

Fairfax County, Virginia



LINES OF BUSINESS

March 2016

FINANCE

*County Lines of Business (LOBs)
Presentation to the Board of Supervisors*



www.fairfaxcounty.gov/budget/2016-lines-of-business.htm



OUTLINE OF TODAY'S PRESENTATION

1. Department Overview
2. Mandates, Regulations, and Standards
3. High level view of our Lines of Business (LOBS)
 - Summary
 - Benefits
 - Metrics
4. How our LOBs relate to the County Vision Elements
5. Trends and Challenges
6. Looking Forward
7. Discussion



DEPARTMENT OVERVIEW

The **MISSION** of the Department of Finance (Finance) is to protect and maintain the fiscal integrity and financial solvency of the Fairfax County government.

The department has five LOBs:

- Investments and Treasury Management
- Payment of Countywide Obligations
- Accounting and Financial Reporting
- Financial Control and Governance
- Risk Management*

*** The Risk Management LOB information is reported separately in Fund 60000, the County Insurance Fund and will be covered in the LOBs presentation immediately following this one.**



DEPARTMENT OVERVIEW

The department's core functions include oversight of:

- **Financial transactions**
- **Financial reporting**
- **Cash management**
- **Banking services**
- **Accounts payable**
- **Financial policies and procedures**
- **Debt service obligations**
- **Grants management compliance**





MANDATES, REGULATIONS & STANDARDS

As Treasurer, the Director of Finance has a number of financial responsibilities mandated or administratively required by the Code of Virginia and/or federal regulations and guidelines. In addition, the department adheres to established accounting standards. The core functions within DOF work to ensure compliance in critical financial areas which include:

Investments & Treasury Management

- Code of Virginia 2.2-4500 – 2.2-4518 Investment of Public Funds Act
- Code of Virginia 2.2-4400 – 2.2-4411 Virginia Security for Public Deposits Act
- Code of Virginia 15.2-829 Powers of the County Treasurer; deposit of moneys
- Credit card acceptance rules set by credit card industry, and debit cards by the Durbin Amendment, passed as part of the Dodd-Frank financial reform legislation in 2010



MANDATES, REGULATIONS & STANDARDS

Payment of Countywide Obligations

- Code of Virginia 15.2-826 – Department of Finance, Director, General Duties; 15.2-827 Expenditures and Accounts; require that the Director of Finance will have charge of the disbursement of County funds
- Internal Revenue Service 1099 reporting for payments to non-employees for services performed on behalf of Fairfax County
- 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

Accounting & Financial Reporting

- Code of Virginia 15.2-2510 Comparative report of local government revenues and expenditures
- Code of Virginia 15.2-2511 Audit of local government records, etc.; Auditor of Public Accounts
- Code of Virginia 2.2-615 to 619 Implementation of Federal Mandates Act
- PL 104-156 Single Audit Act Amendments of 1996
- Code of Federal Regulation, Title 2, Part 200 – Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), Subparts A-F



MANDATES, REGULATIONS & STANDARDS

Financial Control & Governance

Code of Virginia Sections

- 15.2-826 through 830 Department of finance; director; general duties; expenditures and accounts; powers of county treasurer; deposit of moneys; claims against counties; accounts
- 55-210.9 When intangible property held for owner by public agency presumed abandoned
- 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
- Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), Subparts A-F



DEPARTMENT RESOURCES

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
FUNDING			
<u>Expenditures:</u>			
Compensation	\$3,804,195	\$3,543,831	\$3,832,284
Operating Expenses	4,313,359	4,587,830	5,188,399
Work Performed for Others	(489,732)	(724,480)	(751,697)
Capital Equipment	12,490	0	0
Total Expenditures	\$7,640,312	\$7,407,181	\$8,268,986
General Fund Revenue	\$335,712	\$332,522	\$330,426
Net Cost/(Savings) to General Fund	\$7,304,600	\$7,074,659	\$7,938,560
POSITIONS			
<i>Authorized Positions/Full-Time Equivalents (FTEs)</i>			
<u>Positions:</u>			
Regular	54 / 54	55 / 55	55 / 55
Total Positions	54 / 54	55 / 55	55 / 55

