

SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

936



FROM: COUNTY OF RIVERSIDE PURCHASING AND FLEET SERVICES

SUBMITTAL DATE:

June 14, 2011

SUBJECT: Evaluation and Implementation Strategy for the Purchasing Department to become an Internal Service Fund

RECOMMENDED MOTION: That the Board of Supervisors:

- (1) Receive and file the following reports:
  - Business Plan for the County of Riverside Purchasing Division; and
  - Purchasing Division Financial Forecasting Model.
- (2) Direct the Executive Office to work with Purchasing to develop a recommendation for Board consideration on whether to keep the Purchasing Division as a General Fund Department or move to an ISF or General Support Services (GSS) funded operation.

**BACKGROUND:** On November 9, 2010, the FY 2010-11 First-Quarter Budget Report was presented to the Board of Supervisors. As part of the report, the Purchasing Department made a recommendation, supported by the Executive Office, that a conversion to an Internal Service Fund to solve some of the diminished capacity to maintain core services to County Departments may be necessary. The Board requested that Purchasing return within 6 months with a business plan and rate methodology for the proposed conversion to an internal service fund.

(Continued on Page 2)

  
Robert J. Howdysnell, Director  
Purchasing and Fleet Services

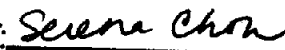
FINANCIAL DATA	Current F.Y. Total Cost:	\$ -0-	In Current Year Budget:	-0-
	Current F.Y. Net County Cost:	\$ -0-	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ -0-	For Fiscal Year:	2011/2012

SOURCE OF FUNDS: N/A

Positions To Be Deleted Per A-30	<input type="checkbox"/>
Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

APPROVE

BY:   
Serena Chow

County Executive Office Signature

Dep't  
Recomm.:  
Per Exec. Ofc.:

☐ Consent  
☒ Policy

☐ Consent  
☒ Policy

Prev. Agn. Ref.: 3.24 11/9/10

District: ALL

Agenda Number:

3.42

ATTACHMENTS FILED  
WITH THE CLERK OF THE BOARD

Departmental Concurrence

**TO: BOARD OF SUPERVISORS**

**DATE: June 14, 2011**

**PAGE: 2**

**SUBJECT:** Evaluation and Implementation Strategy for the Purchasing Division of the Purchasing and Fleet Services Department to become an Internal Service Fund (ISF)

**BACKGROUND:**

Through a Request for Proposal process, the consulting firm of Management of America, Inc. (MGT) was hired to conduct an evaluation and implementation strategy for the Purchasing Department to transition to an ISF or some other funding structure, i.e. GSS, that would enable Purchasing to reduce the reliance upon the General Fund or Net County Cost. Based upon MGT's review it is their recommendation that, if the funding method was to change, the Purchasing Department would better function as a GSS funded department rather than an ISF funded operation. The methodology and final recommendations of the study are attached in the documents listed above.

**ATTACHMENTS**

**Business Plan**  
**for the**  
**County of Riverside**

**PURCHASING**  
**DIVISION**



**April, 2011**

# **Business Plan for the County of Riverside**

## **Purchasing Division**

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### ***Introduction***

In February of 2011 MGT of America, Inc. was selected to review the operations of the Riverside County Purchasing Department and assist it in a transition to becoming an Internal Service Fund department, or some other funding structure that would enable it to reduce the reliance upon the General Fund or Net County Cost.

Purchasing within the County of Riverside is centralized with delegated authority based on dollar amount. The department consists of a Purchasing and Fleet Director (Purchasing Agent), Assistant Director, Purchasing Manager, Compliance Contracts Officer, 2 Sr. Procurement Contract Specialists, 10 Procurement Contract Specialists, 33 Buyer I and IIs (with dollar authority from \$10,000 to 25,000) and 398 Countywide Low Value Purchase Order Processors (with dollar authority up to \$2,500). The Purchasing Agent (Director) has unlimited authority for personal property – with competition. Additionally, the Purchasing Agent has personal service agreement authority up to \$100,000. Any amounts over these stated limits or over \$25,000 sole source needs Board of Supervisors approval.

The department performs a variety of duties to ensure that the taxpayer receives the best value for the dollars expended together with fair treatment to all vendors. Last year, the department was responsible for the oversight of approximately 80,000 purchase orders with a value of over \$600,000,000 in County expenditures. However, three years of budget cuts have made it increasingly difficult to provide these core services. Faced with extreme budget constraints and cuts, the Central Purchasing Department is exploring other funding alternatives.

### ***Overall Evaluation of the Purchasing Division***

Prior to analyzing various funding methods and ultimately recommending the one best suited to the Purchasing Division, MGT conducted an overall evaluation of the services provided. Overall cost efficiency, volume of activity (work load), and service quality were the factors addressed. The paragraphs that follow summarize our findings and aided us in evaluating the appropriateness of the different funding methods.

#### **Cost Efficiency and Workload**

Productivity, by definition, is the efficiency with which things are produced. Providing the desired level of service at the lowest possible cost traditionally represents the primary objective. Normally, there are two primary factors that are deemed to influence overall

## Business Plan for the County of Riverside

### Purchasing Division

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efficiency and productivity. These are 1) cost and 2) workload. Therefore, MGT reviewed both of these factors for the County of Riverside Purchasing Division.

With regards to cost, Purchasing can be summed up in one word – frugal. In 2010, salaries and benefits accounted for 86% of the total costs incurred. This means that the amount of non-labor related costs within the Purchasing Division comprise less than 15% of the total costs. From MGT's experiences, this is very low as normally non-labor expenditures represent 20% to 25% of total costs. Clearly the Division is "making due" with older equipment and effectively managing their use of services and supplies and other charges.

Obviously, with 86% of total costs representing salaries and benefits, the Purchasing Division is a labor intensive organization. Labor related costs are driven by three primary factors – 1) salary rates, 2) benefit costs, and 3) staffing levels. Both salary rates and benefit costs are driven by internal County policies and are primarily dictated by the local and regional markets. Therefore, generally speaking, the only real way in which the Purchasing Division can influence or directly control these cost components is by determining staffing levels. The number of staff required to fulfill the Purchasing Division's responsibilities is a further product of the volume of activity or workload. Therefore, there is an inseparable link between the volume of activity (workload) and cost efficiency.

