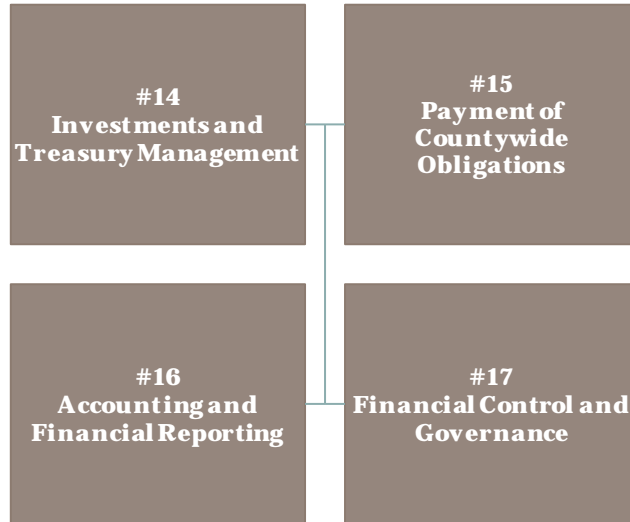


Department of Finance



Department Overview

The mission of the Department of Finance is to protect and maintain the fiscal integrity and financial solvency of the Fairfax County government.

Finance serves the residents of Fairfax County, its vendors and partners, and agencies throughout the County. By employing prudent fiscal management and a strong customer service focus, Finance achieves its mission through ensuring that sound business processes are in place and operating effectively. The department's core functions include:

- Ensuring accurate processing of financial transactions
- Investing County cash resources prudently and effectively
- Coordinating banking services for all County agencies
- Identifying and mitigating risk of loss of County financial resources
- Paying countywide obligations in a timely manner
- Developing, maintaining, and overseeing countywide financial policies and practices
- Accounting for treasurer's funds
- Managing the County's debt service obligations
- Conducting grants management training and oversight
- Ensuring timely and accurate reporting of financial data to the governing bodies, rating agencies, and the public.

The core functions of Finance are largely mandated by state code and/or federal regulations and guidelines; in addition, the department adheres to established accounting standards.

Department of Finance

The department has five Lines of Business:

- Investments and Treasury Management
- Payment of Countywide Obligations
- Accounting and Financial Reporting
- Financial Control and Governance
- Risk Management (non-General Fund) – see LOB #296 “Risk Management”

All of these Lines of Business work together as an integral driver in achieving the County’s vision element ‘Exercising Corporate Stewardship.’ The Risk Management Line of Business (LOB #296) information is reported separately in Fund 60000, County Insurance Fund.

Department Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
FUNDING			
Expenditures:			
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			
Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
Regular	54 / 54	55 / 55	55 / 55
Total Positions	54 / 54	55 / 55	55 / 55

Lines of Business Summary

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

Lines of Business

LOB #14:

INVESTMENTS AND TREASURY MANAGEMENT

Purpose

The Investments and Cash Management Division (ICM) is responsible for the investment of County funds and administration of bank and cash management services for all agencies and Fairfax County Public Schools (FCPS). Both of these programs, under the authority of the Finance Director, are mandated per state code and designated by the Board of Supervisors. LOB #14, Investments and Treasury Management, comprises two programs- investments and treasury.

The investment professionals actively manage various portfolios totaling an average daily balance of \$2.8 billion. The objectives include preservation of capital, timely availability of cash to meet obligations; and a return on investments that meets or exceeds industry benchmarks. Staff serves on and is an important resource for both the Investment Committee and the Bond Committee for Land Development Services.

The Treasury team provides banking services and products to County departments and agencies, FCPS and authorities. It manages the County's credit card acceptance program and coordinates electronic funds receipts and payments as well as financial information.

Description

With a strict adherence to a certified investment policy, the use of permitted investments per County code and oversight by a senior Investment Committee, individual investment vehicles are selected and staff executes purchase transactions daily. The daily cash management and optimal cash position is critical throughout the year. It allows staff to take advantage of investment opportunities and accommodate large debt payments, FCPS and retirement funding. It also efficiently invests large receipts of tax collections at critical points of the year. With the responsibility of investing bond proceeds held by the trustee, staff is able to take advantage of market opportunities and lower the overall cost of borrowing. Subjected to peer review and for the 18th consecutive year, the County received the Association of Public Treasurers Investment Policy Certificate of Excellence Award.