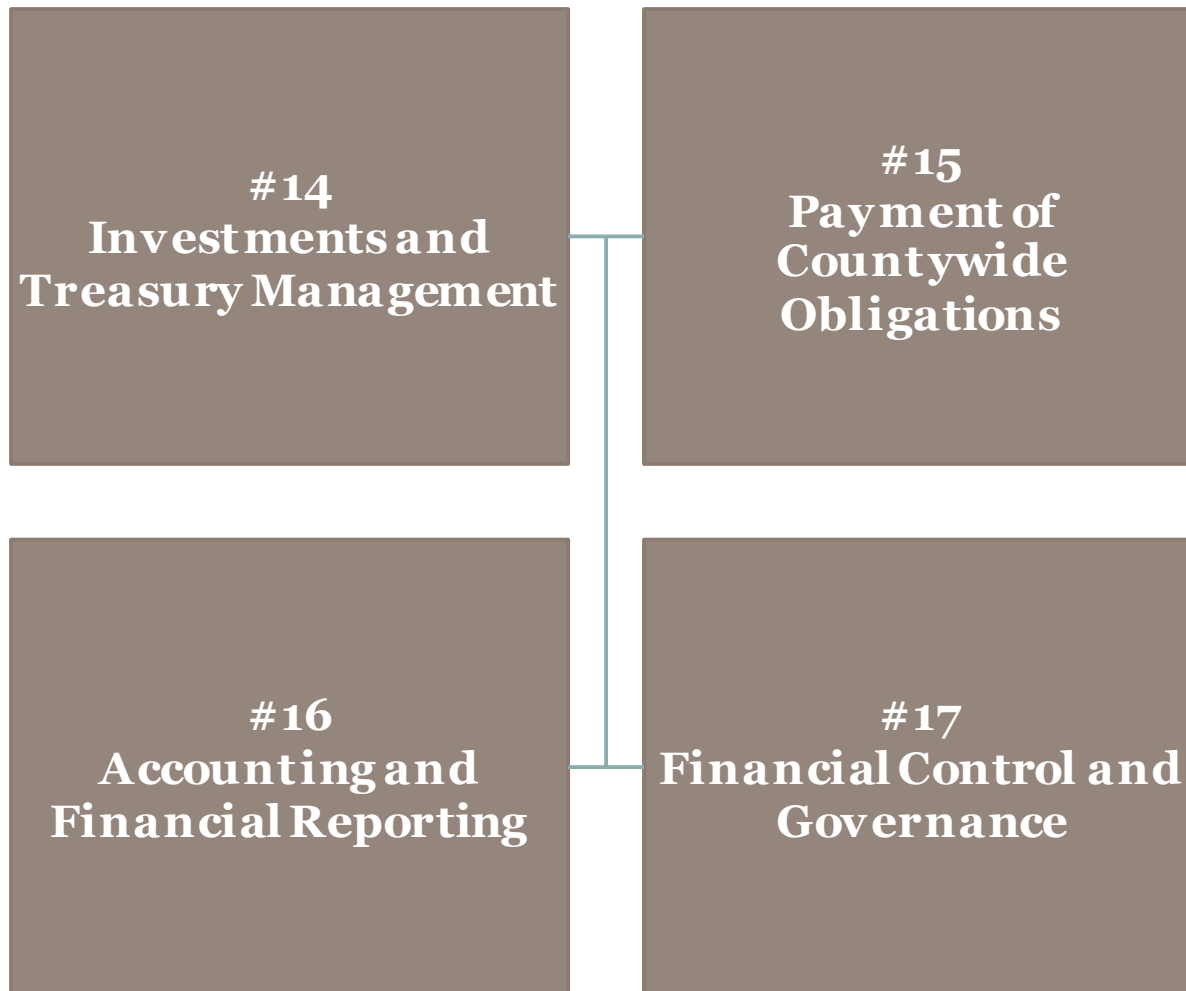


LOBS SUMMARY TABLE

LOB #	LOB Title	FY 2016 Adopted	
		Disbursements	Positions
14	Investments and Treasury Management	\$383,013	4
15	Payment of Countywide Obligations	1,606,151	22
16	Accounting and Financial Reporting	3,694,942	11
17	Financial Control and Governance	2,584,880	18
Total		\$8,268,986	55



LOBS AT A GLANCE





LINEs OF BUSINESS SUMMARY

LOB #14 - INVESTMENTS AND TREASURY MANAGEMENT is responsible for the:

- **Administration of bank and cash management services**
- **Oversight of the County's daily cash position**
- **Investment of County funds (average daily portfolio balance \$2.8 billion)**

Banking services include County's main banking relationship, credit card acceptance program, electronic funds receipts & payments, fraud prevention services, armored courier services, etc.

Investment objectives include preservation of capital, timely availability of cash to meet obligations; and a return on investments that meets or exceeds industry standard benchmarks.

→ Safety → Liquidity → Yield



LINES OF BUSINESS SUMMARY

INVESTMENTS AND TREASURY MANAGEMENT

The County's Investment program operates under the following parameters:

- **Investments are made in strict adherence to a formalized* investment policy**
- **Only those investments permitted by the Code of Virginia are used**
- **Oversight is done by a senior Investment Committee**

***For the 18th consecutive year, the County has received the Association of Public Treasurers Investment Policy Certificate of Excellence Award**





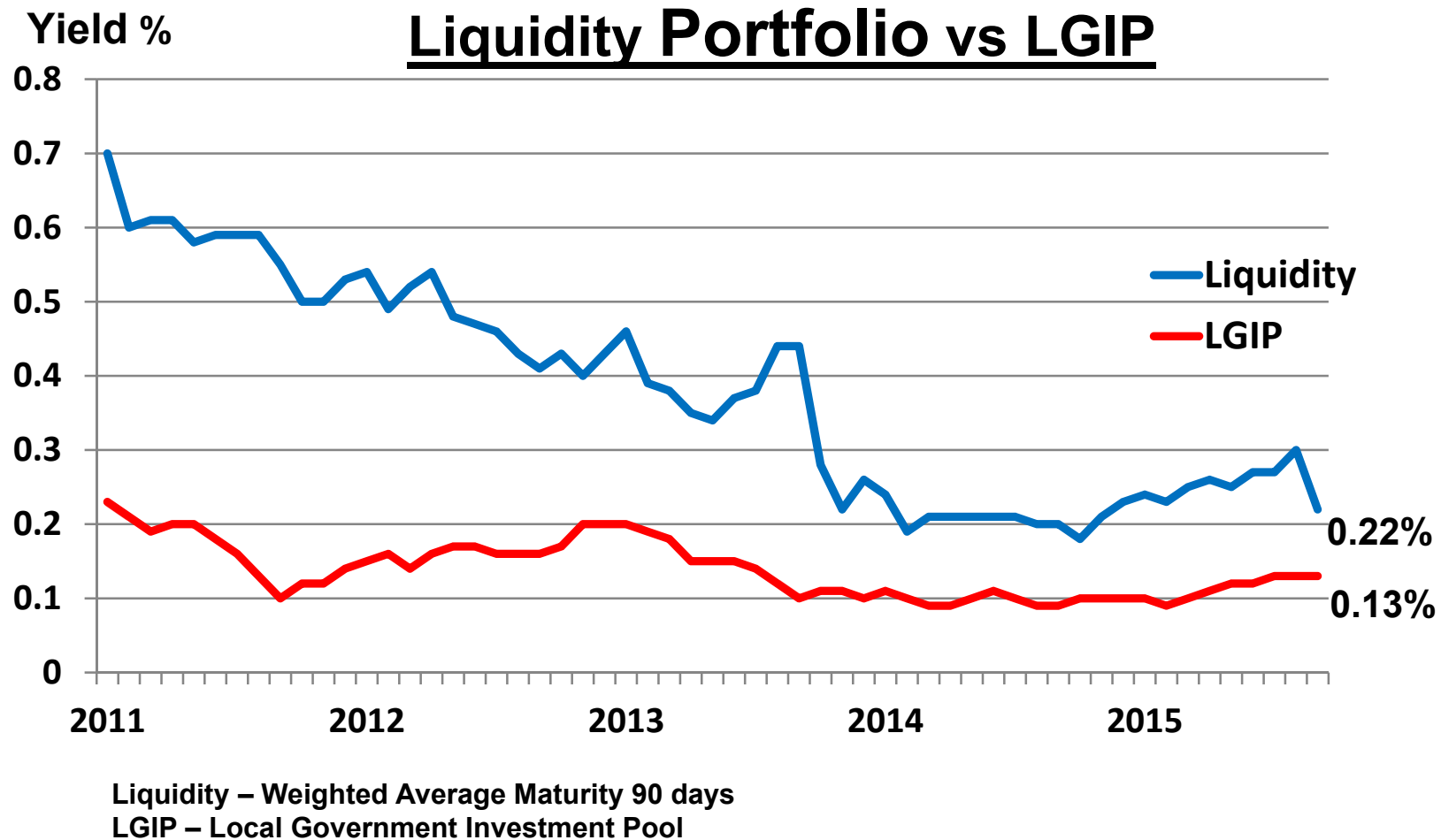
LINEs OF BUSINESS SUMMARY

INVESTMENTS AND TREASURY MANAGEMENT - BENEFITS

- **Enhanced banking services and better rates**
- **Cash flow analysis capabilities**
- **Staff is an important resource for Investment Committee, Bond Committee for Land Development Services, FCPA Resident Curator program, debt issuance**
- **Amount invested in local community banks as of February 2016 is approximately \$460 million**
- **Generated \$14.6 million in investment revenue in FY 2015**