With regards to workload, from a general standpoint, there are a couple of basic benchmark measures normally associated with the activity of a Purchasing function. Since many of the workload requirements for a Purchasing function revolve around the dollar volume of purchase orders (PO's) processed, one of these measures is defined as the total cost per thousand dollars of PO value. For Riverside County, the total cost of the Purchasing Division is roughly \$2.5 million. Over the last few years, between \$500,000,000 and \$600,000,000 in purchase orders have been processed. This means it costs around \$4.00 to \$5.00 per \$1,000 of PO's processed. Based upon MGT's experiences in completing cost allocation plans for hundreds of governmental organizations, this cost appears to be reasonable. We have seen this vary between over \$3.00 to over \$10.00 per \$1,000 of PO's processed at a national level. The reason for the rather large variance within this range is due to the fact that purchasing services are labor intensive with regional salary levels dictating the cost. California tends to be on the higher end of the range. **Readers should be careful when looking at workload measures as it is admittedly very difficult to obtain "apples to apples" comparisons for purchasing functions. This is due to the significant variances in operational structures, local policies and procedures, and the unique nature of each county.**

The second general measure deals with the dollar amount of PO value being processed per employee. With between \$500,000,000 and \$600,000,000 in purchase orders being processed by nineteen total employees, this equates to between \$26.3 million and \$31.6

## **Business Plan for the County of Riverside**

### **Purchasing Division**

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million for the County of Riverside. From our experiences, this can be anywhere from \$20 million to \$40 million, so again, the County of Riverside's amount seems reasonable.

As noted earlier, comparisons to other organizations should be "taken with a grain of salt" due to the rather significant differences and unique characteristics of the individual counties. Probably better indicators are backlogged work and service quality. The quality of service will be dealt with in the next section of this report.

With regards to work backlog, there appears to be a disturbing trend developing as existing contracts expiring and expired contracts awaiting renewal are on the rise. Existing contracts expiring have risen from over 1,200 in 2008 to over 1,800 currently (a 33% increase). Expired contracts awaiting renewal have risen from a negligible amount to over 800 at the present. This is not surprising when one considers staff counts have dropped from twenty five to nineteen since 2008, a 24% reduction in staff. Since most costs for the embedded staff are funded directly by end users, it has been the Central Purchasing group that has absorbed these reductions.

In addition, the number of county-wide awards has been reduced and procurements are taking longer. It is highly likely that all of these factors will negatively impact service quality.

#### **Service Quality**

At the outset of this project, MGT met with representatives of eight different departments that represented the most predominant users of the services provided by Purchasing. This included Human Resources, Sheriff-Coroner, Economic Development Agency, Waste Management, Riverside County Regional Medical Center, Community Health Agency, Public Social Services, and Mental Health.

In addition to outlining the mission of the project, we discussed with this user group their overall priorities and goals as they relate to the Purchasing services that they receive. Although the priority may differ from user to user, near the top of every list was timeliness, meeting County standards and policies (ethics and fairness), along with cost savings (getting the best deal for the County). Some even mentioned that a top priority was "staying out of the news" which obviously ties to ethics and fairness as defined by County policies and standards. Several examples of other cities and counties that were unable to do this were cited along with the fallout associated when that occurs.

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Throughout our meetings with both users and Purchasing Division staff members, many examples of how Purchasing is saving the County money were discussed. Here are a few examples of such savings generated by the Purchasing Division:

- The Purchasing Department, on behalf of the Riverside County Department of Mental Health (RCDMH) issued a Request for Proposal (RFP) for a new Behavioral Health Information System (BHIS). Under this RFP the County was seeking a state-of-the-art electronic integrated BHIS for supporting all RCDMH programs and related financial activities. This BHIS will bring RCDMH into compliance with the State and Federal requirements for Electronic Health Records by replacing existing paper-based health records and replacing two existing financial systems that had been in place for over 20 years. Through ongoing discussions and negotiations lead by the Purchasing team, RCDMH saved over \$2.5 million on this project.
- Central Purchasing released a solicitation for liquid asphalt for the Department of Transportation and Land Management Agency (TLMA) Liquid Asphalt is a material used in resurfacing roads. The specifications specified a loading temperature of 250 degrees Fahrenheit. After receiving only one submission for this bid the procurement contract specialist handling this Request for Quotation (RFQ) questioned the user department and various suppliers if the loading temperature could be reduced to obtain more competition. The end user and suppliers agreed that this could be accomplished with no harm to the project. Another RFQ was released with the revised specifications of 225 degrees Fahrenheit for the liquid asphalt. This change significantly increased competition and resulted in a cost savings of \$1,568,296 on this project.
- The Transportation and Land Management Agency (TLMA) requested the Purchasing Division buyer to purchase two (2) road graders, equipment used in road maintenance and road building, off of the California Multiple Award Schedule (CMAS). CMAS is a type of cooperative agreement that is used to save State and local government time and money. These agreements have been assessed to be fair, reasonable and competitive. However, in this procurement the buyer researched and wrote specifications for a competitive bid that resulted in a \$73,815 savings for the end user department on this equipment.
- The Riverside County Regional Medical Center established a contract for workman compensation recovery services. The contract amount for this professional service is based on the hospital's workman compensation cases that are outstanding. The Purchasing buyer researched and contacted other counties throughout California and realized that the awarded vendor for the user department was charging the largest populated counties, lower recovery fees. A negotiation with the awarded vendor resulted in Riverside County receiving the same rate that is received by Los Angeles County. The only other agency that receives a lower rate is the State of California.

## **Business Plan for the County of Riverside**

### **Purchasing Division**

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These negotiations resulted in a reduction in the recovery fee from 25% to 20% or a cost savings of \$187,500 per year on a three year optional contract.

- Upon receiving a sole source request to purchase surgical supplies from the RCRMC, the Purchasing buyer reviewed the request and compared it to the previous year contract. Through negotiations the buyer was able to reduce the yearly price by \$4,486.

This is just a small sampling of some of the cost savings that the Purchasing Division has provided recently to the County of Riverside. The Purchasing Division continuously strives for excellence in its mission to the County – and to this end, it is recognized by its peers as one of the leaders in procurement – having earned the Achievement of Excellence in Procurement® Award for eight consequent years.

