OFFICE OF FINANCIAL & PROGRAM AUDIT

September 2014

Quarterly Report

FAIRFAX COUNTY BOARD OF SUPERVISORS

AUDITOR OF THE BOARD

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Table of Contents

Office of Financial & Program Audit

QUARTERLY REPORT

EXECUTIVE SUMMARY

Succession Planning

Succession planning is the process of identifying positions that are critical to an organization's success and developing strategies to minimize the risks that may occur when key employees leave the organization. More than half (54%) of the County's current senior managers will be eligible to retire in the next two years. In six years, the number will increase to 69%. In 10 years, nearly all (83%) of the County's current senior managers will be eligible to retire. We recommend that the Department of Human Resources continue efforts to work with county departments, agencies, and authorities to develop a more coordinated and structured succession planning strategy, with a specific focus on succession planning for the County's senior managers. The Department of Human Resources agreed with our recommendation.

Economic Development Authority

The EDA's mission is "to create demand for the new commercial construction that expands the tax base and contributes to the quality of life and overall prosperity of the County." The Fairfax County Board of Supervisors appoints the seven members of the EDA Commission and approves an annual appropriation from the County's General Fund to cover the EDA's personnel and operating costs. General Fund expenditures related to the EDA totaled **$8.5 million** in fiscal year 2014. The EDA's performance measures are documented and reported in an annual "Balanced Scorecard." The purpose of the Balanced Scorecard is to track the EDA's progress toward meeting the annual performance goals established by the EDA Commission. The performance measures reported in the Balanced Scorecard are tied to the EDA's "pay for performance" incentive program. During the September 30 meeting, the Audit Committee approved a motion to recommend that the EDA Commission consider adding performance measures that are more closely aligned with the EDA's mission. The EDA's President/CEO indicated in his response that the EDA Commission will consider ways the suggested metrics may be effectively folded into the performance measures.

Central Warehouse Status Review

At the request of the Audit Committee, we conducted a six-month status review of the recommendations from our March 2014 report on security weaknesses at the Central Warehouse. As of August 2014, the Fairfax County Public Schools had fully implemented their recommendations, the Fairfax County Department of Purchasing and Supply Management had partially and fully implemented their recommendations, and the Fairfax County Facilities Management Department (FMD) had not implemented their recommendations. FMD estimated that the cost of addressing the security weaknesses identified by its Security Office would total **$157,000**. The total cost estimate includes **$1,356** to install a doorbell at the front entrance to alert staff if someone enters, **$7,725** to store all high value and high theft risk items in a secure area, and **$30,125** to install security cameras that cover all four sides and entrances into the Central Warehouse. County management indicated in their formal response to our review that, "*staff does not recommend implementing the security recommendations at this time.*" During the September 30 meeting, the Audit Committee reaffirmed our recommendation that FMD should take steps to address longstanding security weaknesses at the Central Warehouse.

Dulles Metrorail Project Status

Total Phase 1 expenditures (including finance costs incurred by MWAA) were $2.893 billion as of July 2014, which represents 87% of the total $3.344 billion budget. As of July 2014, construction for Phase 1 was 100% complete. Although Phase 1 of the Project opened to the public on July 26, 2014, the Phase 1 prime contractor (Dulles Transit Partners) continued to work on a “punch list” of required tasks that were not completed during the primary construction phase of the Project. Phase 1 activities are continuing past the opening date (July 26, 2014) and there are a number of change orders that are pending evaluation. Final accounting for Phase 1 is expected to occur in January 2015. In September 2014, MWAA announced that it was making changes to the design of Phase 2 in order to comply with new Virginia stormwater regulations. The new stormwater regulations may impact the cost and schedule for Phase 2 and MWAA has not released cost of schedule impacts to date. MWAA and the Phase 2 prime contractor (Capital Rail Constructors) continue to negotiate this matter.

STUDY BRIEFINGS

SUCCESSION PLANNING – INTERIM REPORT

Overview

Succession planning is the process of identifying positions that are critical to an organization's success and developing strategies to minimize the risks that may occur when key employees leave the organization. In the past, the County has taken a decentralized approach to succession planning and has delegated much of the responsibility to the individual departments, agencies, and authorities. In August 2014, the County Executive announced a more coordinated and structured approach to succession planning and leadership development. The County's Department of Human Resources will begin partnering with the individual departments, agencies, and authorities to assist with their succession planning efforts.

Since the County is in the process of developing a more coordinated and structured succession planning strategy, our interim report provides an analysis of the current age distribution of the merit employee workforce and a 10-year forecast of retirement eligibility rates.

Scope and Methodology

The purpose of our interim review was to provide an age distribution analysis and 10-year forecast of retirement eligibility rates for the County's active merit employee workforce. The scope of our review was limited to merit employees who were active as of August 19, 2014. For reporting purposes, the County considers "merit" employees to be full and part-time individuals in the following employee groups:

A – Elected
B – Appointed
C – General Merit

Employees in the "Temporary" (Employee Group G) and "Non-Merit Benefit Eligible" (Employee Group E) categories were not included in our analysis. The County typically excludes the Economic Development Authority (EDA) from any reported count of merit employees. The EDA's salaries and fringe benefits are funded by the County's General Fund. However, the EDA does not participate in the County's succession planning efforts.

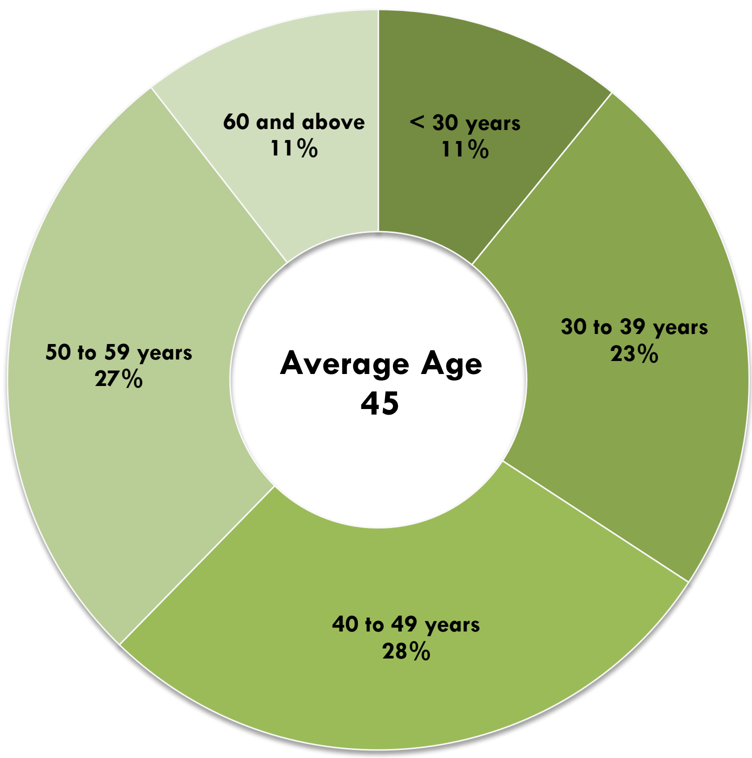
To determine the age distribution and estimated retirement eligibility rates for active merit employees, we obtained from the Department of Human Resources a point-in-time download of employee data as of August 19, 2014. We then analyzed and summarized the active merit employee data by department category, age, personnel subarea (e.g. Senior Manager), and estimated retirement eligibility date (with sick leave). The estimated retirement eligibility date (with sick leave) represents the earliest date that an employee is eligible to retire. The retirement eligibility rate represents the number of active merit employees that had retirement eligibility dates within a specified date range, expressed as a percentage of the total active merit employee count at a point-in-time. Approximately three percent of the 12,199 active merit employee records in the download did not have a date listed in the estimated retirement eligibility date (with sick leave) field.