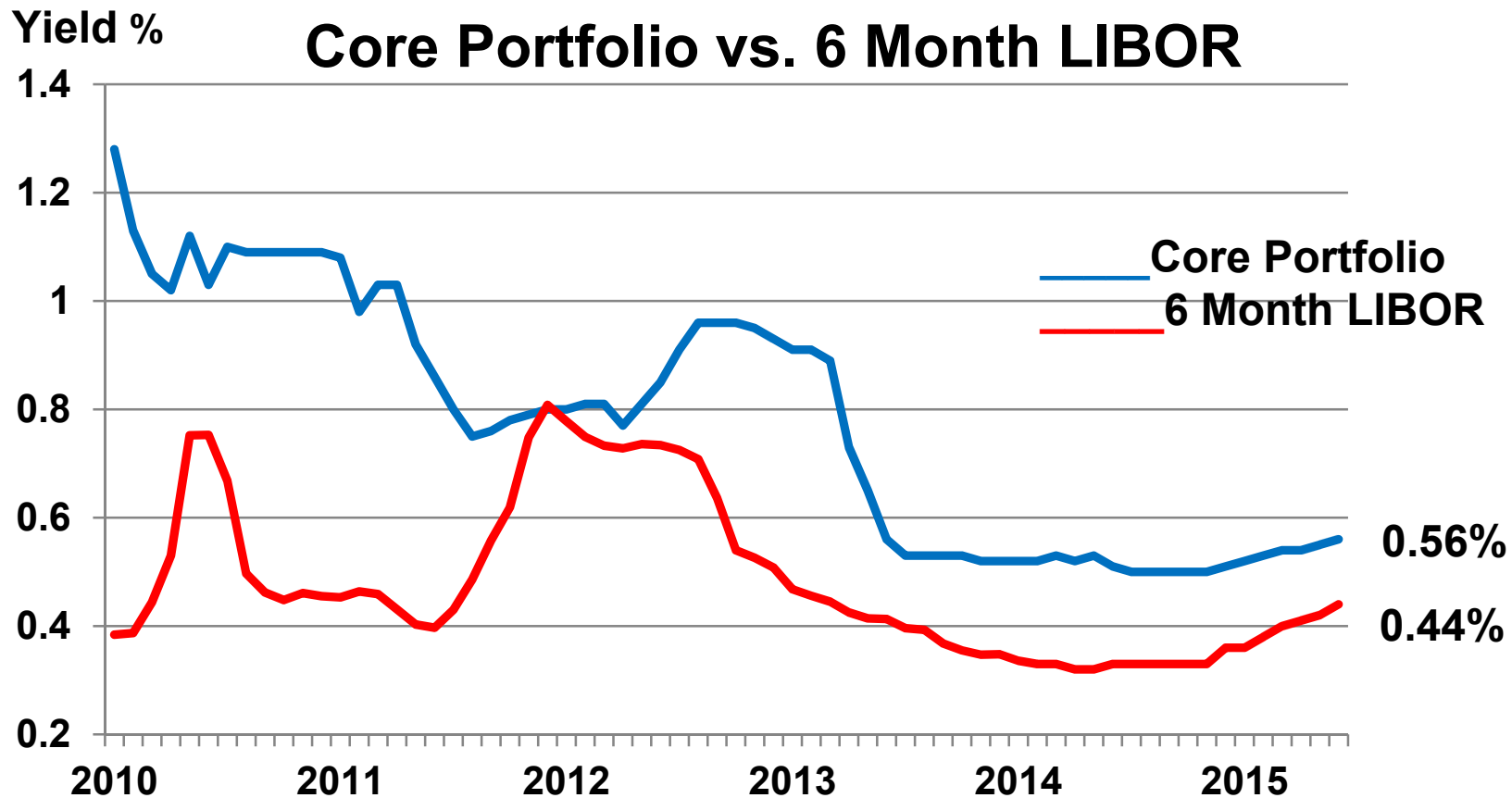


METRICS: INVESTMENT EARNINGS VS. BENCHMARK





METRICS: INVESTMENT EARNINGS VS. BENCHMARK



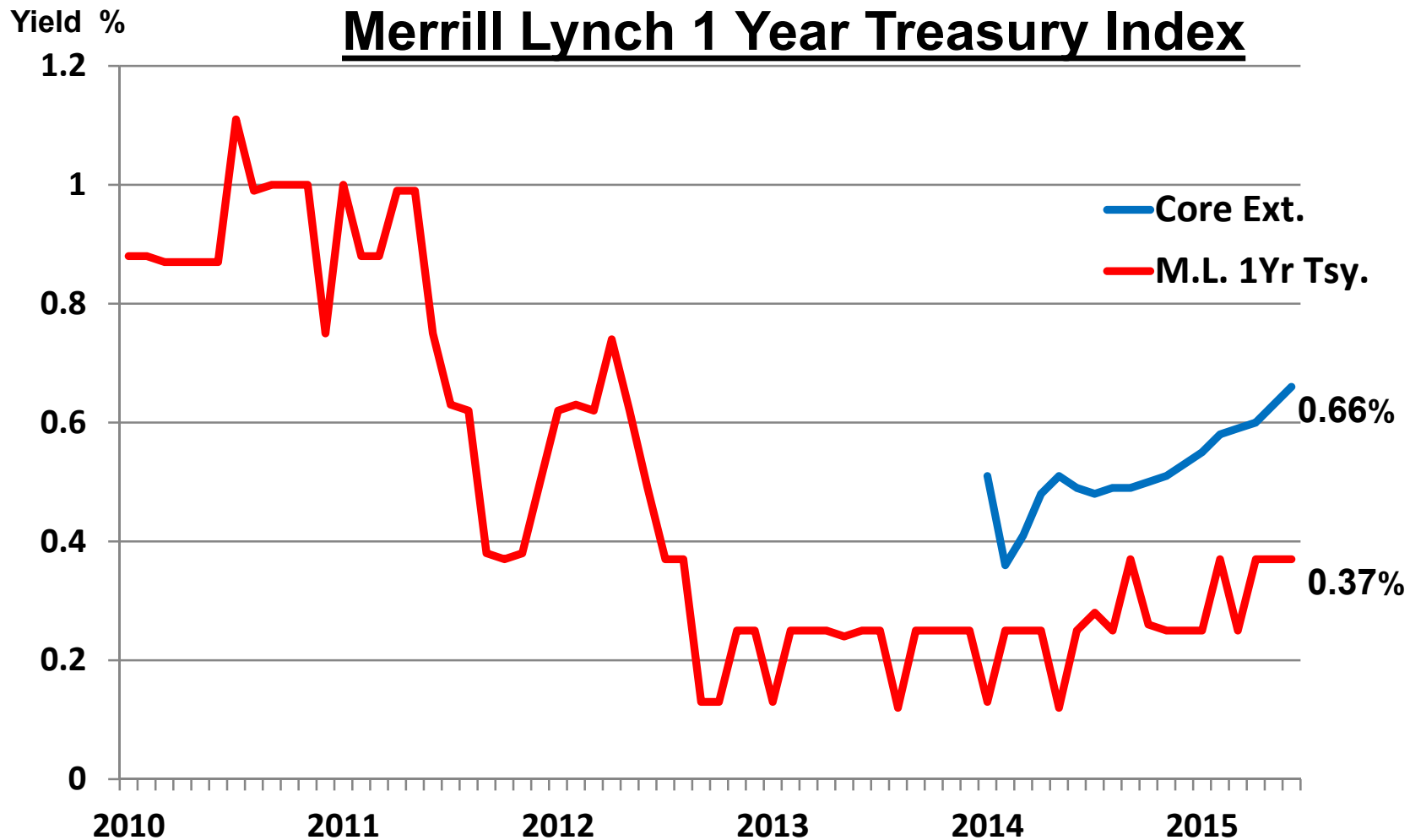
Core – Maximum Maturity 1 Year

LIBOR – London InterBank Offered Rate



METRICS: INVESTMENT EARNINGS VS. BENCHMARK

Core Extended Portfolio vs. Merrill Lynch 1 Year Treasury Index



Core Extended – Laddered Portfolio (Max. Maturity 2 Years) – Weighted Average Maturity 1 year



LINEs OF BUSINESS SUMMARY

LOB #15 – PAYMENT OF COUNTYWIDE OBLIGATIONS is responsible for handling all payments for services and materials for the operations of County and Schools.

This centralized payment processing oversight function has three distinct programs:

- **Vendor Maintenance**
 - Validates vendor information and taxpayer identification numbers
 - 1099 reporting
 - Continues efforts to convert vendors to electronic disbursements, a more cost efficient method of vendor payment



LINEs OF BUSINESS SUMMARY

PAYMENT OF COUNTYWIDE OBLIGATIONS

- **Accounts Payable**

- Provides centralized scanning of all invoices
- Ensures only valid invoices are processed
- Issues timely vendor payments
- Utilize efficient decentralized processes for initiation of payment requests and goods receipts

- **Payment Disbursement**

- Responsible for payments of all County and Schools obligations
- 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



LINEs OF BUSINESS SUMMARY

PAYMENT OF COUNTYWIDE OBLIGATIONS - **Benefits**

- Timely payment for goods and services
- Interest earnings are maximized
- Centralized disbursement oversight and controls
- Provides IRS 1099 compliance
- Delivers high level of customer service

A diagram of a check from Bank of America. Red boxes and lines highlight specific fields for ACH payment processing:

- Routing Number:** Indicated by a red box and label at the bottom left of the check number.
- Account #:** Indicated by a red box and label at the bottom right of the check number.
- Check Number:** Indicated by a red box and label at the top right of the check.
- XXXX:** A red box labeled 'XXXX' at the top right, likely representing a placeholder for a payment reference or date.