Another way in which the Purchasing Division serves and safeguards the County is in its management of vendor protests. Purchasing has established an efficient and effective protest process for handling vendor grievances which is published on the Purchasing website. Competitive solicitations that have been handled by the Purchasing Division have resulted in a small number of formal complaints. Most all vendor issues are resolved through discussions and negotiations rather than litigation. Very few bid complaints escalate to the Board of Supervisors – in fact, over the past twenty years, only one bid protest has been overturned by the Board.

The Purchasing Division has consistently used their specific talents, skills, knowledge and experience not only to save money – but also to ensure that the County's overall mission of getting the highest utility for the money received from taxpayers is realized and at the same time mitigating any potential risks for the County of Riverside.

With regards to service quality, all users appeared to be well satisfied with the level of service that they receive from the Purchasing Division and they also indicated that their priorities and goals were being met. Some even stated their desire to receive more services from Purchasing and showed a willingness to contribute additional funds if they could receive additional services. It is important to note that this user group is primarily being served by Purchasing Division staff members that are embedded within the users operations, not the Central Purchasing staff. This is important because recent budget cuts have primarily impacted the Central Purchasing function, not the departments served by embedded staff.

Based upon our review, it is MGT's opinion that the staffing level within the Central Purchasing function appears to be inadequate. Staff members are strained to meet existing workload, significant backlog continues to develop, and overall service quality has likely suffered as a result. Regardless as to ones opinion on this matter, the risk to the County that goals, objectives and responsibilities will not be met is increasing. When



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## **Purchasing Division**

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placed in such a situation, it is just human nature that corners will be cut, which certainly increases the County's risk.

As is outlined throughout the remainder of this business plan, it is MGT's opinion that by changing the funding mechanism for the Purchasing Division, the County could minimize this risk and, at the same time, minimize the impact on Net County Cost.

### ***Funding Alternatives***

The following section of this business plan outlines the existing funding method used for the Purchasing Division, as well as describes the pro's and con's associated with two other common funding methods – 1) treating the Division as an Internal Service Fund or, 2) with a significant amount of funding coming through General Support Service charges and fees.

#### **Current Method**

Presently, approximately 51% of the funding for the Purchasing Division comes through charges for services in the form of inter-fund reimbursement for services, intra-fund transfers, and other miscellaneous charges. The remaining 49% is funded through the County General Fund as Net County Cost which is allocated through the County-Wide Cost Allocation Plan (referred to as the COWCAP).

The majority of the current charges for services come through what is referred to as MOU's, or memos of understanding. Several of the larger users (in volume or complexity), have Purchasing staff members embedded within their operations and in these cases some (not all) of the costs associated are recovered through an MOU.

Based upon MGT's analysis of the current situation, it is apparent that maintaining the existing method of funding (through a mix of memos of understanding and net county cost) cannot sustain the future funding requirements necessary for the Purchasing Division to continue to meet its Board required responsibilities. Staffing levels appear to be inadequate to monitor contracts or to negotiate for favorable terms and renew expiring contracts.

As was mentioned previously, part of the objective for the Purchasing Division is to reduce the reliance upon Net County Cost (General Fund support). Therefore, other funding alternatives are being evaluated and considered and these methods are discussed in the sections that follow.

# Business Plan for the County of Riverside

## Purchasing Division

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### Internal Service Fund (ISF)

By definition, an Internal Service Fund (ISF) department shall mean a County department, unit in a County department, or agency that provides services or products to other County departments or agencies and accounts for service-related revenues and expenditures in **self-sustaining, propriety** funds.

Traditionally, the objective of an ISF is to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis. Accounting is accomplished on a full accrual basis – billing and accumulating total costs for each type of good or service to a specific end user (department or fund). The ISF operates under a private business model, following the private sector's organizational standards and practices. It is required to maintain the full complement of financial statements and must maintain a balance sheet with retained earnings and appropriate reserves.

Normally, ISF's are established in circumstances whereby large capital investments (in infrastructure) are required – such as within a fleet (vehicles) or facilities (buildings) operation. The centralization of the management of significant capital investments results in lower financing and debt service costs. Often, this represents the most significant advantage (and reason) for establishing an operation as an ISF. However, there are other advantages. Since costs are identified with, and become part of, the annual budgets of the departments benefitting from the support services provided, the Board is given a more complete picture of the true cost of the County program receiving the services. In addition, user departments pay directly for the support services they receive giving them greater incentive to review and control costs. Finally, another advantage to the Purchasing Division is that by becoming an ISF the Net County Cost would be reduced to zero.

There are some disadvantages to creating an ISF as well. These primarily center on initial start-up costs, along with additional costs associated with meeting financial reporting requirements and potentially, higher costs related to billing end users. To be considered a viable ISF, the operation needs to maintain a fund balance (reserve) of about 17% of its total annual expenditures. In effect, this equates to a 60 day cash working capital. For the Purchasing Division, with total annual expenditures approaching \$3 million, this equates to nearly \$500k. This amount would need to be obtained (borrowed) and paid back (likely with interest) and this cost would ultimately need to be passed on (through additional charges) to end users.

Additionally, an ISF must produce many financial statements such as a trial balance, balance sheet, revenue and expense statement, and cash flow statement. It has been

## **Business Plan for the County of Riverside**

### **Purchasing Division**

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estimated that to meet this requirement, the Purchasing Division will spend about \$25k to \$50k each year.

Another disadvantage is related to billing end users. Depending upon the method (generally the billing frequency and complexity) used to create customer bills, it is estimated that this will cost somewhere between \$5k and \$25k annually. This should not be considered as a significant disadvantage however as costs would be similar to those anticipated should Purchasing be billed as a GSS.

#### **General Support Service (GSS)**

According to Board of Supervisors policy, a General Support Service (GSS) department shall mean a County department, unit in a County department, or agency that provides services or products, to other County departments and accounts for service-related revenues and expenditures in **non-propriety** funds.

