendor records.