We met with managers and staff from the Department of Human Resources and reviewed the November 2013 and August 2014 memos from the County Executive regarding the County's current and future succession planning efforts. We also reviewed studies and reports related to succession planning, including the Pew Center's report on Recruiting and Retaining Public Sector Workers, dated September 15, 2014, and the Montgomery County Office of Legislative Oversight report on Succession Management in Montgomery County Public Schools and County Government, dated September 15, 2009.

County Merit Employee Age Distribution

As of August 2014, there were 12,199 active merit employees in the County's workforce. The average age of the County's active merit employees is 45. As shown in the chart below, 27% of active merit employees are between 50 and 59 and 11% are 60 years and above.

Fairfax County Active Merit Employees
Age Distribution as of August 2014



< 30 years	1,325	11%
30 to 39 years	2,849	23%
40 to 49 years	3,426	28%
50 to 59 years	3,318	27%
60 and above	1,281	11%
Total Merit Employees	**12,199**	**100%**

County Merit Employee Retirement Rates

The table below shows the distribution of the County's 12,199 total active merit employees in seven broad department categories: (1) Public Safety, (2) Health and Human Services, (3) Legislative/Executive/Central Services, (4) Public Works, (5) Parks and Libraries, (6) Community Development, (7) Judicial Administration. The table also shows the percentage of current active merit employees who will be eligible to retire two years from now (in the year 2016), six years from now (in the year 2020), and 10 years from now (in the year 2024).

In two years, 20% of the County's current active merit employee workforce will be eligible to retire. In six years, the number will increase to 35%. In 10 years, nearly half (49%) of the County's current active merit employee workforce will be eligible to retire.

Fairfax County Active Merit Employees
Estimated Retirement Eligibility Rates

Department Category	Active Merit Employees	Active Merit Employees Eligible to Retire		
		2016 (in 2 years)	2020 (in 6 years)	2024 (in 10 years)
Public Safety	4,375	18%	35%	50%
Health and Human Services	3,596	16%	31%	44%
Legislative/Executive/Central Services	1,342	27%	43%	57%
Public Works	1,074	22%	37%	51%
Parks and Libraries	896	28%	46%	60%
Community Development	683	28%	44%	58%
Judicial Administration	233	12%	24%	32%
Total Active Merit Employees	**12,199**	**20%**	**35%**	**49%**

Source: *Analysis of active merit employee data as of August 19, 2014.*

Among the County's seven broad department categories, Parks and Libraries had the highest estimated retirement eligibility rates. In the next two years, 28% of current merit employees in the Parks and Libraries category will be eligible to retire. In the next six years, the number will increase to 46%. In the next 10 years, 60% of current merit employees in Parks and Libraries will be eligible to retire.

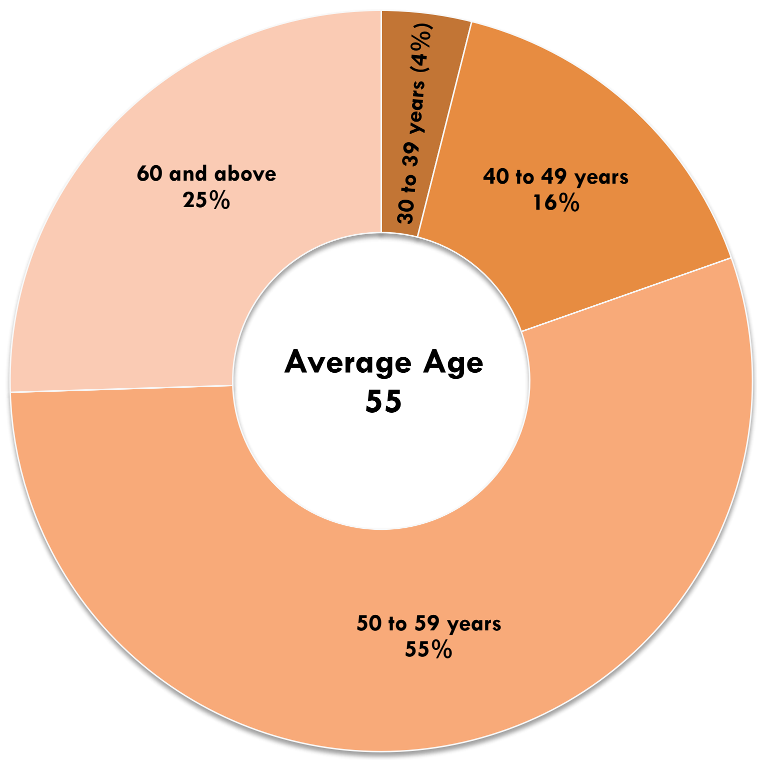
The Legislative/Executive/Central Services department category includes many of the County's core functions.[1] In the next two years, 27% of current merit employees in this category will be eligible to retire. In the next six years, the number will increase to 43%. In the next 10 years, more than half (57%) of current merit employees in the Legislative/Executive/Central Services department category will be eligible to retire.

[1] The Legislative/Executive/Central Services department category includes the Board of Supervisors, Office of the County Executive, Office of the County Attorney, Department of Finance, Department of Management and Budget, Department of Human Resources, Department of Information Technology, Tax Administration, Purchasing and Supply Management, Vehicle Services, and other central service functions.

Senior Management Age Distribution and Retirement Eligibility Rates
Best practices in succession planning focus on identifying pending retirements that will have the greatest impact on the organization (such as the pending retirements of senior managers), rather than assuming that all pending retirements have equal significance.[2]

As of August 2014, there were 51 designated "senior managers" in the County's active merit employee workforce. Senior managers include the County Executive, deputy county executives, directors, and other high-level officials. As shown in the chart below, the average age of the County's senior managers is 55, nearly 10 years older than the average age of the total active merit employee workforce. More than half (55%) of the County's senior managers are between 50 and 59, and 25% are 60 years and above.

