

# Department of Finance



## **FY 2010 LOBS Presentation December 5, 2008**

# Department of Finance Lines of Business



## Department of Finance Mission

**To protect and maintain the fiscal integrity and financial solvency of the County government.**

# Growth Since FY 2001

- **Growth in Expenditures**

- FY 2009: \$9.40 million
- FY 2001: \$5.78 million

\$3.62 million increase, 63% (7.83% per year)

- **Drivers**

- External Audit: \$0.6 million increase 306% (38.3% per year)
- DIT Charges: \$1.8 million increase 112% (14.0% per year)
- Finance Operations: \$1.2 million increase 30% ( 3.69% per year)

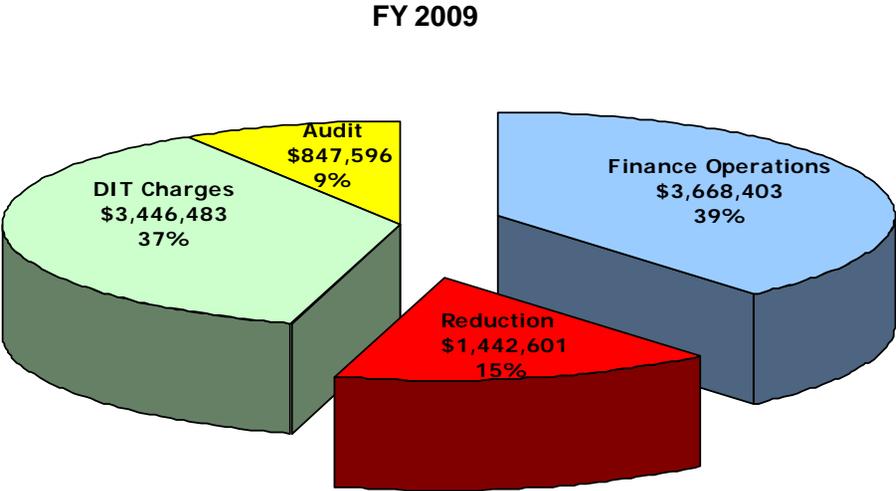
- **Change in Positions/Staff Year Equivalency (SYE)**

- FY 2009: 69/69.0
- FY 2001: 70/70.0

1/1.0 SYE decrease

# How Funding is Used

Over 46% of available funding goes to DIT charges and audit fees.



The 15% target calls for a 27.1% reduction in Finance Operations.

## New Programs Since FY 2001

- Financial Assistance and Compliance Program
- Unclaimed Money – Internet outreach program
- Expanded use of credit card and e-check revenue collection over the internet
- Electronic bill payment initiatives
  - Paper-less invoice processing
  - Utilities bill consolidation
  - Document imaging and sharing
- DART – on-demand reporting for managers via internet
- Daily bank account reconciliation
- Web based travel authorization and accounting
- Established new trust fund to manage retiree benefits (OPEB)
- Finance Call Center
- Legacy system replacement project (ERP)