As with an ISF, the objective of a GSS is to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis. The difference is that a GSS is not required to be self-sustaining and its activities are recorded within non-proprietary funds. This means that not all of the services provided by the GSS are billed to ultimate end users. For the services that are billed, billings are completed on a full accrual basis – billing and accumulating total costs for each type of good or service to a specific end user (department or fund). A GSS does not operate under a private business model, following the private sector's organizational standards and practices for **all** services. However, generally speaking, it does so for a substantial portion of its overall operations. It is not required to maintain the full complement of financial statements, nor must it maintain a balance sheet with retained earnings. In fact, by Board Policy GSS departments shall not maintain working capital reserves.

Similar to an ISF, since GSS billings are identified with, and become part of, the annual budgets of the departments benefitting from the support services provided, the Board is given a more complete picture of the true cost of the County program receiving the services. Also like an ISF, under the GSS method, user departments pay directly for the support services they receive giving them greater incentive to review and control costs.

As opposed to an ISF, a GSS does not require initial start-up costs. As mentioned previously, pursuant to Board Policy working capital reserves are not to be maintained, thereby eliminating any substantial start-up costs. Additionally, as noted earlier, a GSS is not required to produce the same financial statements required of an ISF. There is no external requirement for a trial balance, balance sheet, revenue and expense statement, or cash flow statement.

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## Purchasing Division

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There are a few disadvantages to a GSS however. As mentioned previously, a GSS is not normally 100% self-sustaining, meaning that there would be some amount of Net County Cost associated with the operation. Although, in most circumstances, Net County Cost for a GSS does not represent a significant or substantial amount. Another GSS disadvantage is related to billing end users. As with establishing an ISF, depending upon the billing frequency and complexity used to create customer bills, it is estimated that this will cost somewhere between \$5k and \$25k annually. This should not be considered as a significant disadvantage however as costs would be similar to those anticipated should Purchasing be billed as an ISF.

### Summary Comparison of ISF versus GSS

As noted previously, based upon MGT's analysis of the current situation, it is apparent that maintaining the existing method of funding (through a mix of memos of understanding and net county cost) cannot sustain the future funding requirements necessary for the Purchasing Division to continue to meet its Board required responsibilities. Staffing levels are now inadequate to monitor contracts or to negotiate for favorable terms and renew expiring contracts.

Because of the situation outlined above, it seems that the best alternative solutions would be either to establish the Purchasing Division as an Internal Service Fund or to recover a significant amount of the annual expenditures through General Support Service charges.

The table below and on the following page represents a summary of the major factors (previously discussed) that should be considered when trying to determine which funding method should be implemented for the Purchasing Division. Although it is not all-inclusive, it addresses those issues deemed to have a material impact on overall operations.

	<u>ISF</u>	<u>GSS</u>
Financial Reporting-		
Trial Balance	Required	Not Applicable
Balance Sheet	Required	Not Applicable
Revenue and Expense Statement	Required	Commonly Provided
Cash Flow Statement	Required	Not Applicable
Rate Documentation-		
Rate Model	OMB Required	Board Policy
Rate Manual	OMB Required	Board Policy
Rate True-Up	OMB Required	Board Policy
Productivity/Efficiency Report	Board Policy	Board Policy

## Business Plan for the County of Riverside

### Purchasing Division

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#### Costs-

Start-Up 60 Day Cash Reserve	~ \$500k	Not Applicable
Financial Reporting (annual)	\$25-\$50k	Not Applicable
Billing System (annual)	\$5-\$25k	\$5-\$25k

#### Other Factors-

Monthly Billing	Board Policy	Board Policy
Net County Cost Support	None	Minimal
Removal from COWCAP	Yes	Recommended
Self Supporting	Completely	Significantly

#### MGT's Recommendation

It should be noted that one of the primary reasons for setting a service up as an ISF is to centralize the management of capital assets - thereby saving the County money in financing and debt service costs. This is not the case with the Purchasing Division as over 80% of their total operational costs are salaries and benefits and their primary purpose is to support other County Departments and Divisions in meeting Board established procurement policies, not in the acquisition and management of capital assets. The Purchasing Division does not manage capital assets, nor is their focus capital intensive by nature.

In addition, as was discussed above, there are additional costs that the County would incur to establish the Purchasing Division as an ISF. Start-up costs totaling over \$500k would need to be obtained (and funded through future rates), as well as, additional costs associated with financial reporting would be incurred (\$25-\$50k). Normally, the costs associated with billing are considered to be higher for an ISF than a GSS. However, depending upon how the billing process was implemented, these costs could be about the same for an ISF versus a GSS. Therefore, this factor should be considered a "wash".

While trying to decide which funding method is best suited for the Purchasing Division, we must take into consideration that one of the overall objectives is to reduce the reliance upon Net County Cost to an insignificant amount, not necessarily to eliminate it altogether.

Based upon the fact that additional costs would be incurred by the County to convert the Purchasing Division to an Internal Service Fund, coupled with the fact that the traditional benefit of reduced debt service financing costs does not apply in this circumstance, it is MGT's opinion that the County would be better served by going the GSS route.

As mentioned previously, about 49% of the Purchasing Division's costs are considered to be Net County Cost. This number could be significantly reduced by treating Purchasing as a GSS and implementing the rates and fees as determined by the (attached) rate manual and rate model developed by MGT as a result of this project.

## **Business Plan for the County of Riverside**

### **Purchasing Division**

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#### ***Attachments***

Regardless of the decision made, MGT has prepared the attached written rate manual and Excel-based rate model for use by the Purchasing Division to assist them in determining annual rates and in order to meet the requirements of OMB and GASB, should the Division be converted to an Internal Service Fund, or substantially funded as a General Support Service.

**Business Plan for the County of Riverside**

**Purchasing Division**

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**ATTACHMENTS**

**The  
Rate Development Process  
at the  
County of Riverside**

**PURCHASING  
DIVISION**



**April, 2011**



# **Rate Development Process at the County of Riverside**

## **Purchasing Division**

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### ***Introduction***

The Purchasing Division of the County of Riverside is a service organization whose mission is to support the Executive Office, County Officers, Elected Officials, County Departments and Agencies, Special Districts, and County Employees. Purchasing employees are responsible for ensuring that the policies and procedures required by all County Ordinances (459.4) and Board Policies are followed. Except as otherwise approved by the Board of Supervisors, the Purchasing Division is the only Riverside County Department authorized to commit funds for the acquisition of commodities or services and is the initial point of contact for service contracts and agreements prior to any obligation or commitment of County funds.