Fairfax County Senior Managers
Age Distribution as of August 2014

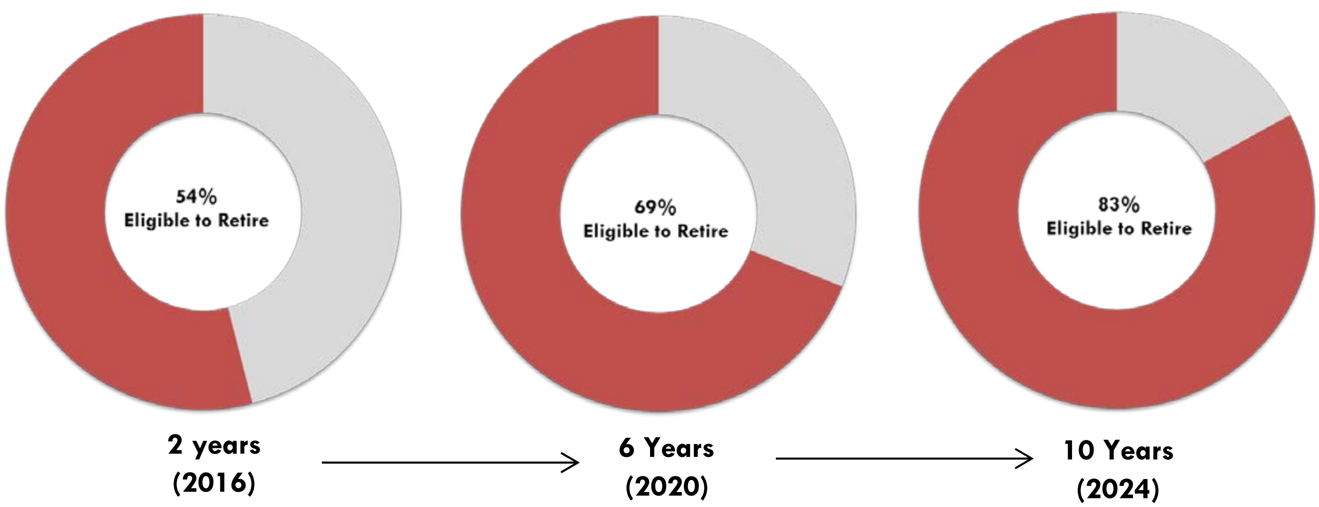


30 to 39 years	2	4%
40 to 49 years	8	16%
50 to 59 years	28	55%
60 and above	13	25%
Total Senior Managers	**51**	**100%**

[2] *Succession Management in Montgomery County Public Schools and County Government*. Montgomery County Office of Legislative Oversight, Report Number 2010-2. September 15, 2009.

The three charts below show the progression of retirement eligibility rates for the County's senior managers in the next two years (by the year 2016), the next six years (by the year 2020), and the next 10 years (by the year 2024).

Fairfax County Senior Managers
Retirement Eligibility Rate Progression



More than half (54%) of the County's current senior managers will be eligible to retire in the next two years. In six years, the number will increase to 69%. In 10 years, nearly all (83%) of the County's current senior managers will be eligible to retire. The retirement eligibility rates for senior managers are comparatively higher than the retirement eligibility rates for the County's total merit employee workforce (20% in two years, 35% in six years, and 49% in 10 years).

Recommendation

- The Department of Human Resources should continue efforts to work with county departments, agencies, and authorities to develop a more coordinated and structured succession planning strategy, with a specific focus on succession planning for the County's senior managers.

ECONOMIC DEVELOPMENT AUTHORITY – PERFORMANCE MEASURES

Overview

The Fairfax County Economic Development Authority (EDA) is an independent authority created by an Act of the Virginia General Assembly dated 1964, as amended. The Fairfax County Board of Supervisors appoints the seven members of the EDA Commission. The Board of Supervisors also approves an annual appropriation from the County's General Fund to cover the EDA's personnel and operating costs.

The EDA's stated mission is "to create demand for the new commercial construction that expands the tax base and contributes to the quality of life and overall prosperity of the County." The EDA provides direct assistance to businesses – including small and diversely-owned businesses – that intend to establish their operations in the County and provides assistance to existing businesses that plan to expand their operations in the County. According to the EDA's fiscal year 2014 financial report, the current focus of all EDA programs is to market office space and reduce the office vacancy rate.

The EDA's main office is located in Tysons Corner. In addition, the EDA has seven external offices (two national offices and five international offices). As of fiscal year 2014, there were 35 authorized staff positions. The table below provides a summary of General Fund expenditures for fiscal years 2010 through 2014.

Fairfax County Economic Development Authority
General Fund Expenditures
Fiscal Years 2010 - 2014

	2010	2011	2012	2013	2014
Salaries and Fringe Benefits	3,526,693	3,618,667	3,997,867	4,438,458	4,784,077
Advertising	1,834,156	1,340,195	1,265,872	1,332,877	727,504
Travel	362,277	334,682	300,159	288,623	309,112
Rent (Leased Office Space)	168,375	611,687	630,788	650,194	665,037
Contributions (Pass-through)	300,750	300,750	300,750	275,750	275,750
Printing	32,212	36,269	51,181	50,036	33,093
Professional and Legal Services	935,459	970,428	998,551	1,004,880	1,392,199
Other (Administrative)	186,108	235,982	279,398	269,214	331,048
Total General Fund Expenditures	**$ 7,346,030**	**$ 7,448,660**	**$ 7,824,566**	**$ 8,310,032**	**$ 8,517,820**

Source: Fairfax County Economic Development Authority annual financial statements (Statement of Revenues, Expenditures, and Changes and Fund Balance) for fiscal years 2010 through 2014.

Note: The "Contributions" expenditure category represents monies that are provided by the County and passed-through the EDA to the Community Business Partnership. The "Rent" expenditure category represents annual lease payments for the EDA's main office in Tysons Corner. The difference in the Rent expenditure category from 2010 to 2011 is the result of cost savings achieved from the renegotiation of the EDA's lease in 2009 (part of the cost savings were realized in 2010).

The Board of Supervisors has established a practice of not providing traditional financial incentives (such as tax credits and locally funded grants) to attract businesses to the County. Instead, the Board of Supervisors and the EDA rely primarily on the inherent attributes and reputation of the County as a preferred place to do business.

The EDA offers business incentive grants under the Commonwealth of Virginia Governor's Opportunity Fund (GOF) program. The EDA also issues general revenue bonds that are used to finance public facilities and transportation projects and provides low interest loans that are funded through a special category of revenue bonds known as Industrial Revenue Bonds (IRBs). Principal and interest on the IRBs are paid exclusively by the entities that receive the loans. The terms of the IRBs stipulate that neither the EDA nor the County guarantee the repayment of principal and interest to the bondholders.

Scope and Methodology

The purpose of our study was to provide general information on the EDA's performance measures. The scope of our study included the performance measures reported in the EDA's Fiscal Year 2014 "Balanced Scorecard" and specific performance metrics reported for the EDA's five international offices: (1) London, United Kingdom (2) Seoul, South Korea (3) Tel Aviv, Israel (4) Bangalore, India and (5) Munich, Germany.

For financial reporting purposes, the EDA is considered a component unit of the County.[3] The County contracts with an accounting firm (KPMG) to conduct an annual financial audit of the EDA's financial statements and related disclosures. KPMG has consistently issued unqualified (clean) opinions on the EDA's financial statements and related disclosures. Therefore, we relied on the information reported in the EDA's audited financial statements for our study.

We met with the EDA President/Chief Executive Officer and senior managers. We reviewed the EDA's Fiscal Year 2014 Balanced Scorecard and a detailed presentation prepared by staff for the EDA Commission on performance metrics related to the international offices. In addition, we reviewed the limited audit reports prepared by the EDA's management's consultant (Burton-Fuller Management) and reviewed the contracts and selected activity reports for the international offices. We also reviewed budget documents and websites for the other local jurisdictions' economic development organizations: (Loudoun County, Prince William County, Arlington County, Montgomery County, and Prince George's County).

[3] Government Accounting Standards Board (GASB) Statement 61 defines "component unit" as a legally separate organization for which the elected officials [Board of Supervisors] of the primary government [Fairfax County] are financially accountable.