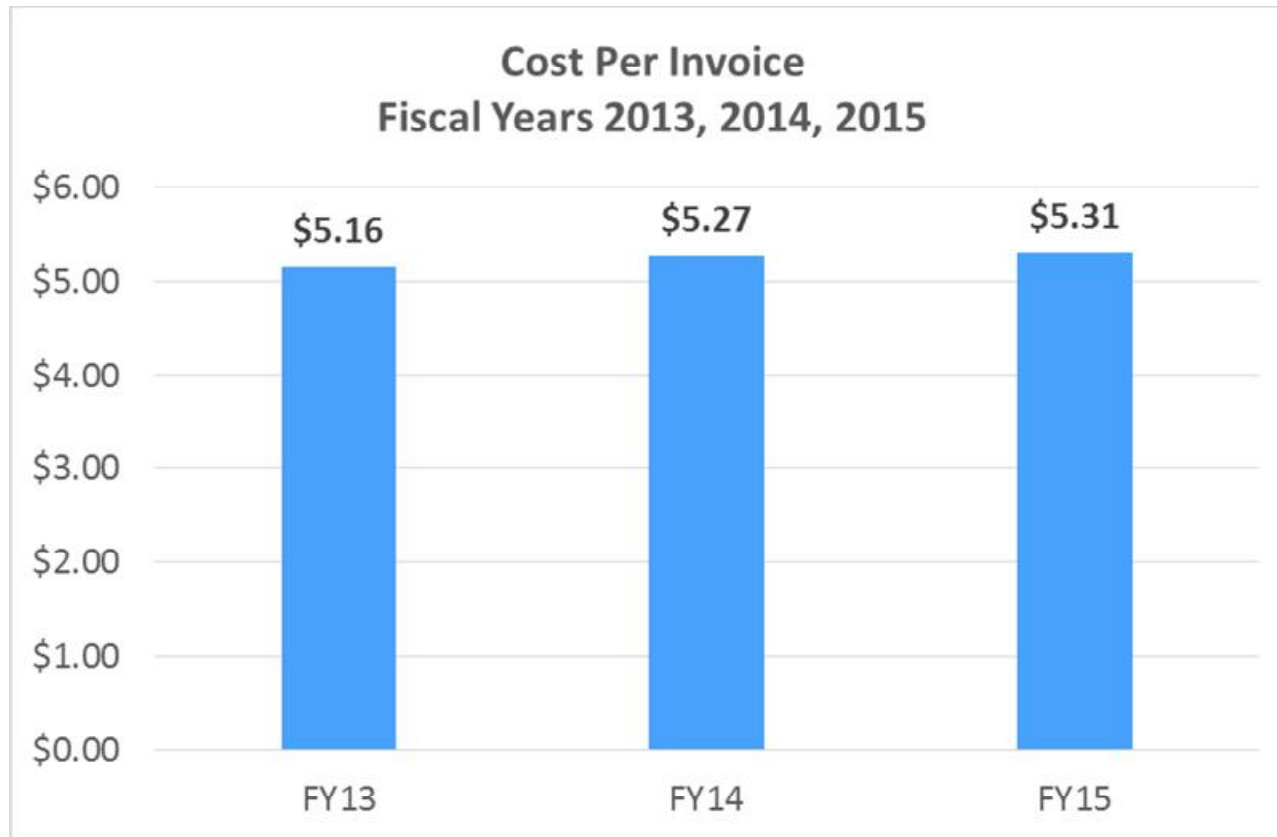


ACH PAYMENT





METRICS

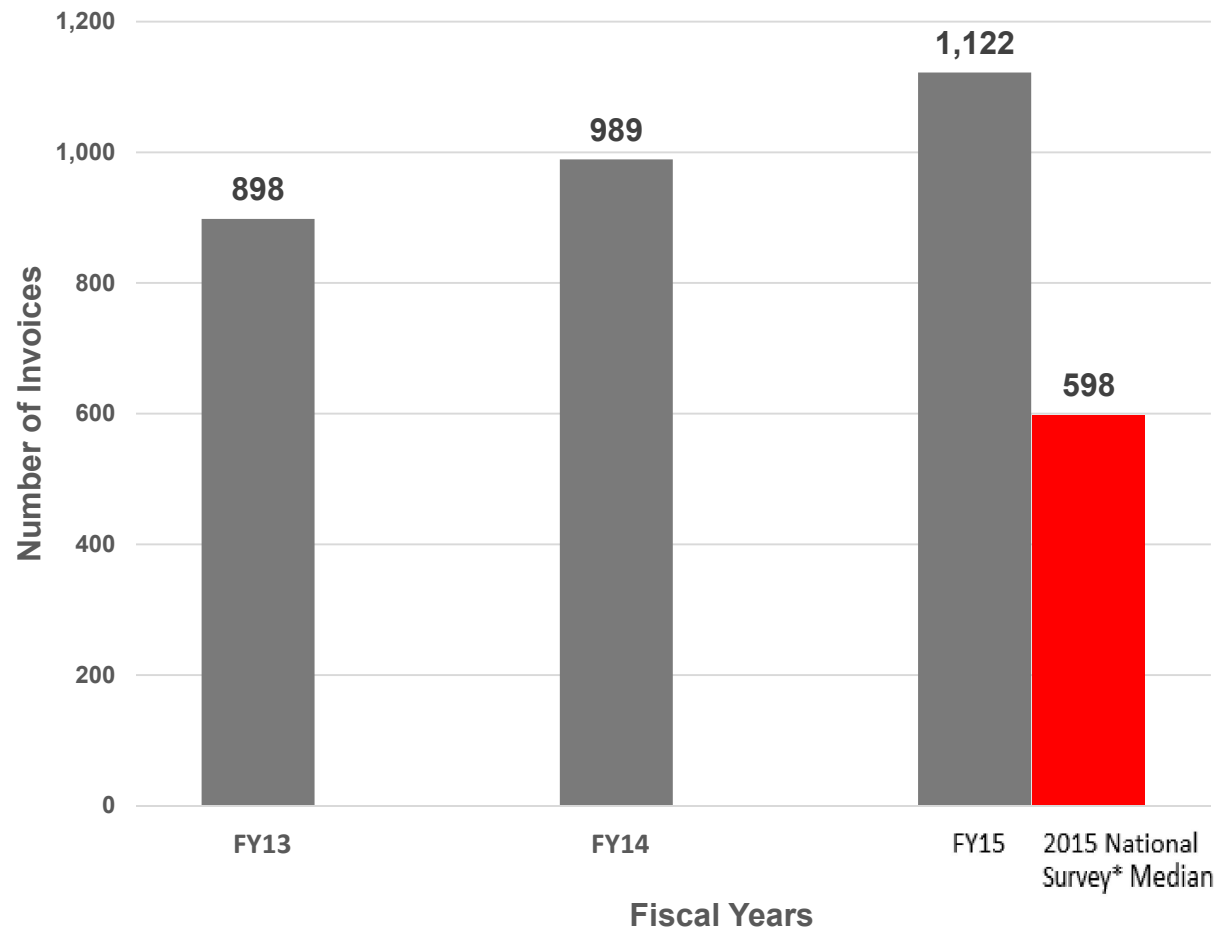


- The median cost per invoice of all companies surveyed for the past three years is an average of \$5.87. *Data source: Accounts Payable & Procure-to-Pay Network, the Institute of Finance and Management*