The treasury program provides banking services, fraud prevention products, online payment and collection, remote deposit, armored courier services and credit card acceptance programs to the County, FCPS and authorities. Through the use of the County's primary bank's online portal and direct transmission from County's financial system, staff receives and transmits payment information, fraud control measures and reconciliation services. Alternative means of communications allow staff to invest County funds in those infrequent occasions when the County is closed but banks are open, and provide maximum readiness for emergency events. Program staff meets regularly and performs outreach, education and assistance to the County, agencies and FCPS.

Department of Finance

Benefits

The benefits provided include \$14.6 million in Investment Interest revenue in FY 2015, of which \$10.7 million was credited to the General Fund. The investment program provides the capability to project the inflow of revenues, estimate the amounts needed to meet monetary obligations, determine the amounts of cash available for investment; and determine the period of time funds can be invested without risk of lost liquidity. Other non-General Fund units that benefit from a professionally managed program include FCPS, Housing and Wastewater Management. This skillful management of County's cash is a critical contributor to maintaining the County's AAA bond rating.

The use of the latest technology and treasury products available, obtained at competitive pricing, provides efficiencies, fraud controls, and overall lower costs of doing business. These products include lockbox services, remote deposit, credit card acceptance program, and online payment collection.

Mandates

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

Trends and Challenges

Since 2008, rates on investments allowed by the Code of Virginia have been at lows not seen for 50 years. During the past year, rates have risen slightly but future increases in investment earnings rates are heavily dependent on the continued strength of the economy and the Federal Reserve Bank increasing the Federal Funds Rate.

In the Treasury arena, the use of the latest technologies allows the County to offer additional services such as remote deposit and online payment collection. Digital disbursements, which transmit payment information via text or e-mail, is an upcoming product that offers additional payment capabilities to the County's sophisticated citizenry. In the credit card industry, the use of newly mandated cards with embedded security chips will be challenging to the County as all of the point of sale terminals will have to be replaced to comply with new fraud protection standards. Continuous collaboration with the business partner departments will be ongoing as Finance strives to enhance payment methodologies and keep more investable cash on hand as long as possible.

Department of Finance

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #14: Investments and Treasury Management			
FUNDING			
<u>Expenditures:</u>			
Compensation	\$329,882	\$279,183	\$374,769
Operating Expenses	23,043	6,282	8,244
Total Expenditures	\$352,925	\$285,465	\$383,013
General Fund Revenue	\$0	\$0	\$0
Net Cost/(Savings) to General Fund	\$352,925	\$285,465	\$383,013
POSITIONS			
Authorized Positions/Full-Time Equivalents (FTEs)			
<u>Positions:</u>			
Regular	4 / 4	4 / 4	4 / 4
Total Positions	4 / 4	4 / 4	4 / 4

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Percentage that Liquidity Portfolio yield exceeds its LGIP benchmark	58%	55%	54%	50%	50%

The Department of the Treasury of the Commonwealth of Virginia manages the Local Government Investment Pool (LGIP), which is used by various governmental entities on a completely voluntary basis, and averages \$3 billion. The LGIP enables these governmental entities to maximize the return on investment, adhere to state code permitted investments, and realize the economies of large scale investing and professional funds management.

The County's Liquidity Portfolio averages \$1 billion dollars, is managed by this LOB and invests in the same maturities and investment securities as the LGIP. This Pool is used as a benchmark for the County's Liquidity Portfolio.

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.

Department of Finance

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.

Department of Finance

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #15: Payment of Countywide Obligations			
FUNDING			
Expenditures:			
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			
Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
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.

Department of Finance

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.

Department of Finance

LOB #16

ACCOUNTING AND FINANCIAL REPORTING

Purpose

LOB #16, Accounting and Financial Reporting, ensures that the County has appropriate accounting processes in place throughout the departments, accounting records are accurate, and entries are timely and proper. The LOB also ensures that consistent and reliable financial information is produced as mandated by state statutes and in line with acceptable government accounting practices. This LOB interprets and implements new accounting pronouncements from the Governmental Accounting Standards Board (GASB) that result in substantive information for County leadership, residents, other government agencies and financial/investor institutions. Through this program's work of incorporating strict adherence to Generally Accepted Accounting Principles (GAAP) as defined by GASB, the Auditor of Public Accounts (APA), along with federal agency mandates (e.g., Single Audit), the County has maintained an unblemished record of receiving unmodified "clean" opinions from the County's independent auditors.