Performance Measures

The EDA's performance measures are documented and reported in an annual "Balanced Scorecard." The purpose of the Balanced Scorecard is to track the EDA's progress toward meeting the annual performance goals established by the EDA Commission. The specific performance measures and goals in the Balanced Scorecard are based on the EDA Commission's assessment of the environment in which the EDA will operate during the upcoming year.

For fiscal year 2014, the EDA Commission established goals for 16 performance measures. The following table shows the 16 performance measures reported in the EDA's Fiscal Year 2014 Balanced Scorecard. Column (a) represents the actual reported results for the prior fiscal year (fiscal year 2013). Column (b) represents the fiscal year 2014 performance goals established by the EDA Commission. Column (c) represents the EDA's actual reported results for fiscal year 2014.

Fairfax County Economic Development Authority
Performance Measures
Fiscal Year 2014

	Strategic Measure	Fiscal Year 2013 Actuals (a)	Fiscal Year 2014 Goals (b)	Fiscal Year 2014 Actuals (c)
1	**Job Creation:**			
	National Division Jobs	6,818	4,300 - 5,100	5,347
	International Division Jobs	1,236	550 - 650	690
	Business Diversity Division Jobs	971	650 - 750	750
	Total Job Creation	**9,025**	**5,500 - 6,500**	**6,787**
2	**Retention:**			
	Conversion to prospects	313	200 - 220	245
3	**Communications:**			
	Articles/EDA Message	1,060	800 - 900	968
4	**Community Outreach**	60	50	49
5	**Venture Capital Invested:**			
	Fairfax County Share of U.S. Deals	0.69%	0.75%	1.96%
	Fairfax County Share of U.S. Dollars Invested	0.39%	0.60%	1.04%
6	**Events**	44	35	27
7	**Ad Impressions**	420.3 m	410.0 m	588.0 m
8	**SCORE Appointments**	291	250	234
9	**E-bird Subscribers**	3,311	3,700	3,856
10	**"Leader" Recipients**	5,582	5,700	5,931
11	**"Business Ventures" Recipients**	4,135	4,300	4,458
12	**Twitter Followers**	2,097	2,700	2,725
13	**Web Page Hits**	383,775	375,000	965,506
14	**Real Estate Report Recipients**	1,274	1,400	1,444
15	**Minority-Owned Companies**	5,663	5,000 - 5,200	5,986
16	**Foreign-Owned Businesses**	411	395 - 410	414

Source: Economic Development Authority Fiscal Year 2014 Balanced Scorecard (Year End).

The EDA's top three performance measures are: 1) Job Creation, 2) Retention, and 3) Communications.

1) **Job Creation –** This performance measure reflects the number of jobs that announced by the EDA's marketing divisions during the fiscal year. According to the EDA's President, these do not represent all of the jobs that came to the County, but only those in which the EDA had a significant role. Job creation is a critical performance measure because jobs fill office space and create a demand for new construction that contributes to the real estate tax base.

2) **Retention –** All EDA marketing managers are required to meet with two County businesses in their place of business every week. The purpose of the meetings is to identify the needs of the business community and those who may be looking for new office space and need other services. According the EDA's President, this performance measure is designed to reflect the meetings that result in economic development "prospects." The prospects must have an active real estate requirement in hand.

3) **Communications –** This performance measure reflects the number of print, electronic, radio, and television shows or publications in which the EDA promotes the County as a place to do business. If the EDA initiated the show or publication, three points are assigned. Five points are assigned if the publication or show is significant (e.g. national in scope). Eight points are assigned if the placement of the show or publication is in one of the EDA's critical markets.

The EDA contracts with a management consulting firm (Burton-Fuller Management) to perform an annual limited audit of the reported results for the Job Creation, Retention, and Communications performance measures. For the fiscal year 2014 "Jobs Creation" performance measure, the consultant selected a sample of client marketing files and compared the number of reported new jobs to the announcement summary reports for the EDA's National Division, International Division, and Business Diversity Division. For the fiscal year 2014 "Retention" and "Communications" performance measures, the consultant verified the number of prospect announcements and selected a sample of articles to ensure that a reference was made to the EDA or reflected positively on new or expanding business development in the County. The consultant concluded that the fiscal year 2014 reported results for the three selected performance measures appeared to be accurate.

Pay for Performance Program

The performance measures reported in the Balanced Scorecard are tied to the EDA's "pay for performance" incentive program. Under the program, EDA employees place 10% of their annual salary "at risk" at the beginning of the fiscal year.[4] At the end of the fiscal year, the EDA Commission reviews the final numbers reported in the Balanced Scorecard and authorizes the payment of performance bonuses. Each EDA employee is eligible to receive a pro-rated amount up to the 10% that was put "at risk" and an additional pro-rated bonus based on the final numbers reported in the Balanced Scorecard. For fiscal year 2014, EDA compensation adjustments funded by the County were paid out in the amount of $530,160, which represents the 10% return of the "at risk" portion of the employees' salaries and the 10% performance incentive. The specific attributes of the EDA's pay for performance program are unique within the County.

[4] The President/CEO's pay for performance incentive is based on a range of 2% – 15% of his salary, as approved by the EDA Commission.

External Offices

The EDA has seven external offices - two national offices (Boston, Massachusetts and Los Angeles, California) and five international offices. The external offices are funded through the EDA's annual General Fund appropriation. For fiscal year 2014, the costs associated with the EDA's external offices totaled $625,722.

Fairfax County Economic Development Authority
External Offices Expenditures
Fiscal Year 2014

External Offices - National		
Boston		72,000
Los Angeles		140,339
External Offices - International		
London		130,369
Seoul		95,743
Tel Aviv		52,890
Bangalore		55,809
Munich		78,573
Total External Offices	**$**	**625,722**

The EDA tracks certain performance metrics for its international offices, which are included in the Balanced Scorecard. The following table shows the reported number of jobs created for the County that were attributed to the international offices for fiscal years 2010 through 2014.

Economic Development Authority
International External Offices
Jobs Created Fiscal Years 2010 - 2014

	2010	2011	2012	2013	2014
London (United Kingdom)	214	15	15	87	41
Munich (Cont. Europe)	39	159	436	713	336
Tel Aviv (Israel)	33	66	29	57	46
Bangalore (India)	37	108	131	85	96
Seoul (Korea/Asia)	16	90	43	139	135
Other	-	20	551	155	36
Total Jobs Created	**339**	**458**	**1,205**	**1,236**	**690**

Source: EDA staff presentation prepared for the EDA Commission.

Recommendation

During the September 30 meeting, the Audit Committee approved a motion to make the following recommendation:

- The EDA Commission should consider establishing additional performance measures that are more closely aligned with the EDA's mission. Specifically, the EDA Commission should consider establishing performance measures related to the office vacancy rate and the amount of tax revenues that are generated from the EDA's programs and initiatives.

CENTRAL WAREHOUSE STATUS REVIEW

Overview

At the request of the Audit Committee, we conducted a six-month status review of the recommendations from our March 2014 report on security weaknesses at the Central Warehouse.[5] The table below shows the status of the recommendations directed to the Fairfax County Public Schools (FCPS), the Fairfax County Department of Purchasing and Supply Management (DPSM), and the Fairfax County Facilities Management Department (FMD) as of August 2014.