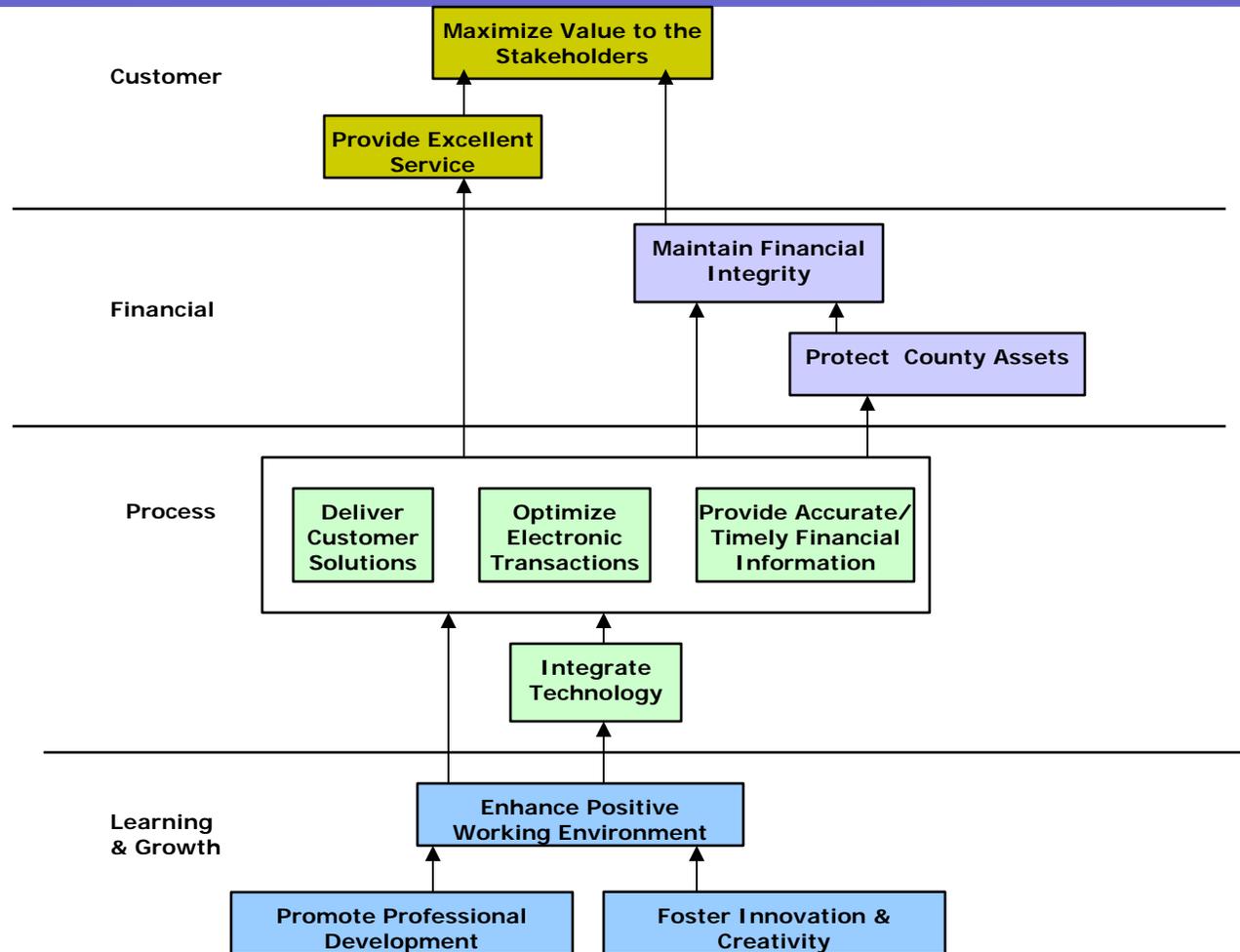
# What We Contribute

- **Constitutional Role of Treasurer**
  - Receive and hold safe all County and School funds
  - Make all payments for the County and Schools
  - Maintain financial records and supporting documentation
  - Report to elected officials, Federal/State governments, bondholders and the public (i.e CAFR,APA)
  - Provide a system of controls to protect against abuse of public funds
- **Centralized support to departments**
  - Financial system
  - Sound procedures
  - Oversight

# Who We Support

- **Principal customer is the public**
  - Assurance of full accountability and transparency in the use of public resources
- **County leaders at all levels**
  - Procedures to assure safe and effective management of funds
  - Reports to assist management of operations
  - Centralized services to provide cost savings and economies of scale
  - Training and assistance to staff performing specialized financial activities at each agency
  - Oversight to assure compliance with the law, policy and sound controls
- **Fairfax County Public Schools**
  - Issue checks
  - Maintain master vendor file
  - Coordinate banking services

# Department of Finance Strategy Map



# LOBS Summary Table

## FY 2008 Adopted Budget Plan

<i>Number</i>	<i>LOB Title</i>	<i>Net LOB Cost</i>	<i>LOB Number of Positions</i>	<i>LOB SYE</i>
06-01	Financial Control and Compliance	\$3,368,185	26	26.0
06-02	Investing and Cash Flow Management	\$626,333	8	8.0
06-03	Accounting and Financial Reporting	\$3,471,770	14	14.0
06-04	Payments of Countywide Obligations	\$1,029,624	21	21.0
<b>TOTAL</b>		<b>\$8,495,912</b>	<b>69</b>	<b>69.0</b>