The Director of Purchasing is the Purchasing Agent for the County of Riverside and, as such, is responsible for implementation and enforcement of the policies and procedures, as set forth by the Board of Supervisors. By policy, the Purchasing Manager shall exercise functional authority over the County purchasing process for the purpose of implementing and enforcing these policies and procedures on a County-wide basis, as well as in the Purchasing Department for its role in the process.

The Purchasing Division performs a variety of duties to ensure that the taxpayer receives the best value for the dollars expended together with fair treatment to all vendors. Purchasing involves the acquisition of equipment, furnishings, supplies, maintenance services, construction services and contractual services, within pre-established budgetary constraints. Purchasing also includes preparing budget estimates; preparing bid specifications; initiating formal quotations, proposals and bids; conducting public bid openings; evaluating bids; and awarding and administering contracts until final completion or termination. Among many other activities, Purchasing Division staff members are involved with the following:

- Request for Proposals (commonly referred to as an RFP)
- Request for Qualifications (commonly referred to as an RFQu)
- Request for Quotes (commonly referred to as an RFQ)
- Sole Source Purchase
- Review and Approval of Form 11's for Policy and Activity Requirements
- Contracts (and Contract Administration)
- Request for Information (commonly referred to as an RFI)
- Vendor Registration
- Purchasing Audits

# **Rate Development Process at the County of Riverside**

## **Purchasing Division**

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- Procurement and P-Card Training
- Vendor Protest Resolution

For a comprehensive description of the policies and procedures for which the Purchasing Division is responsible, please refer to the official published County of Riverside *Purchasing Policy Manual* (as revised).

It is the intent of this Manual to document the rate development processes, techniques, and methods followed by the County of Riverside Purchasing Division to charge the other Departments and Divisions for the services provided.

### ***General Rate Structure and Design***

The Purchasing Division is financed as a General Support Service (GSS) function which is somewhat similar to an Internal Service Fund (ISF). GSS agencies provide services or products to other County Departments or Divisions and account for service related revenues and expenditures in non-proprietary funds. Each year, budgets are developed for each organization within the County of Riverside. Those organizations which utilize the services of the Purchasing Division need guidance on rate expectations. Thus, the Purchasing Division calculates and provides a set of rates based upon the services each organizational unit receives.

Generally speaking, users can receive service from three different sections within the Purchasing Division. This includes - 1) support provided by the management of the Purchasing Division associated with the overall administration of the Board of Supervisors Ordinance 459.4; 2) support provided by a Procurement Contract Specialist (referred to as a PCS) embedded within a specific Department or Division; and/or 3) support provided by a PCS within the Central Purchasing section of the Purchasing Division.

Calculated rates are based upon actual historical usage and budget (trued-up to actual) expenditure data and include both direct and indirect cost components. During the year, billing advices are produced for each customer, using developed rates along with actual service usage (either current or prior year).

Within the design of the fees and charges to be assessed by the Purchasing Division, every effort was made to keep the rates as simple and understandable to the end users as possible. This was balanced with the objectives of accuracy and fairness to all users, along with the ease of administration associated with billing and recording.

## **Rate Development Process at the County of Riverside**

### **Purchasing Division**

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As a result of the process outlined above, Purchasing Division rates primarily consist of four main fees or charges, each with separate individual components:

- 1) Policy Support Fees (with two distinct components)
  - a) a rate per \$1,000 of PO's processed
  - b) a rate per PO lines
- 2) Overhead rates for embedded staff (with five distinct components)
  - a) a benefit overhead rate
  - b) a services and supplies overhead rate
  - c) an overhead rate for other charges
  - d) a County-wide indirect overhead rate
  - e) an overhead rate for Purchasing Division administration
- 3) Central Purchasing Fees (with two distinct components)
  - a) a rate per PO dollar for non-embedded activity
  - b) a rate per PO dollar for activity with a County-wide benefit
- 4) Special Project Charges (with two different methods of billing)
  - a) a set of overhead rates to be applied to PCS salaries
  - b) an average fully loaded hourly rate for a Central Purchasing PCS

Each of the rates, fees and charges listed above are discussed in greater detail within the paragraphs and pages that follow. *Readers may want to refer to the attachments section of this manual for a schematic diagram which visually depicts the entire rate setting process.*

#### **The Policy Support Fees**

The Purchasing Division assesses charges to all County Departments and Divisions for the overall administration of the Board of Supervisors Ordinance 459.4. These fees are designed to recover the costs associated with the *purchasing* related activities of the Director and Assistant Director of Purchasing and Fleet Services, the Compliance Contracts Officer, and the Business Process Analyst. It is the responsibility of these individuals to administer the County's purchasing regulations and practices as dictated by the Board of Supervisors.

The first step in calculating the fees to be assessed involves the determination of full cost for these activities. Full cost includes the regular salaries of the individuals identified, along with an appropriate share (allocation) of benefits, services and supplies costs, other charges, and County-wide indirect (or interagency indirect) costs.

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As defined herein, benefits include all line item accounts in the 51xxxx range and include such items as retirement, flex benefits, Medicare tax, employee insurance, and other similar costs. Services and supplies include all line item accounts in the 52xxxx range such as janitorial services, building utilities, computer lines, data processing services, phone, and general office supplies. Other charges consist of the 53xxxx series of line item accounts that primarily are for depreciation costs on computer and office equipment. County-wide indirect (interagency indirect) costs represent the amounts charged to the Purchasing Division from other County Departments and Divisions such as the County Executive Office, Auditor Controller, Internal Audit, County Counsel, Human Resources, and Facilities Management.

Departmental indirect costs, those budgeted and charged within the Purchasing Division (benefits, services and supplies, and other charges), along with the County-wide or interagency indirect costs are allocated within the rate model based upon the directly identified regular salaries. This treatment is consistent with traditional GAAP, GASB, and/or OMB allocation methods.

In summary, the full cost associated with the Ordinance 459.4 Support fees includes directly identified regular salaries along with allocated departmental and County-wide indirect costs.