METRICS

Average # of Invoices by Staff per Month Fiscal Years 2013, 2014, 2015

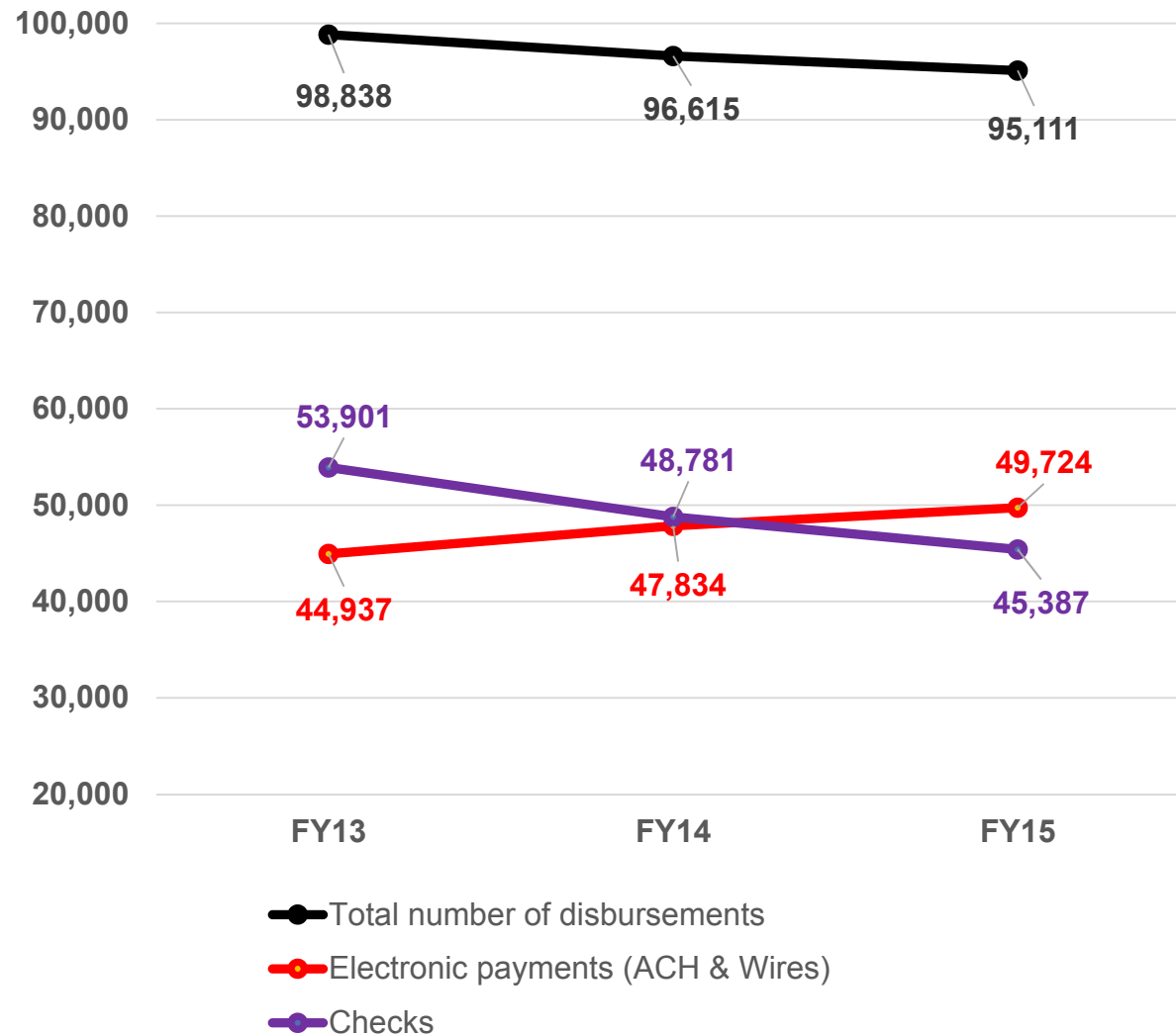


* National survey results according to The Accounts Payable Network



METRICS

Payment Disbursements* - Electronic versus Checks



*Represents invoices processed directly by DOF AP



LINEs OF BUSINESS SUMMARY

LOB #16 - ACCOUNTING AND FINANCIAL REPORTING is responsible for:

- **Overseeing Countywide accounting processes and producing consistent and reliable financial information**
- **Interpreting and implementing new accounting pronouncements from the Governmental Accounting Standards Board (GASB)**
- **Adhering to Generally Accepted Accounting Principles (GAAP), Auditor of Public Accounts (APA) requirements, and federal agency mandates (e.g., Single Audit)**
- **Assisting County agencies with required financial reporting and providing technical guidance on governmental accounting standards and financial training**
- **Overseeing coordination of the annual independent audit**



LINEs OF BUSINESS SUMMARY

ACCOUNTING AND FINANCIAL REPORTING

Staff accountants support and monitor over 165 funds and agency accounts as well as account for \$4 billion in capital assets.

They prepare and produce the:

- Comprehensive Annual Financial Report (CAFR)**
- Auditor of Public Accounts (APA) required Audit Procedures and Transmittal Form**
- Integrated Sewer System (ISS) CAFR**
- Financial statements for the Economic Development Authority (EDA)**

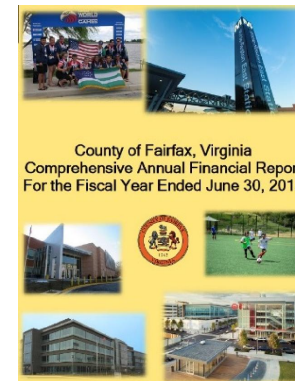
In addition, Financial Reporting staff work with Housing, Parks, and Schools staff during the preparation of their CAFRs and Single Audit program reviews



LINES OF BUSINESS SUMMARY

ACCOUNTING AND FINANCIAL REPORTING – Benefits

- Financial reports provide substantive information for County leadership, residents, other government agencies and financial/investor institutions
- County's financial reports continue to receive wide acceptance from rating agencies
- Annual audits of the County's financial reports have an unblemished record of receiving unmodified "clean" opinions from its independent auditors
- Earned for the 38th consecutive year, a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the US and Canada (GFOA)





LINES OF BUSINESS SUMMARY

LOB #17 - FINANCIAL CONTROL AND GOVERNANCE is responsible for two main program areas:

1. Centralized Financial Operations and Governance

- Reconciliations of bank accounts and investment transactions
- Grants management
- Treasurer obligations under the Code of Virginia
- Oversight and processing of positive pay and unclaimed property
- Developing Countywide financial policies and procedures
- Providing oversight, outreach, and training

2. Debt Issuance and Compliance

- Debt service payments
- Annual continuing disclosure requirements for debt obligations
- Debt post issuance compliance requirements
- Calculation of arbitrage rebate/yield amounts