Description

Through this LOB, Finance maintains the financial accounts used throughout the County. A team of public finance accountants assists County agencies with required financial reporting and provide technical guidance on governmental accounting standards and financial training. This program supports the individual financial needs of agencies while applying uniform standards to ensure the financial data is comparable from year to year, agency to agency, and jurisdiction to jurisdiction. Staff accountants support and monitor over 165 funds and agency accounts as well as account for \$4 billion in capital assets.

In compliance with state law and to meet the needs of taxpayers, investors, and elected officials, the County produces the Comprehensive Annual Financial Report (CAFR), the APA required Audit Procedures and Transmittal Form, the Integrated Sewer System (ISS) CAFR, and the financial statements for the Economic Development Authority (EDA). Additional and separate annual financial reports are also developed for the following entities: Fairfax County Rehabilitation and Housing Authority (FCHRA), Fairfax County Park Authority (FCPA), Retirement Administration Agency (RAA), Fairfax County Public Schools (FCPS), and the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC).

Through this program, coordination of the annual independent audit is executed. The conduct of the audit is managed through the Audit Steering Committee, comprising managers from the County and its component units.

Benefits

The Department of Finance has been highly successful in meeting the mandates and financial requirements associated with this program. The County's financial reports continue to receive wide acceptance from rating agencies. Additionally, annual audits of the County's financial reports have consistently received unmodified "clean" opinions from its independent auditors. Subjected to peer review and for the 38th consecutive year, the County earned a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the US and Canada (GFOA). These achievements highlight the strong commitment Finance has to the County's vision element of Exercising Corporate Stewardship, the County's *Ten Principles of Sound Financial Management*, and the County's "triple A" bond rating.

Department of Finance

Mandates

The LOB is fully mandated by Virginia Code § 15.2-2510 Comparative report of local government revenues and expenditures, Virginia Code § 15.2-2511 Audit of local government records, etc.; Auditor of Public Accounts, Virginia Code § 2.2-615 to 619 Implementation of Federal Mandates Act, by PL 104-156 Single Audit Act Amendments of 1996, and by the 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

Financial accountants within the Department of Finance oversee decentralized accounting functions spread across the County's agencies and authorities. To ensure uniformity of financial management and reporting, a variety of internal control measures are designed, applied, and tested to assure the integrity of data and the protection of County assets.

While consistency and comparability of information from year to year remain vital in financial reporting, there has been an accelerated demand for greater accountability, disclosure and ease of interpretation of financial records. As the County has grown in size and complexity, so too have governmental accounting and audit requirements. GASB is recognized by governments as the official source of generally accepted accounting principles for state and local governments. GASB sets the accounting and financial standards through the issuance of pronouncements referred to as Statements of Governmental Accounting Standards. In the last three years alone (2012-2015), GASB issued 12 new statements, with many having significant impact on the County's financial reporting requirements. In addition, recent changes in federal grant reporting guidance issued by the federal government have also contributed to the increased scope and complexity of the County's annual audit.

These requirements present an ongoing challenge for the Department of Finance to keep accounting staff fully trained in their profession and ensure the decentralized activities of the County's departments and component units stay in compliance with these complex and changing requirements.

Department of Finance

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #16: Accounting and Financial Reporting			
FUNDING			
<u>Expenditures:</u>			
Compensation	\$868,493	\$929,557	\$854,362
Operating Expenses	2,682,384	2,955,744	3,592,277
Work Performed for Others	(489,732)	(724,480)	(751,697)
Total Expenditures	\$3,061,145	\$3,160,821	\$3,694,942
General Fund Revenue	\$0	\$0	\$0
Net Cost/(Savings) to General Fund	\$3,061,145	\$3,160,821	\$3,694,942
POSITIONS			
Authorized Positions/Full-Time Equivalents (FTEs)			
<u>Positions:</u>			
Regular	11 / 11	11 / 11	11 / 11
Total Positions	11 / 11	11 / 11	11 / 11

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Unmodified audit opinion	Yes	Yes	Yes	Yes	Yes
Percent of mandated requirements satisfied for all audited financial reports issued by the Department of Finance	100%	100%	100%	100%	100%

The metrics for the Accounting and Financial Reporting LOB indicate that the Department of Finance is diligent in the financial analysis of the County and consistently exceeds the minimum requirements of standard accounting principles to prepare annual financial reports that evidence the spirit of transparency and full disclosure.

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.

Department of Finance

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

Department of Finance

- § 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.

Department of Finance

Resources

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

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.