Central Warehouse Internal Controls Review (March 2014)
Status of Recommendations

Fairfax County Public Schools (FCPS) Office of Procurement Services	Status as of August 2014
Continue to work with the FCPS Office of Safety and Security to address security weaknesses at the Central Warehouse and implement related recommendations, as appropriate.	Implemented
Continue efforts to develop formal (documented and approved) internal control procedures for FCPS' Central Warehouse operations that address the five basic types of control activities: (1) Separation of Duties, (2) System of Authorizations, (3) Physical Safeguards, (4) Independent Checks, and (5) Documentation.	Implemented
Fairfax County Department of Purchasing and Supply Management (DPSM)	**Status as of August 2014**
Implement appropriate safeguards and controls for high theft risk items, such as surplus computer equipment, cell phones (Blackberries), and ink cartridges.	Partially Implemented
Continue efforts to research an alternate tracking system to replace the current process of tracking property and consignment stock on Excel spreadsheets, which do not have adequate user access controls or audit trails.	Partially Implemented
Develop formal (documented and approved) internal control procedures for DPSM's Central Warehouse operations. The internal control procedures should address the five basic types of control activities: (1) Separation of Duties, (2) System of Authorizations, (3) Physical Safeguards, (4) Independent Checks, and (5) Documentation.	Implemented
Fairfax County Facilities Management Department (FMD)	**Status as of August 2014**
Take steps to address longstanding security weaknesses identified in previous and current security assessments of the County's side of the Central Warehouse.	Not Implemented
Update the space plans for the Central Warehouse (the space plans were last updated in November 2004).	Not Implemented

[5] The Fairfax County Public Schools (FCPS) and Fairfax County Government share a 750,000 square foot central warehouse facility located in Springfield. We issued our March 2014 report in response to concerns raised by the Fairfax County Board of Supervisors over a case of FCPS employee theft of surplus property at the Central Warehouse. At the time of our review, we found that neither FCPS nor the County had developed adequate internal control procedures for their respective Central Warehouse operations. In addition, previous and current security assessments revealed longstanding security weaknesses on the County's side of the Central Warehouse.

Fairfax County Public Schools (FCPS)
Since our March 2014 review, the FCPS Office of Procurement Services has taken the following steps to improve security controls on their side of the Central Warehouse:

- Installed a security cage to store high theft risk surplus property, such as laptops and other electronics (Picture A).
- Installed security cameras at strategic points throughout FCPS' side of the Central Warehouse, in consultation with the FCPS Office of Safety and Security (Picture B).
- Developed and implemented enhanced procedures to provide guidance to FCPS Central Warehouse staff on the proper collection, handling, and storage of high theft risk surplus property.

Picture A (FCPS)

Picture A: Newly installed security cage for surplus computer equipment and other electronics on FCPS' side of the Central Warehouse.

Picture B (FCPS)

Picture B: One of several newly installed security cameras on FCPS' side of the Central Warehouse.

Fairfax County Department of Purchasing and Supply Management (DPSM)
During our March 2014 review, we found that high theft risk items, such as surplus laptops and other computer equipment, were stored in an open area on the County's side of the Central Warehouse (Picture C and Picture D).

Picture C (County)

Picture C: Surplus computer equipment and other electronics stored in an open area on the County's side of the Central Warehouse.

Picture D (County)

Picture D: Close-up of surplus desktops, laptops, printers, television sets, and other electronics stored in an open area on the County's side of the Central Warehouse.

In their formal response to our review, county management indicated that surplus desktops, laptops, and other electronic devices, *"have such low residual value that this surplus equipment could not be considered "high risk."* See Appendix A for management's response.

According to reports from the County's online public auction vendor, sales from surplus Blackberries (cell phones) alone totaled $14,390 during fiscal year 2014. A single auction lot of Blackberries sold for $1,375, a single auction lot of surplus ink cartridges sold for $1,274, and a single auction lot of surplus computer monitors sold for $610. All of these items were stored and sold at the Central Warehouse.

DPSM continues to use Excel spreadsheets to track inventory in the Central Warehouse. County management reported that the Excel spreadsheets are now password protected. In response to our March 2014 review, DPSM implemented three new procedures: Receiving Procedures (IPM 12-400), Storage of Customer Owned Inventory - Bulk (IPM-402), and Storage of Customer Inventory – Item (IPM 12-403).

Fairfax County Facilities Management Department (FMD)
We met with managers from FMD and the County Executive's Office to determine what steps (if any) had been taken to address the longstanding security weaknesses on the County's side of the Warehouse.[6] We were informed that FMD had not taken any steps to address the security weaknesses at the Central Warehouse for the following reasons:

- Neither the County Executive nor the Board of Supervisors specifically instructed FMD to address the security weaknesses.

- FMD does not have any capacity in their $50 million operating budget to address any of the security weaknesses.

At the time of our March 2014 review, we requested a detailed cost estimate from FMD to determine which of the 13 selected security weaknesses could be addressed using existing resources. FMD responded to our request in August 2014 (five months later). Listed below are examples of the costs that are included in FMD's $157,000 total cost estimate:

- **$1,356** to install a doorbell at the front entrance of the County's side of the Central Warehouse to alert staff if someone enters.

- **$7,725** to store all high value and high theft risk items in a secure area.

- **$9,874** to ensure that all emergency exit and external doors cannot be accessed from the outside and are alarmed at all times.

- **$24,991** to convert all doors leading into restricted areas within the Central Warehouse to electronic ProxCard readers that are tied to the County's existing system, with the capability of producing an audit trail.

[6] The Facilities Management Department (FMD) is responsible for building maintenance and security on the County's side of the Central Warehouse. In August 2008, the County's security consultant (Securitas) conducted a security assessment of the Central Warehouse. FMD's Security Office conducted a follow-up security assessment in February 2014. As we noted in our March 2014 report, many of the recently identified security weaknesses on the County's side of the Central Warehouse were also identified in the security assessment conducted by Securitas in August 2008 (six years ago).

- **$30,125** to install security cameras that cover all four sides and entrances into the Central Warehouse.

- **$39,475** to repair all broken intrusion devices.

County management indicated in their formal response to our review that there is currently, "*no funding for improvements*." County management also indicated that, "*staff does not recommend implementing the security recommendations at this time*." See Appendix A.

We noted in our March 2014 report that it has been nearly 10 years since FMD updated the space plans for the Central Warehouse. County management indicated in their formal response to this review that FMD is coordinating with DPSM to update the space plans for the Central Warehouse (see Appendix A). This effort should include the seven other departments and external entities that occupy space on the County's side of the Central Warehouse.

- **Fairfax County Office of Elections** (stores voting machines and other elections-related equipment in the Central Warehouse)
- **Fairfax County Libraries – Archives** (stores archived documents in the Central Warehouse)
- **Fairfax County Health Department** (stores large quantities of pharmaceuticals and other health-related supplies at the Central Warehouse).
- **Fairfax County Fire & Rescue** (stores rescue equipment and other supplies, such as oxygen tanks, in the Central Warehouse).
- **American Red Cross**
- **Friends of the Libraries**
- **Northern Virginia Senior Games**

Recommendation

During the September 30 meeting, the Audit Committee reaffirmed our recommendation that the Facilities Management Department (FMD) should take steps to address longstanding security weaknesses at the Central Warehouse. The Audit Committee approved a motion to make the following recommendation:

- The Deputy County Executive who is responsible for overseeing the Facilities Management Department should provide a memo to the Board of Supervisors indicating which of the 13 selected security recommendations listed in the Auditor's March 2014 report will be addressed as well as the target implementation dates. For any security weakness that will not be addressed, the Deputy County Executive should provide an explanation for not implementing the recommendation.