## LOB 06-01

# Financial Control and Compliance

- Maintaining the systems, procedures, policies and audits that assure the integrity of revenue collection and County spending
- Deliver uniform policies that promote secure and accurate financial transactions
- Create and verify use of controls that prevent abuses
- Develop standard procedures that promote efficient financial support, particularly in agencies with limited specialized financial skills
- Rigorous attention to “auditability” of operations

	<u>LOB Cost</u>	<u>Positions(SYE)</u>
<b>FY 2008 Adopted</b>	<b>\$3,368,185</b>	<b>26.0</b>

## LOB 06-02

# Investing and Cash Flow Management

- Project revenue collections and payment needs of all County and Schools operations
- Invest temporarily cash on hand to assure it is available when needed
- Arrange for and support banking services for all County and School operations
- Maintain absolute daily accountability for all funds on hand, in-transit, and invested
- Project revenue earnings and distribute income across participating funds

	<u>LOB Cost</u>	<u>Positions(SYE)</u>
<b>FY 2008 Adopted</b>	<b>\$626,333</b>	<b>8.0</b>

## LOB 06-03

# Accounting and Financial Reporting

- Oversee maintenance of accounting records of all County financial activities
- Identify and resolve discrepancies that affects the integrity and accuracy of these records
- Prepare a mandatory annual financial report, providing complete disclosure of the year's operations and challenges to future financial performance
- Prepare a multitude of external reports required by state and federal authorities
- Initiate debt service payments to bondholders and external entities
- Monitor compliance with agreements in support of grant funding

	<u>LOB Cost</u>	<u>Positions(SYE)</u>
<b>FY 2008 Adopted</b>	<b>\$3,471,770</b>	<b>14.0</b>

## LOB 06-04

# Payment of Countywide Obligations

- Make all payments on behalf of the County and Schools
  - Payroll, tax withholding and employee benefit programs
  - Vendors for goods and services provided
  - Debt service
  - Tax refunds
  - Housing and Human Services benefit programs
  - Retirement benefits
- Centralized control of accounts payable records
- Authentication of high-dollar value payments
- Control against improper or incorrect payment for goods purchased

	<u>LOB Cost</u>	<u>Positions (SYE)</u>
<b>FY 2008 Adopted</b>	<b>\$1,029,624</b>	<b>21.0</b>

# Department of Finance

## Key Metrics

LOB	Measure	Volume	Amount
<b>Financial Control and Compliance</b>	Number of Employees Trained	6,197*	-
	Number of Call Center Calls	2,021	-
	Number of Compliance Visits	58	-
	Number of hits on websites	881,435	-
	% and \$ value of Unclaimed Checks united with owners	85%	\$ 1,000,000
	Online Credit Card Collections	2,179,059*	\$ 307,661,225
<b>Investing and Cash flow Management</b>	3 Year Average Pooled Cash Portfolio		\$ 2,400,000,000
	Average Investment Income		\$ 112,000,000
	Number of Bank Accounts	232	-
<b>Accounting and Financial Reporting</b>	Number of Funds Reviewed & Audited	139	-
	Grants	270	\$ 600,000,000
	Number of Mandatory Reports	16	-
<b>Payment of Countywide Obligations</b>	Electronic ACH Payments	55,635	\$ 394,257,777
	Checks (Vendor)	293,301	\$ 584,905,256
	Wires	3,239	\$ 802,223,734
	Payroll Checks and ACH	431,835	\$ 544,331,568

\*Volume since inception

# Reduction Summary

Risk Level	Nature of Risk	Positions	SYE	Net Reduction
Low Risk	Service and Efficiency Impact	1	1.0	\$231,000
Moderate Risk	Lost Savings Opportunities	3	3.0	\$212,000
High Risk	Integrity of Financial Controls and Reliability of Financial Records	16	16.0	\$1,012,000
<b>TOTAL REDUCTION</b>		20	20.0	\$1,455,000