At this point in the rate calculation methodology, the full cost associated with overall Ordinance 459.4 support activity is split into two equal components. In order to account for the fact that support activity is often driven by the dollar amount (size) of the purchasing activity, one rate is developed (for half of the full cost) based upon the dollar amount of purchase order (PO) activity per Department or Division. This rate is expressed as a rate per \$1,000 of PO dollar amounts. For the remaining half of the full cost, a rate is calculated based upon the volume of PO lines and it is expressed as a flat rate per PO. The combination of these two methods equitably addresses both of the primary cost drivers associated with the Ordinance 459.4 support activity – dollar size and volume.

Both of the two Policy Support rates are determined by dividing the budgeted full cost by the actual prior year activity by Department or Division. Billings are made on this basis each quarter throughout the year.

It should be noted that, pursuant to GAAP, GASB, and/or OMB requirements, a mechanism is built into the rate calculation model which reconciles any variances between actual cost and the budgeted amounts used within the rate design. In effect, any differences are rolled into the calculation of the following year's rates.

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### **Embedded Staff Overhead Rates**

Within the County of Riverside, some of the larger Departments and Divisions, generally those with a high volume of purchasing activity or with more complexity have chosen to have a Purchasing Division staff person directly assigned to them. These individuals are normally 100% devoted to serving a specific Department or Division and they are commonly referred to as embedded staff.

The Purchasing Division charges the County Departments and Divisions for the full cost associated with the individuals assigned. Therefore, fees are designed to recover both the direct and indirect costs associated with these embedded positions.

As noted previously, the first step in calculating the fees to be assessed involves the determination of full cost for these activities. Full cost includes the regular salaries of the individuals identified, along with an appropriate share (allocation) of benefits, services and supplies costs, other charges, and County-wide indirect (or interagency indirect) costs.

As defined herein, benefits include all line item accounts in the 51xxxx range and include such items as retirement, flex benefits, Medicare tax, employee insurance, and other similar costs. Services and supplies include all line item accounts in the 52xxxx range such as janitorial services, building utilities, computer lines, data processing services, phone, and general office supplies. Other charges consist of the 53xxxx series of line item accounts that primarily include depreciation costs on computer and office equipment. County-wide indirect (interagency indirect) costs represent the amounts charged to the Purchasing Division from other County Departments and Divisions such as the County Executive Office, Auditor Controller, Internal Audit, County Counsel, Human Resources, and Facilities Management.

For the embedded staff (and also the Central Purchasing staff to be discussed later), an additional overhead component is determined and factored into the charges for the services that they provide. This overhead is to account for the amount of internal administrative support that they receive from the Purchasing Manager and the Office Assistant. The Purchasing Manager is responsible for managing the day-to-day activities of the County's purchasing program and as such this position provides direction, supervision, guidance, training and other administrative support functions for the Procurement Contract Specialists (PCS's) within the Purchasing Division. The Office Assistant serves in an administrative support capacity for the PCS's as well. Due to these administrative support relationships, the costs associated with the Purchasing Manager and the Office Assistant are allocated (based upon salaries) and become an overhead cost to the PCS's (both for those embedded and for those assigned to Central Purchasing).

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Consistent throughout the rate model, departmental indirect costs, those budgeted and charged within the Purchasing Division (benefits, services and supplies, and other charges), along with Purchasing Division administration and the County-wide or interagency indirect costs are allocated based upon the directly identified regular salaries. As noted, this treatment follows traditional GAAP, GASB, and/or OMB allocation methodology.

The overhead rates are calculated simply by dividing the amount of the benefits, services and supplies, other charges, Purchasing Division administration, and the County-wide indirect costs by the regular salaries. Again, this is done in a consistent manner for both the embedded and Central Purchasing functions.

Five different overhead rates are generated as a result of this process and they are applied to the actual regular salaries identified (charged) to each Department or Division with an embedded staff person. The overhead rate categories are:

- 1) benefits overhead
- 2) services and supplies overhead
- 3) other charges overhead
- 4) County-wide indirect overhead
- 5) purchasing administration overhead

Departments or Divisions with embedded staff are billed on the basis described above quarterly throughout the year.

It should be noted that, pursuant to GAAP, GASB, and/or OMB requirements, a mechanism is built into the rate calculation model which reconciles any variances between actual cost and the budgeted amounts used within the rate design. In effect, any differences are rolled into the calculation of the following year's rates.

### **Central Purchasing Fees**

As noted earlier, some of the larger Departments and Divisions have a Purchasing Division staff person directly assigned to them (embedded). However, this approach is not cost effective for all Departments and Divisions within the County. Therefore, there are some Procurement Contract Specialists that are assigned to what is commonly referred to as Central Purchasing. The Departments and Divisions served by Central Purchasing generally do not have a significant enough service need to justify having an embedded staff member, but by being grouped together with other Departments and Divisions with similar needs, they enjoy the benefits of economies of scale.

Staff members within Central Purchasing provide a wide variety of services for the Departments and Divisions that they serve. This includes, but is not limited to, developing and defining contract specifications, writing solicitations for bids (RFP's,

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RFQ's, RFQu's, etc.) along with analyzing and determining the most appropriate contract types to reduce the County's exposure to risk. They also review findings for accuracy, cost-effectiveness, as well as, adherence to standards, codes, County policies and procedures. They further serve as the liaison between vendors and users to develop compromises and resolve contractual problems or complaints. In addition, they play a vital role in negotiations and provide training for other County staff.

Given this broad range of services and wide variety of user needs, it is not cost effective to develop rates and bill users for each and every service provided. The costs of tracking, reporting and billing users is simply not cost justified, as the County would certainly incur more costs to administer such a program than it would be worth. Therefore, two distinct rates have been established for Central Purchasing users. The methods used to calculate these rates are described in detail in the paragraphs that follow.

As with the other fees, rates and charges outlined within this manual, the first step in calculating the fees involves the determination of full cost for the Central Purchasing function. As you will recall, full cost includes the regular salaries of the individuals identified, along with an appropriate share (allocation) of benefits, services and supplies costs, other charges, and County-wide indirect (or interagency indirect) costs.