DULLES METRORAIL PROJECT STATUS

Overview

The Dulles Metrorail Project is a 23-mile extension of the Metrorail system through the Dulles Corridor. The project is divided into two phases. Phase 1 of the project includes five new stations as well as improvements to the West Falls Church rail yard. Phase 2 of the project will include six new stations as well as a maintenance and storage facility at Dulles International Airport. The Metropolitan Washington Airports Authority (MWAA) is responsible for managing the Dulles Metrorail Project through the substantial completion of each phase, at which point the project will be turned over to the Washington Metropolitan Area Transit Authority (WMATA).

The total combined budget for Phase 1 and Phase 2 is currently $6.47 billion ($3.34 billion for Phase 1 and $3.13 billion for Phase 2). Funding for the project is provided through a combination of federal, state, and local sources. Fairfax County's baseline funding obligation for the project is 16.1% of the actual project construction costs, notwithstanding construction costs related to parking garages. Fairfax County's project funding obligation does not include MWAA's finance costs.

Project Budget

As shown in the table below, total baseline construction expenditures for Phase 1 were $2.724 billion as of July 2014, which represents 94% of the total $2.906 billion Phase 1 project construction budget. Total Phase 1 expenditures (including finance costs incurred by MWAA) were $2.893 billion as of July 2014, which represents 87% of the total $3.344 billion budget.[7]-[8]

Dulles Metrorail Project Phase 1
Budget and Actual Expenditures
As of July 2014

PHASE 1	Budget (a)	Expenditures/Savings (b)	Remaining (a) - (b)	% of Budget Spent (b) / (a)
Baseline Construction	2,443,450,279	2,283,836,358	159,613,921	93%
Contingency (See **Note**)	462,245,014	440,784,733	21,460,281	95%
Total Phase 1 Project Construction	**$ 2,905,695,293**	**$ 2,724,621,091**	**$ 181,074,202**	**94%**
Project Finance Costs (MWAA)	438,184,571	169,315,567	268,869,004	39%
Total Phase 1	**$ 3,343,879,864**	**$ 2,893,936,658**	**$ 449,943,206**	**87%**

Source: Phase 1 budget and expenditures reported in MWAA's Monthly Progress Reports for July 2014 (issued in September 2014) and the Monthly Cost and Schedule Update as of July 31, 2014 presented to MWAA's Board of Directors on September 17, 2014.

Note: In July 2014, MWAA reported savings achieved from unused funding for commodity escalation and trackwork. MWAA used the savings to offset contingency expenditures, which resulted in a net increase to the remaining balance of the Phase 1 contingency fund from $18.4 million in April 2014 to $21.4 million in July 2014.

Phase 1 activities are continuing past the opening date (July 26, 2014) and there are a number of change orders that are pending evaluation. Final accounting for Phase 1 is expected to occur in January 2015.

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[7] Fairfax County separately funded the costs associated with the Wiehle Avenue parking garage.

[8] The total $462 million contingency budget for Phase 1 includes the $150 million budget increase that the MWAA Board approved in June 2012.

In the Phase 1 *Comprehensive Monthly Report* for July 2014, the Federal Transit Administration's Project Management Oversight Contractor (PMOC) noted that there were a significant number of construction change orders (31) totaling an estimated $31 million that remained under evaluation by MWAA and a large number of potential change orders (157) that were pending evaluation. The PMOC recommended that MWAA evaluate the sufficiency of the remaining Phase 1 contingency in light of the potential change orders that were pending evaluation and the potential for additional claims resulting from the delays in achieving substantial completion.

As shown in the table below, total project construction expenditures for Phase 2 were $286 million as of July 2014, which represents 10% of the total $2.778 Phase 2 project construction budget.[9]

Dulles Metrorail Project Phase 2
Budget and Actual Expenditures
As of July 2014

PHASE 2	Budget (a)	Expenditures (b)	Remaining (a) - (b)	% of Budget Spent (b) / (a)
Baseline Construction	2,226,784,385	282,886,981	1,943,897,404	13%
Contingency	551,451,179	3,326,938	548,124,241	0.6%
Total Phase 2 Project Construction	**$ 2,778,235,564**	**$ 286,213,919**	**$ 2,492,021,645**	**10%**
Parking Garages (Fairfax and Loundoun)	348,215,194	See footnote.	See footnote.	See footnote.
Total Phase 2	**$ 3,126,450,758**	**$ 286,213,919**	**$ 2,840,236,839**	**9%**

Source: Phase 2 budget and expenditures reported in MWAA's Monthly Progress Report for July 2014 (issued in September 2014) and the Monthly Cost and Schedule Update as of July 31, 2014 - presented to MWAA's Board of Directors on September 17, 2014.

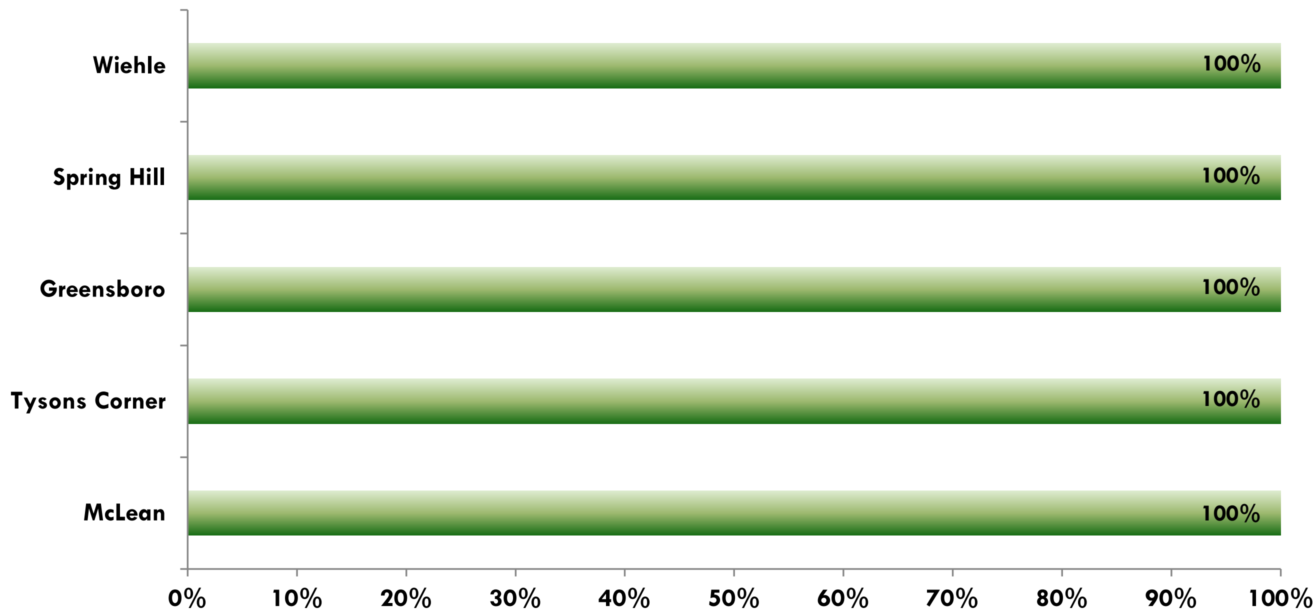
Project Construction

As of July 2014, construction for Phase 1 was 100% complete. Although Phase 1 of the Project opened to the public on July 26, 2014, the Phase 1 prime contractor (Dulles Transit Partners) continued to work on a "punch list" of required tasks that were not completed during the primary construction phase of the Project.