# Reduction Philosophy

- Reallocate resources to ensure delivery of services:
  - Required by law
  - Essential to integrity of financial transactions and records
  - Integral to production of reliable financial reports
  - Necessary to achieve moderate-to-high control against abuses
  - Maintain AAA bond rating
- Preserve capability to support personnel in agencies
- Prioritize reductions based on the highest levels of risk
- Take necessary reductions keeping in mind that these actions:
  - Will affect the efficiency (including costs of operations) of departments we serve
  - Cost savings and cost avoidance will be foregone or delayed
  - Our actions can affect agencies' abilities to deliver services to their customers, especially County residents

# Reduction Impact

Risk Level	Reduction	Positions
Low	\$ 231,000	1
Moderate	212,000	3
High	1,012,000	16
<b>Totals</b>	<b><u>\$ 1,455,000</u></b>	<b><u>20</u></b>

## A 15% funding reduction means:

- Eliminate **20** of the **69** positions in DOF  
(**29%** reduction in staffing)
- **27%** overall reduction in Finance Operations

# Reduction Priorities

Priority	Description	Pos.	FTE	Reduction
1	Eliminate non-certification, non-essential training			\$ 18,000
2	Eliminate internal support to training, purchasing, and human resource functions.	1	1	\$ 33,000
3	Reduce funding for external audit services			\$180,000
4	Eliminate support for process redesign and automated services to agencies	1	1	\$ 62,000
5	Eliminate management of system administrators and project oversight	1	1	\$112,000
6	Terminate efforts to extend the use of electronic payments in lieu of hardcopy checks for County obligations	1	1	\$ 38,000

# Reduction Priorities

Priority	Description	Pos.	FTE	Reduction
7	Eliminate compliance oversight and assistance to agencies	6	6	\$ 359,000
8	Eliminate central oversight of federal and state grants	1	1	\$ 68,000
9	Terminate out-sourced analysis and payment of utility bills	1	1	\$ 114,000
10	Terminate development of data warehouse tool for financial reporting at the agency level	1	1	\$ 58,000
11	Reduce effort to maintain current inventory records of capital assets	1	1	\$ 58,000
12	Eliminate accounts receivable monitoring and collection assistance	1	1	\$ 45,000
13	Eliminate central audit of travel accounting	1	1	\$ 36,000
14	Reduce monitoring of entries in the County's central accounting system	1	1	\$ 48,000
15	Reduce program of monitoring activity in bank accounts	1	1	\$ 47,000
16	Reduce activity to validate vendor-supplied information used for year-end tax reporting	1	1	\$ 49,000
17	Eliminate internal capability to invest County funds	1	1	\$ 130,000

# Department-wide Reduction Eliminate Training - Priority 1

## Eliminate non-certification, non-essential training

**Savings**

**\$18,000**

### **Low Risk:**

The County could fall out of compliance with required accounting and reporting practices or lose opportunities to introduce efficiencies and cost reduction measures. The high quality of County staff lowers this potential risk to a very low level.

Greater emphasis will be placed on train-the-trainer approaches and hosted video and Internet training opportunities. Over the long term, this will negatively affect introduction of new technologies and modernization.

Position reductions will increase the need for cross-functional skills and knowledge.

## Department-wide Reduction Administrative Support - Priority 2

**Eliminate internal support to training, purchasing, and human resource functions within Finance**

**Reduction**

**\$33,000 – 1 position**

**Low Risk:**

This position provides assurance of accuracy, timeliness, and consistency in various administrative support functions. Supervisors will take on heightened responsibilities to prevent abuses of these systems.

The position is also a back-up to several critical functions, including printing of checks for all County operations. Delays in producing checks may occur.

## Department-wide Reduction Reduction in Audit Fees - Priority 3

### Reduce funding for external audit services

Savings

\$180,000

#### Low Risk:

Contract negotiated with external auditors was less than the budgeted amount.  
Eliminate funding in excess of negotiated fixed price.