As defined herein, benefits are defined as all line item accounts in the 51xxxx range and include such items as retirement, flex benefits, Medicare tax, employee insurance, and other similar costs. Services and supplies include all line item accounts in the 52xxxx range such as janitorial services, building utilities, computer lines, data processing services, phone, and general office supplies. Other charges consist of the 53xxxx series of line item accounts that primarily include depreciation costs on computer and office equipment. County-wide indirect (interagency indirect) costs represent the amounts charged to the Purchasing Division from other County Departments and Divisions such as the County Executive Office, Auditor Controller, Internal Audit, County Counsel, Human Resources, and Facilities Management.

For the Central Purchasing staff (and also the embedded staff as described above), an additional overhead component is determined and factored into the charges assessed to account for Purchasing administration overhead. This overhead is to account for the amount of internal administrative support that Central Purchasing staff receive from the Purchasing Manager and the Office Assistant. The Purchasing Manager is responsible for managing the day-to-day activities of the County's purchasing program and as such this position provides direction, supervision, guidance, training and other administrative support functions for the Procurement Contract Specialists (PCS's) within the Purchasing Division. The Office Assistant serves in an administrative support capacity for the PCS's as well. Due to these administrative support relationships, the costs associated with the Purchasing Manager and the Office Assistant are allocated (based upon salaries) and

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become an overhead cost to the PCS's (those assigned to Central Purchasing and those embedded).

Consistent with the full cost determination for the embedded staff, departmental indirect costs, those budgeted and charged within the Purchasing Division (benefits, services and supplies, and other charges), along with the County-wide or interagency indirect costs are allocated within the rate model based upon the directly identified regular salaries. This treatment is consistent with traditional GAAP, GASB, and/or OMB allocation methods.

At this point in the rate calculation methodology, the full cost associated with Central Purchasing activity is split into two components. This is necessary due to the fact that Central Purchasing not only provides services to the Departments and Divisions without embedded staff, but they are also responsible for activities that provide a benefit throughout the County. Some RFP's, RFQ's, etc. are not issued on behalf of a specific Department or Division – these are referred to (and coded as) being for the benefit of "RIVCO" (which stands for Riverside County). To be fair to all users, the cost of the RIVCO activity should be borne by all County Departments and Divisions. Therefore, the full cost of Central Purchasing is separated into a County-wide (RIVCO) piece and one representing the services provided to non-embedded users. This step in the rate development process is accomplished by using the ratio of total annual RIVCO PO dollars to the grand total PO dollars less those identified to embedded Departments or Divisions.

Once the full cost of Central Purchasing is split between County-wide support (RIVCO) and non-embedded Department or Division support, two distinct rates are determined. Both of these rates are expressed as a rate per \$1,000 of PO dollar amounts. The only difference is that County-wide (RIVCO) is to be applied to all PO dollar activity (except the RIVCO piece obviously), whereas the non-embedded fee only applies to the non-embedded activity (excluding the RIVCO and embedded PO dollars).

Both of the two Central Purchasing rates are determined by dividing the identified budgeted full cost amounts determined by the process described above, by the actual prior year activity (PO dollars) by Department or Division. Billings are made on this basis each quarter throughout the year. During the rate development process, consideration was given to using a combination of PO dollars and PO lines as a method of billing the Central Purchasing users. However, this method was dismissed as not being cost justified due to the relatively insignificant amount of dollars being distributed, coupled with the additional level of complexity and cost associated with administering this method.

It should be noted that, pursuant to GAAP, GASB, and/or OMB requirements, a mechanism is built into the rate calculation model which reconciles any variances



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between actual cost and the budgeted amounts used within the rate design. In effect, any differences are rolled into the calculation of the following year's rates.

#### **Special Project Charges**

All of the costs associated with operating the Purchasing Division are designed to be recovered through the Ordinance 459.4 Support fees, the embedded fees, or the Central Purchasing fees outlined above. However, in certain special circumstances, it may make sense for the Purchasing Division's Central Purchasing section to bill user Departments a special project charge. Although it is not anticipated that this will occur frequently (if at all), Central Purchasing may bill a user for a special project using an average fully loaded hourly rate or by charging actual regular salaries and applying the overhead rates discussed above (as is done with the embedded staff).

The average fully loaded hourly rate is determined by dividing the total full cost of the Central Purchasing function by the total available hours of staff assigned to that function. Available hours are computed by reducing the total hours in a year (2,080) by average vacation, holiday, sick leave and training time. This number is then multiplied by the number of full time equivalent positions in Central Purchasing to arrive at the grand total available hours for the section. Full costs (including salaries, benefits, services and supplies, other charges, County-wide indirect and purchasing administrative overhead costs) are divided by the total available hours to arrive at the average fully loaded hourly rate.

Since the calculation is based upon total salary dollars, overheads and available hours for the entire Central Purchasing function, it represents a blended rate meaning that it is not specific to a given staff person within Central Purchasing. As an alternative to charging the blended fully loaded hourly rate, the Purchasing Division may bill the amount of regular salaries associated with a specific Central Purchasing staff member and apply the overhead rates described previously, just like the treatment for an embedded staff member. The decision as to when to apply Special Project Charges will be left up to negotiation between the Purchasing Manager and the user Department or Division.

It should be noted that revenue received from the Special Project Charges may be in excess of the actual costs incurred by Central Purchasing since the other Central Purchasing rates are designed to recover all cost components. If this does occur, pursuant to GAAP, GASB, and/or OMB requirements, a mechanism is built into the rate calculation model which reconciles any differences into the calculation of the following year's rates. In effect, any over-collections will reduce the Central Purchasing rates the following year.

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### ***Exceptions***

There are no exceptions to the rate calculation methods outlined above – all rates are consistently determined and applied as outlined herein.

### ***Data Sources and Reports***

A great deal of the information needed to calculate rates and render bills to users comes from the *PeopleSoft* system or other departmental records. These sources provide all of the actual and budget data necessary to develop annual rates as well as the statistical counts related to the rate bases. In addition, the annual County-wide cost allocation plan (referred to as COWCAP) serves as the source for the interagency indirect costs (referred to as County-wide indirect costs).