The chart on the following page shows the percentage of completion for the five new Phase 1 stations as of July 2014.

[9] Fairfax and Loudoun counties are responsible for designing and building parking garages with funding sources that are outside of the Project funding agreement. The $348 million budget for the Phase 2 parking garages includes $315 million for preliminary engineering and a $33 million contingency. Fairfax County is responsible for two parking garages: one at the Herndon Station and one at the Innovation Center Station. The Fairfax County Department of Public Works and Environmental Services is the lead county agency for the design and construction of both garages. Loudoun County is responsible for three parking garages: one at the Route 606 Station and two at the Route 772 Station. In May 2014, Fairfax and Loudoun counties received approval for federal Transportation Infrastructure and Finance Innovation Act (TIFIA) loans to help offset their respective project costs (costs associated with the parking garages will be funded through other sources).

Dulles Metrorail Project
Phase 1 Station Construction Progress as of July 2014



The West Falls Church rail yard construction was reported as 99% complete as of July 2014. In its monthly progress report for July 2014, MWAA reported that work related to a "punch list" of items and revisions to the Service and Inspection Building (to reconfigure the wheel stops) remained ongoing. The MWAA project team attributed the delays in the completion of the West Falls Church rail yard to the Phase 1 prime contractor's (Dulles Transit Partners) inadequate wheel stop design and lack of planning and resources. The initial delivery of the new 7000–series rail cars is scheduled through 2014 and 2015.

The prime contractor for Phase 2 of the Project is Capital Rail Constructors (CRC). Construction for the Phase 2 aerial guideway at Dulles International Airport has started and utility relocation is underway.

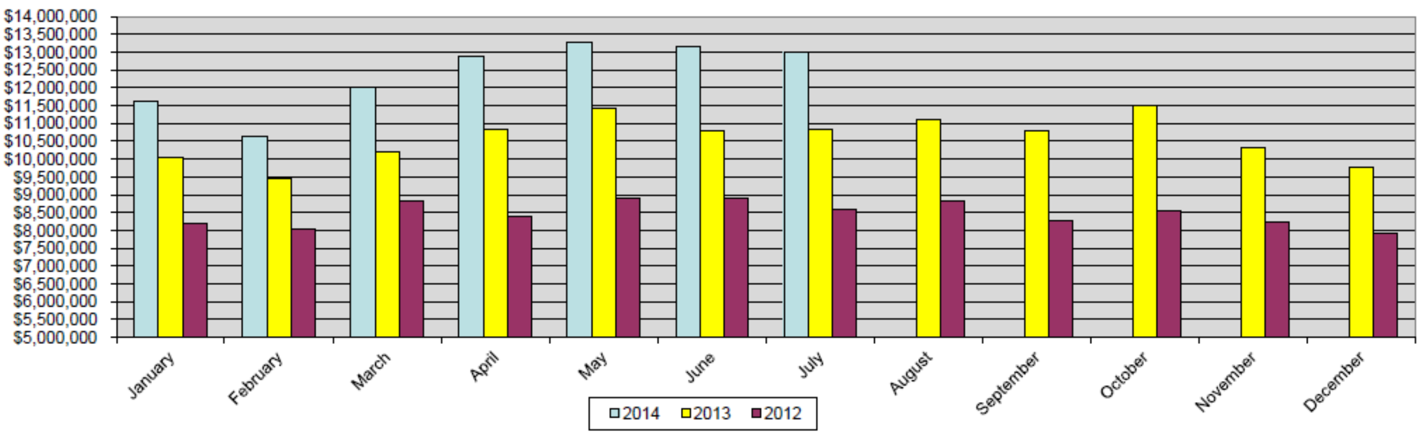
Project Schedule
Two critical dates for the Project are the Scheduled Substantial Completion Date (SSCD) and Revenue Operations Date (ROD). The substantial completion date represents the point at which MWAA is ready to turn over the project to WMATA. The Revenue Operations Date is the point at which the Dulles Metrorail is ready for passenger service and is open to the public.

Phase 1 opened to the public on July 26, 2014, seven months after the original target date for Revenue Operations (December 4, 2013). The Revenue Operations Date for Phase 2 is currently estimated to occur within four to five years. In September 2014, MWAA announced that it was making changes to the design of Phase 2 in order to comply with new Virginia stormwater regulations. The regulations were established to protect the Chesapeake Bay watershed and were issued by the Virginia Department of Environmental Quality (effective July 1, 2014). The new stormwater regulations may impact the cost and schedule for Phase 2 and MWAA has not released cost of schedule impacts to date. MWAA and the Phase 2 prime contractor (Capital Rail Constructors) continue to negotiate this matter.

Dulles Toll Road Revenues and Transactions
Revenues generated from the Dulles Toll Road are the single most significant funding source for the Dulles Metrorail Project. A sizeable part of the project's estimated $6.47 billion in total costs will be supported through long-term debt obligations backed by toll road revenues. Dulles Toll Road revenues will be used to sustain debt service payments until the debt is retired in 2047. In May 2014, MWAA announced that it would hold toll rates steady for the next five years (2014 through 2018) with support from $300 million in additional funding from the Commonwealth of Virginia and the approval of federal Transportation Infrastructure and Finance Innovation Act (TIFIA) loans.

MWAA reported that actual toll road revenues and transactions were consistent with budget estimates and toll road study projections as of July 2014. MWAA's reported toll road revenues for calendar years 2012 through July of 2014 are presented in the chart below:

Dulles Toll Road Revenues
Calendar Years 2012 – 2014



Source: MWAA Dulles Corridor Enterprise July 2014 Financial Report - presented to the MWAA Board on September 17, 2014.

Audit and Oversight Activities
The Federal Transit Administration (FTA) has contracted with a private company (known as the Project Management Oversight Contractor) to provide ongoing monitoring and oversight of Phase 1. In addition, the FTA Office of the Inspector General (FTA OIG) has conducted audits of FTA's oversight of Phase 1 and the underlying assumptions used to develop MWAA's estimates of toll road revenues. The FTA OIG made recommendations to improve project oversight of Phase 1 and concluded that the toll road revenue estimates were generally reasonable. In January 2014, the FTA OIG issues an audit report on the financial management of Phase 1. The FTA OIG made recommendations to improve oversight and management of Project grant expenditures. FTA and MWAA are in the process of developing a corrective action plan to address the findings noted in the OIG's report.

APPENDIX A – MANAGEMENT RESPONSES

SUCCESSION PLANNING – INTERIM REPORT

Recommendation:

The Department of Human Resources should continue efforts to work with departments, agencies, and authorities to develop a more coordinated and structured succession planning strategy, with a specific focus on succession planning for the County's senior managers.