LINES OF BUSINESS SUMMARY

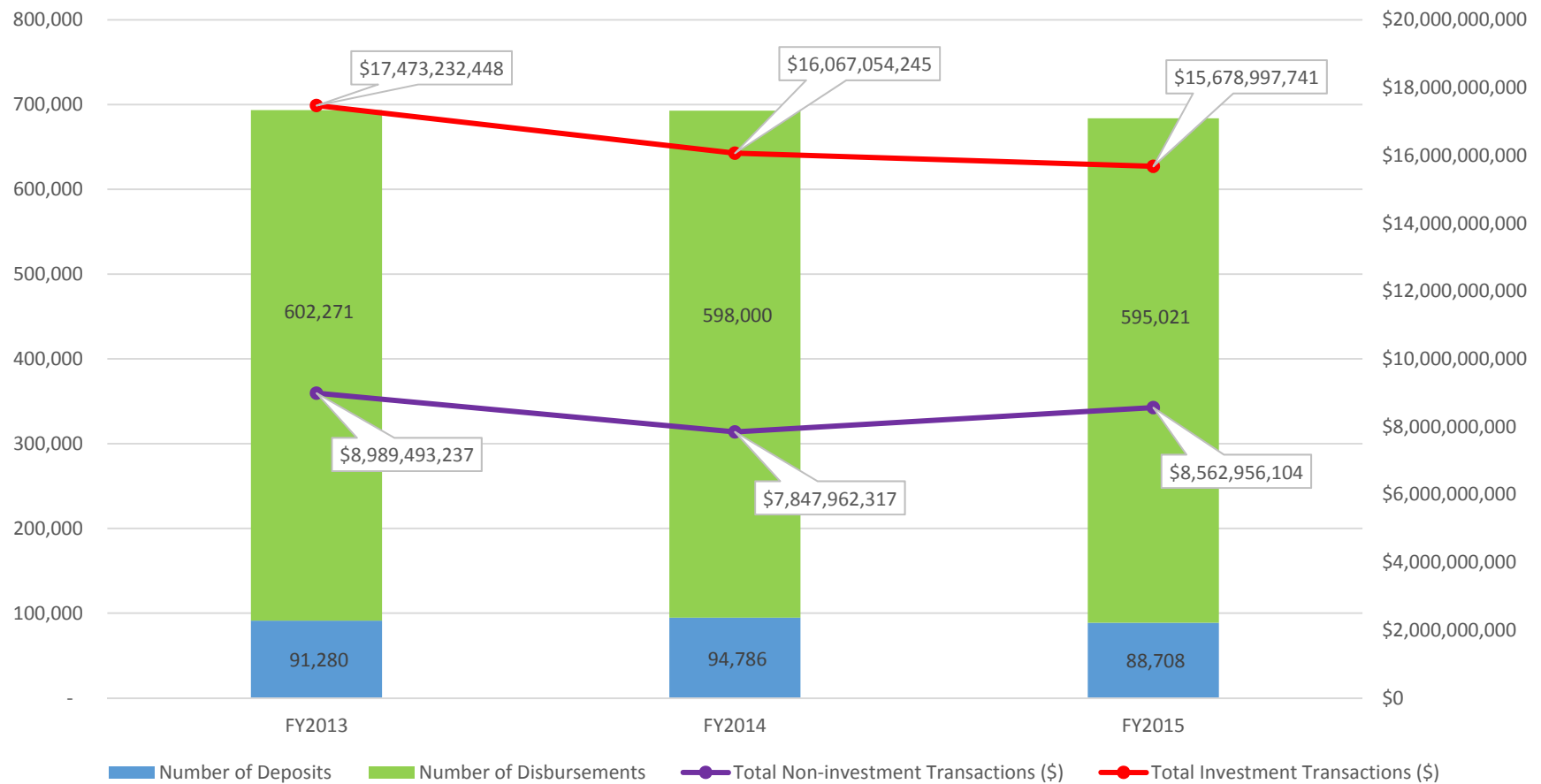
FINANCIAL CONTROL AND GOVERNANCE - Benefits

- Reconciliations can prevent/detect fraudulent activity
- Accounting oversight of investment transactions
- Policy/procedures development, training, and control oversight
- Financial activities are carried out in accordance with the Code of Virginia (Treasurer function) and federal regulatory requirements
- Assurance that debt management services are handled in accordance with bond documents and regulations



METRICS

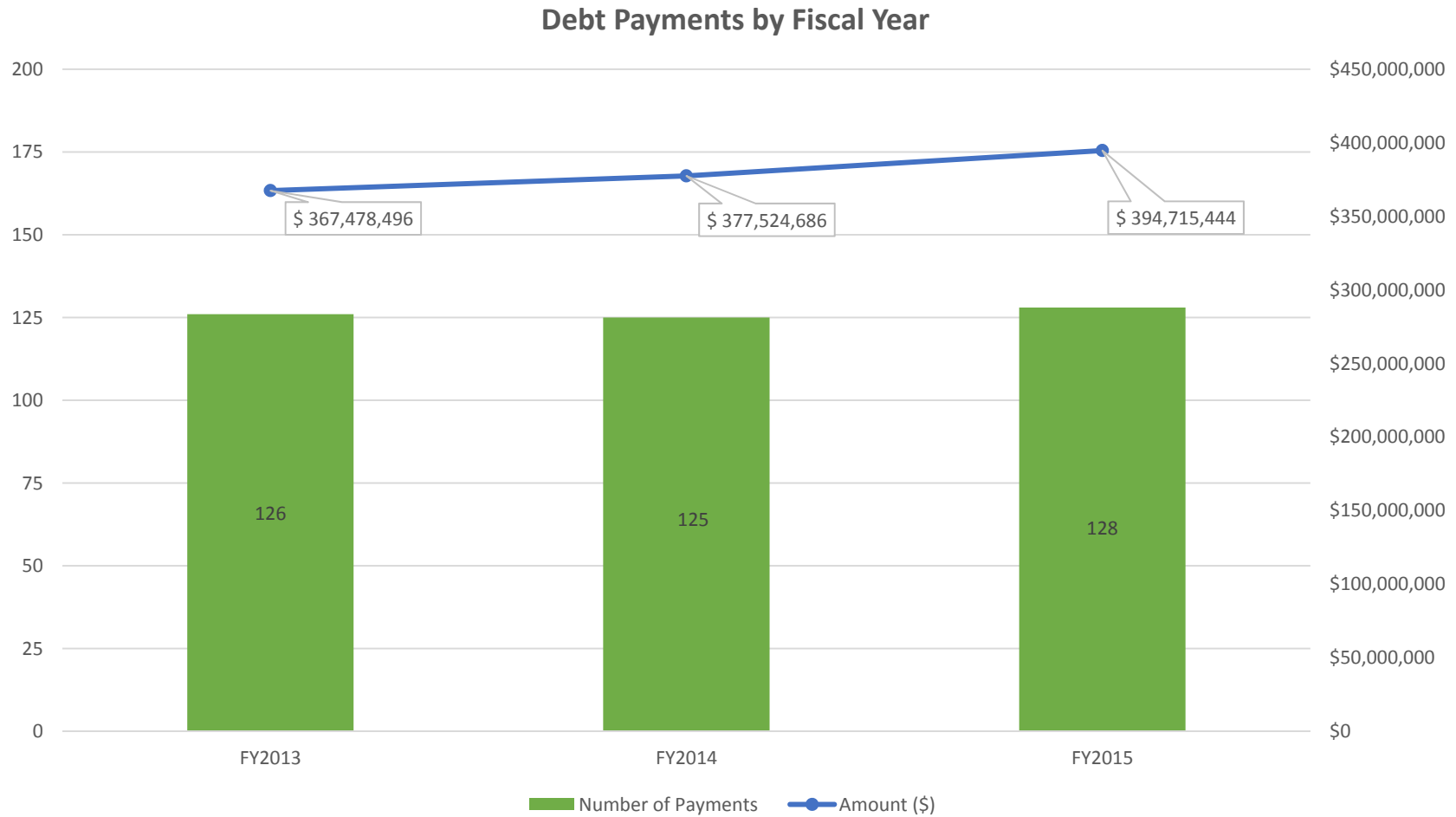
Bank Reconciliation Transactions by Fiscal Year