## LOB 06-01: Financial Control and Compliance Redesign and Automated Services- Priority 4

**Eliminate support for process redesign and automated services to agencies**

**Reduction**

**\$62,000 - 1 position**

### **Moderate Risk:**

DOF has developed tools for agencies to streamline business processes. For example, DOF developed an automated way for the Park Authority to upload large volume credit card charges into the accounting system. This effort saved 1 FTE at the agency.

DOF will have reduced ability to support the implementation of these types of cost saving initiatives for other agencies. Additionally, this position supports the review of controls associated with the daily uploads of financial transactions into the accounting system. Reduction of this position will eliminate the ability to monitor and audit these uploads.

## LOB 06-01: Financial Control and Compliance Management of Systems Administration and Project Oversight - Priority 5

**Eliminate management of system administrators and project oversight**

**Reduction**

**\$112,000 - 1 position**

### **Moderate Risk:**

Supervisory position currently manages system administrators and serves as the department's liaison with DIT.

Department will transfer management responsibilities to other staff. The impact of this reduction may result in delays in responses to system issues and new project support.

## LOB 06-04: Payment of Countywide Obligations Electronic Payments - Priority 6

**Terminate efforts to extend the use of electronic payments in lieu of hardcopy checks for County obligations**

**Reduction**

**\$38,000 - 1 position**

### **Moderate Risk:**

Use of electronic bank transfers in place of mailed checks reduces costs, avoids lost checks (and associated research and replacement) and conforms to today's Best Practices.

Risk is minimal, essentially the opportunity cost of not employing labor-saving technology.

**Cost: 50 cents per check (300,000 checks each year)  
5 cents per ACH  
Opportunity Cost: 45 cents per unconverted check  
payment**

## LOB 06-01: Financial Control and Compliance Compliance Assurance – Priority 7

### **Eliminate compliance oversight and assistance to agencies**

**Reduction**

**\$359,000 - 6 positions**

#### **High Risk:**

- Agencies will lack resource support during periods of staff turnover
- Financial information and records kept in untested spreadsheets vulnerable to error and fraud
- Unmonitored agency deviation from policies and procedures may result in:
  - Higher error rates
  - Improper payments
  - Uncollected revenues
- Vulnerabilities to fraud and inaccurate management information
- Increased risk of audit exceptions or qualified auditor opinions

## LOB 06-03: Accounting and Financial Reporting Grants Oversight – Priority 8

### **Eliminate central oversight of federal and state grants**

**Reduction**

**\$68,000 – 1 position**

#### **High Risk:**

Loss of grant funding. This program was created to respond to findings by the Auditors to the Board and External Auditors that agencies needed assistance in grants administration to assure timely accounting and reimbursement requests, the lack of which can lead to a loss of funding.

**There were 270 grants with \$600 million in Revenues  
in FY 2008**

## LOB 06-04: Payment of Countywide Obligations Utility Bill Payment and Cost Analysis – Priority 9

### **Terminate out-sourced analysis and payment of utility bills**

**Reduction**

**\$114,000 – 1 position/program costs**

#### **High Risk:**

Utility bills are complex and difficult to analyze. This program freed up agency staff from processing bills and re-keying energy usage data. Potential value of this new program is in identifying billing errors and anomalies in utility usage. Rollback of program will result in agencies having to absorb workload.

It is estimated that agencies will have to redeploy approximately 4 FTEs to process utility bills and track utility usage. The net program cost savings is \$76,000 per year.

**Approximately 2,000 bills per month are now consolidated into a twice weekly automated upload**

## LOB 06-01: Financial Control and Compliance Financial Information and Management Analysis – Priority 10

**Terminate development of data warehouse tool for financial reporting at the agency level**

**Reduction**

**\$58,000 – 1 position**

### **High Risk:**

DART is a data warehouse reporting tool that gives near-real time access to mainframe data and enables managers to view information not previously available without high programming cost.

Costs of paper used for mainframe reports dropped dramatically with the introduction of DART; usage of the tool in its current development stage will decline over time, driving up costs of paper and staff time to develop information using alternative means.