Agree/Disagree	Target Implementation Date	Point of Contact	Email Address
Agree	Ongoing effort; timeline with milestones is currently under development	Robin Baker, Organizational Development and Training Division Manager	robin.baker2@fairfaxcounty.gov

Management Comments:
DHR concurs that the county needs to continue efforts to strengthen succession planning, leadership development and knowledge transfer programs. Recognizing that one size does not fit all, staff will be working to provide individualized agency support as well as countywide programs such as leadership development training/activities and both a formal and informal mentoring program. Work is underway in these areas.

ECONOMIC DEVELOPMENT AUTHORITY – PERFORMANCE MEASURES

The Economic Development Authority (EDA) President/Chief Executive Officer provided feedback on the draft report and stated that it was an excellent summary of the EDA, its programs and purposes, and the relevant outcomes.

Recommendation:

During the September 30 meeting, the Audit Committee approved a motion to make the following recommendation:

- The EDA Commission should consider establishing additional performance measures that are more closely aligned with the EDA's mission. Specifically, the EDA Commission should consider establishing performance measures related to the office vacancy rate and the amount of tax revenues that are generated from the EDA's programs and initiatives.

Agree/Disagree	Target Implementation Date	Point of Contact	Email Address
Agree	N/A	Gerald L. Gordon	ggordon@fceda.org

Management Comments: The FCEDA Commission has considered the suggested kinds of metrics before. Measuring FCEDA performance by the office vacancy rate does not work because, as staff is successful offices continue to be built. As a result, we can fill ten million square feet while fifteen million is being added to the inventory and the result will appear as a failure because he rate has increased. In short, the FCEDA should be measured against that over which it has some control: the amount of office space that has been filled. This is why the primary metric is jobs created by FCEDA programs: jobs translate into office space being filled. Measuring FCEDA performance through tax generation is equally difficult because our announcements constitute only a portion of the increase to the tax base. Ideally, we would measure the incremental increase to the tax base for each of our announcements but that information is neither provided by the companies nor the county, even in the aggregate. The FCEDA Commission reviews the established performance criteria both quarterly and annually, and has held extensive discussions about these proposed metrics. However, the Commission will address these comments in an upcoming meeting to consider ways these metrics may be effectively folded into performance reviews.

CENTRAL WAREHOUSE STATUS REVIEW

County of Fairfax, Virginia

MEMORANDUM

DATE: August 26, 2014

TO: Jessica A. Tucker
Acting Auditor of the Board

FROM: David J. Molchany,
Deputy County Executive

SUBJECT: Central Warehouse Internal Controls Review Response

The Auditor to the Board's Quarterly Report presented a review of the Fairfax County Public Schools/County Central Warehouse on March 25, 2014. At the meeting, the Board directed the Department of Purchasing and Supply Management ("DPSM") to continue efforts to develop procedures that address the five basic types of internal controls and the Facilities Management Department ("FMD") to take steps to address long standing security weaknesses on the County side of the warehouse. The following information is being provided in response to the Board's request for a six month update.

INTERNAL CONTROL PROCEDURES

The Central Warehouse Internal Controls Review conducted by the Office of Financial & Program Audit in March 2014 found that the County had not developed adequate internal control procedures for the Central Warehouse. In response, the Department of Purchasing and Supply Management (DPSM) implemented three new procedures to address the audit findings. The procedures establish compensating controls that are appropriate for the type of activity (i.e., receiving goods, storing goods) and in each case address four of five methods of internal control.

	Separation of Duties	System of Authorizations	Physical Controls	Independent Checks	Documentation
Receiving Procedures IPM 12-400	X	X	X		X
Storage of Customer Owned Inventory (Bulk) IPM-402	X		X	X	X
Storage of Customer Owned Inventory (Item) IPM 12-403	X		X	X	X

The Department of Purchasing and Supply Management researched alternate tracking systems to replace the Excel spreadsheets used to record customer owned inventory. It was determined that the high cost to purchase, implement and maintain a warehouse management system is not justified by the lower value of the stock held in the warehouse. The top items in the warehouse are art supplies (brushes, tape, glue, scissors) and forms (Court forms, DIT forms, DTA forms). In lieu of implementing such a system, DPSM created Information Rights Management controls on the existing tracking tool that limits rights to view, edit, copy, and save the document.

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Page 2
August 26, 2014
Central Warehouse Internal Controls Review Response

Enhanced safeguards and controls were implemented in response to the audit report for items the auditor classified as high risk. The County's ewaste (desktops, laptops, and other data recording devices) has such a low residual value that this surplus equipment could not be considered 'high risk.' In fact, FY 2014 revenue from the electronics recycling program for items such as desktop and laptop computer was only $9,087, as most of these items are yield $5 to $15 each. The recycling contractor produces a detailed manifest which may be used for reconciliation.

County surplus that has residual value is made available to the public through online auction. Fiscal year 2014 revenue from items sold at the warehouse was $98,500 (4% of total surplus revenue) or approximately $8,200 per month. The number of sales conducted at the warehouse was 1,800; only 28 sold for over $500 and only 5 exceeded $1,000. The average sale value is $54 and likewise not deemed to be 'high risk.' Nonetheless, a documentation system was established that assigns a lot number all items are upon receipt. In addition, physical controls were implemented to limit access to the electronic equipment. Small items are boxed and sealed and secured in a locked cabinet. These items are retrieved by a supervisor at the time the purchaser arrives with a receipt to collect their goods.

FACILITY SECURITY

FMD conducted a review and obtained cost estimates to complete warehouse security initiatives identified in the auditor's report. The contractor's proposals total approximately $157,000 in security improvements. FMD reviewed the security improvements to determine the cost effectiveness and prioritization of implementation, and met with DPSM, the Fairfax County Public Library, and the Fire and Rescue Department to review the prioritization.

If the County were to secure the perimeter of the building from intrusions, install card readers for controlled access during normal business hours, and install cameras to monitor activities around and key entry points into the building, the cost is approximately $115,000. Currently, there is no funding for the improvements. Staff does not recommend implementing the security recommendations at this time, as we have sound procedures in place that designate the movement of goods directly from the selling department to the buyer and the bulk of property stored at the DPSM warehouse is of low dollar value and has little or no resale value.

Finally, as the largest tenant of the Central Warehouse, DPSM staff conducts daily physical security inspections. All doors are visually inspected and alarms are set at the end of the business day to ensure that the building is secure while unoccupied.

FACILITY SPACE PLANS

FMD is coordinating with DPSM to update the space plans for the Central Warehouse as recommended by the Auditor of the Board.

cc: Edward L. Long Jr., County Executive
Susan W. Datta, Chief Financial Officer, Department of Management & Budget
Cathy A. Muse, Director, Department of Purchasing & Supply Management
Jose A. Comayagua Jr., Director, Facilities Management Department
Marguerite V. Guarino, Assistant Director, Real Estate, Facilities Management Department

LIST OF ACRONYMS

DHR	Department of Human Resources
DPSM	Department of Purchasing and Supply Management
EDA	Fairfax County Economic Development Authority
FCPS	Fairfax County Public Schools
FMD	Facilities Management Department
FTA	Federal Transit Administration
GASB	Government Accounting Standards Board
MWAA	Metropolitan Washington Airports Authority
OFPA	Office of Financial and Program Audit (Auditor of the Board)
PMOC	Project Management Oversight Contractor
ROD	Revenue Operations Date
SSCD	Scheduled Substantial Completion Date
WMATA	Washington Metropolitan Area Transit Authority