100% of bank accounts fully reconciled timely (within 30 days)



METRICS

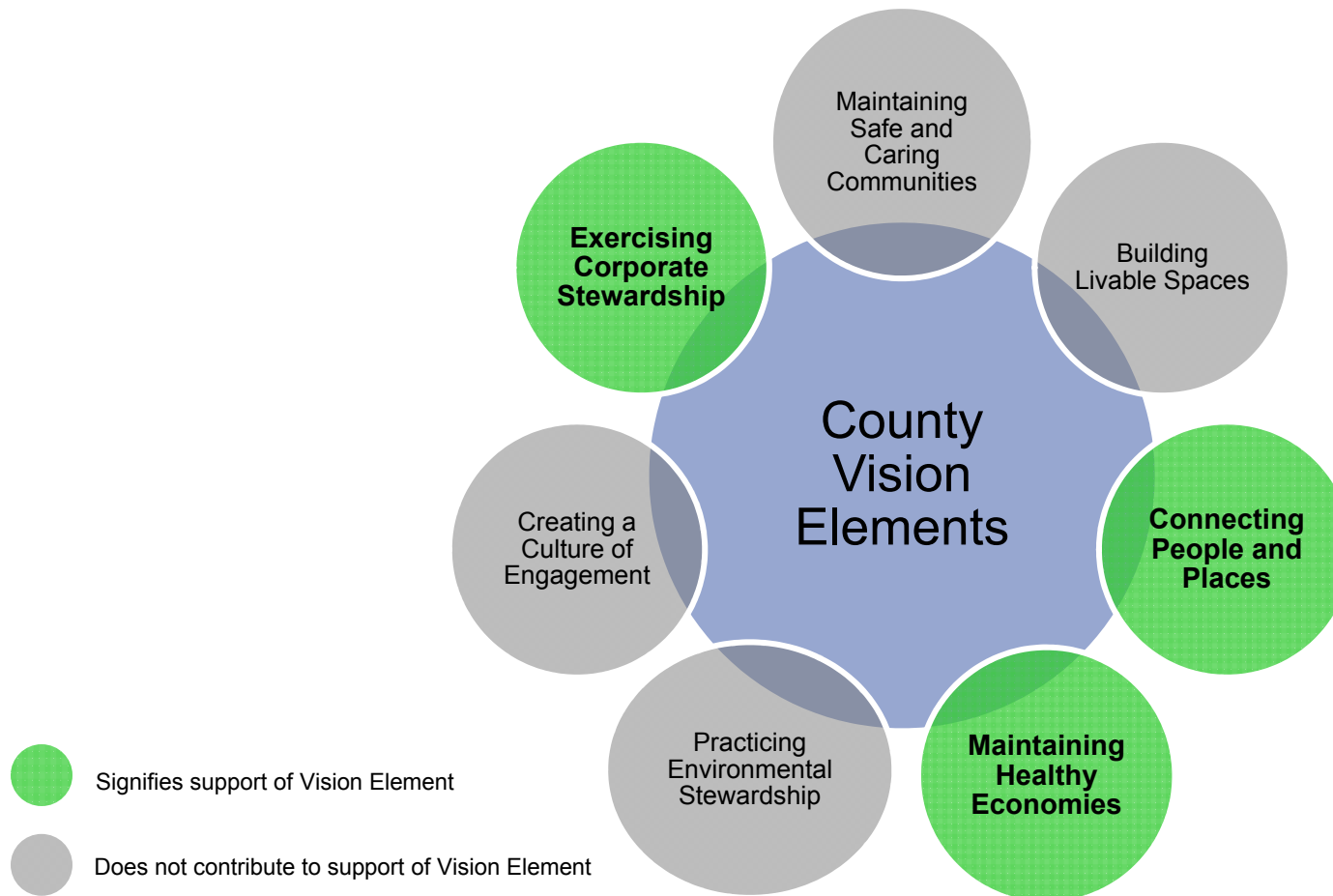


100% of debt payments made ON TIME



COUNTY VISION ELEMENTS

- The purpose of the LOBs process and the validation process performed by staff and management is to array the relevance of all LOBs according to the County's Vision Elements. Our LOBs support:





TEN PRINCIPLES OF SOUND FINANCIAL MANAGEMENT (REV. 4/21/15)

5. Cash Management. The County's cash management policies shall reflect a primary focus of ensuring the safety of public assets while maintaining needed liquidity and achieving a favorable return on investment. These policies have been certified by external professional review as fully conforming to the recognized best practices in the industry. As an essential element of a sound and professional financial management process, the policies and practices of this system shall receive the continued support of all County agencies and component units.

6. Internal Controls. A comprehensive system of financial internal controls shall be maintained in order to protect the County's assets and sustain the integrity of the County's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.



COUNTYWIDE BENEFITS

The personnel and processes in place with the Department of Finance provide:

- Skillful management of County's cash
- Prudent investing with award-recognized investment policy
- Countywide financial oversight
- Award-recognized financial reporting
- Consistently clean audit reports
- Debt service post issuance compliance and continuing disclosure

→ All key factors in helping the County maintain its Triple-A rating





TRENDS CHALLENGES & LOOKING FORWARD

- **Investment Returns**
 - Rates at historical lows not seen for 50 years
 - Investment earnings heavily dependent on strength of economy
 - Maximizing investment returns while maintaining ***Safety First***
- **Banking Services**
 - Required use of credit cards with embedded security chips
 - Same day ACH deposits
- **Accounts Payable Processes**
 - Increase digital disbursements/decrease issuance of paper checks
 - Explore other payment trends – e.g., single account procurement cards; electronic data interchange (EDI)
 - Timely goods receipt by external agencies
- **Policy Development and Outreach**
 - Update Financial Policy Statements and provide training and outreach to County departments



TRENDS CHALLENGES & LOOKING FORWARD

- **Financial Reporting Requirements**
 - Increased demand for disclosure & ease of interpretation of financial records
 - Implementing new Governmental Accounting Standards Board (GASB) accounting and financial standards
 - Increased complexity of debt financing arrangements (e.g., public/private partnerships)
- **Federal Grant Reporting Requirements**
 - Incorporating compliance with sweeping grant regulatory changes not seen since the mid 90s
 - Continuous outreach and compliance oversight is necessary to educate and monitor the programs' adherence to these requirements
- **Debt Management Requirements**
 - Annual Continuing Disclosure Reporting
 - Annual Post Issuance Compliance Reporting



OUR LOGO & MOTTO





DISCUSSION