**75% decrease in paper reports printed.  
Received NACo 2008 Innovation Award.**

## LOB 06-03: Accounting and Financial Reporting Capital Asset Management - Priority 11

**Reduce effort to maintain current inventory records of capital assets**

**Reduction**

**\$58,000 – 1 position**

### **High Risk:**

Records of capital assets (land, buildings, library collections and equipment) are integral to every system of internal controls and they are essential to development of accurate financial reports. Reduced accounting efforts in this area could lead to delays in reporting assets and ensuring they are properly valued. This could further lead to audit findings and qualified auditor opinions.

**The County has approximately \$2.5 billion in Capital Assets with 19,000 records.**

## LOB 06-01 Financial Control and Compliance Revenue Collection – Priority 12

### **Eliminate accounts receivable monitoring and collection assistance**

**Reduction**

**\$45,000 - 1 position**

#### **High Risk:**

Centralized program arose from recommendations by Auditors to the Board to assist agencies in collecting amounts due the County from federal, state and other sources.

Elimination of this program will result in delays in collecting receivables and cause reductions in cash inflows. Auditors estimated that \$700,000 potentially could be lost by County if program is not in place.

**Approximately \$30 million in non-tax receivables per month.**

**Less than 5% past due.**

## LOB 06-04: Payment of Countywide Obligations Auditing Travel Accounting – Priority 13

### **Eliminate central audit of travel accounting**

**Reduction**

**\$36,000 – 1 position**

#### **High Risk:**

Review of travel expenses by staff fully trained in the complexities of travel rules assures adequate documentation and limits erroneous payments.

The responsibility for quality control will shift to agencies. DOF will limit any negative impact through statistical sampling audits and increased training efforts.

**Approximately 21,280 travel documents were  
processed in FY 2008**

## LOB 06-03: Accounting and Financial Reporting General Ledger Reconciliation – Priority 14

**Reduce monitoring of entries in the County's central accounting system**

**Reduction**

**\$48,000 – 1 position**

### **High Risk:**

The integrity of accounting records is core to internal control and the reliability of financial statements. Reduced vigilance introduces risks of undetected errors and omissions. This position ensures that agencies are reviewing and correcting financial transactions in a timely manner.

The impact of not doing will result in financial records containing errors, and could lead to audit exceptions and findings.

**139 Funds are monitored and audited each year**

## LOB 06-01 Financial Control and Compliance Resolving Payment Exceptions – Priority 15

### **Reduce program of monitoring activity in bank accounts**

**Reduction**

**\$47,000 – 1 position**

#### **High Risk:**

Protection against check fraud is affected. Undeliverable checks and electronic transfers will be delayed with negative consequences, such as loss of discounts and increased potential for abuses. Additionally, this reduction will diminish the ability to locate owners of unclaimed funds.

**Each year on average 3,965 checks, totaling \$1 million are returned to their owners.**

## LOB 06-04: Payment of Countywide Obligations Taxable Payments Reporting – Priority 16

**Reduce activity to validate vendor-supplied information used for year-end tax reporting**

**Reduction**

**\$49,000 – 1 position**

### **High Risk:**

Incorrect taxpayer identification information can lead to incorrect or fraudulent payments. Furthermore non-compliance with IRS reporting rules will result in IRS penalties for filing incorrect information returns. Validating tax id is not only a best practice for validating vendor records but also a good fraud detection measure.

**Average number of IRS 1099 returns filed per year is  
5,023**

## LOB 06-02: Investment and Cash Flow Management Investment of County Funds – Priority 17

### **Eliminate internal capability to invest County funds**

**Reduction**

**\$130,000 – 1 position/program costs**

#### **High Risk:**

Loss of revenue by outsourcing to public funds managers (e.g., LGIP) and inflexibility to protect against market risks. High potential that lost revenue will greatly exceed savings from this reduction.

**Average portfolio size: \$2.5 billion**

**In FY 2008, County earned \$4.085 million more than would have been earned if portfolio were managed by the Virginia Local Government Investment Pool.**