### ***Terms and Definitions***

1. Available Hours – this represents an estimation of the annual hours that staff members are available to perform billable services. Total annual hours for the year are reduced by vacation, holiday, sick leave, and training time to determine available hours.
2. Blended Rate – the term used within this manual to define the average fully loaded hourly rate for Central Purchasing staff. It is referred to as blended because it includes an average of regular salaries and it is not specific to any given employee.
3. Central Purchasing – this represents Purchasing Division staff members (normally Procurement Contract Specialists) that are not directly assigned to a specific user Department or Division. These individuals serve all other Departments or Divisions throughout the County (that do not have embedded staff) as well as provide some services that have a County-wide benefit.
4. Common costs – expenditures that cannot be directly attributed or assigned. Examples include utilities, insurance, janitorial services, office supplies, equipment rental costs and other indirect costs (see definition below) incurred for the benefit of all of Purchasing.
5. Cost Driver – anything which drives, or causes changes in, the cost of an activity or service. A service may have more than one cost driver. Those with the greatest impact on total cost are considered to be the primary cost drivers.

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6. Cost Pool – this represents a grouping of costs (direct and indirect) associated with one of four primary activities provided by the Purchasing Division. These primary service activities include Ordinance 459.4 Support, Purchasing Administration, Embedded staffing, and Central Purchasing staffing.
7. County-Wide Indirect Costs – the amount of support provided to the Purchasing Division from other County Departments and Divisions. Also known as interagency indirect costs (see definition below).
8. COWCAP – the acronym used for the County-wide cost allocation plan which identifies support provided to the Purchasing Division from other County Departments and Divisions.
9. Departmental Indirect Costs – Within the rate design for the Purchasing Division, Departmental Indirect Costs include all of the accounts that comprise the benefit, services and supplies and other charges categories of expense that are charged, or budgeted within the Purchasing Division.
10. Direct Cost – this cost is defined as the amount that can be directly (clearly and explicitly) traced to producing a specific good or performing a specific service. For example, the regular wages of an employee assigned to a specific Department or Division (embedded) can be directly attributed to the cost of serving that Department or Division, thereby making it a direct cost for that user. Within the rate design for the Purchasing Division, regular salaries represent the predominant direct cost component.
11. Embedded Staff – represents Purchasing Division staff members (normally Procurement Contract Specialists) that are directly assigned to a specific user Department or Division. The specific regular salaries, along with appropriate overheads, are billed directly to the benefitting Department or Division.
12. Form 11's – the form used to place an item on the Board of Supervisor's agenda.
13. Full Cost – the amount of cost attributable to a given activity or service which includes all direct and indirect (overhead and common) cost components.
14. GAAP – acronym for generally accepted accounting principles which represents a collection of rules, procedures and conventions that define accepted accounting practice.
15. GASB – acronym for governmental accounting standards board which is the organization that establishes accounting standards for governmental entities.

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16. GSS – acronym used for general support service. This represents a funding mechanism whereby user Departments and Divisions are assessed fees for services provided. GSS agencies provide services or products to other County agencies and account for service related revenues and expenses in non-proprietary funds.
17. Interagency Indirect costs – costs for services provided to the Purchasing Division by other internal County agencies such as the County Executive Office, Auditor Controller, Internal Audit, County Counsel, Human Resources, and Facilities Management.
18. ISF – Internal Service Fund. A fund that works like an account, into which fees from customers are deposited, out of which expenses for an establishment are funded.
19. OMB – acronym for Office of Management and Budget, the organization that dictates appropriate cost allocation methods and techniques.
20. Ordinance 459.4 – the document, established by the Board of Supervisors, that outlines the mission and responsibilities of the Purchasing Division. In essence, it dictates the services that the Purchasing Division is to provide to the other County Departments and Divisions.
21. Overhead costs – another term for indirect or common costs (see definitions above).
22. Overhead rates – The percentage relationship of overhead costs to some direct cost base. Within the rate design for the Purchasing Division, overhead rates are expressed as a percentage of regular salaries. For example, \$100 of overheads associated with \$1,000 of regular salaries would represent a 10% overhead rate ( $\$100/\$1,000 = 10\%$ ).
23. PCS – the acronym used for a Procurement Contract Specialist.
24. *PeopleSoft* system – the computerized system whereby cost and other statistical data is tracked and reported. This system serves as the basis for accumulating direct and Departmental indirect costs (actual and budget) for rate calculation purposes. Interagency indirect costs come from the COWCAP (see descriptions above).
25. PO – an acronym for a purchase order.

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- 26. Rate model – the Excel-based template used by the Purchasing Division to calculate rates and charges assessed to their customers.
- 27. Request for Information – this is a questionnaire or inquiry into the supplier's background to gather, share and clarify information needed in the development of an RFP or RFQ, or as a tool used during budget preparation activities. A Request for Information is not limited to suppliers but can also include input from consumers, community groups and other interested parties. It can be in written, oral, faxed, or in email format.
- 28. Request for Proposal – a competitive solicitation that is used whenever the County cannot specify with certainty the item or service needed and the vendor is asked to propose a solution to a particular situation. These proposals are not opened publicly and bidders may be called to clarify their responses and allow for further negotiations of the prices, terms and conditions of their offer. These are generally awarded to the vendor that best meets all the requirements listed in the RFP evaluation criteria.
- 29. Request for Qualifications – the procedures used when a large or complicated purchase is being considered and the potential pool of suppliers must be pre-qualified. A questionnaire or inquiry into the supplier's background is used to determine if the supplier meets the minimum standards needed to successfully bid on the project and, if awarded, successfully complete the project.
- 30. Request for Quotation – a competitive solicitation that is used whenever the County can specify with certainty the performance, functional or technical characteristics or the item or service needed. This bid is opened publicly and award is generally to the lowest cost bidder meeting the minimum specifications as specified in the bid document and has the ability to fulfill the obligation.
- 31. RFI – the acronym used for a Request for Information (see definition above).
- 32. RFP – the acronym used for a Request for Proposal (see definition above).
- 33. RFQ – the acronym used for a Request for Quote (see definition above).
- 34. RFQu – the acronym used for a Request for Qualifications (see definition above).
- 35. RIVCO – the coding used to capture Central Purchasing activities that provide a County-wide benefit.

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36. Sole Source Purchase – a purchase of a commodity or service that is noncompetitive in price, specifications, use, or scope of work. The commodity or service is proprietary and no other vendor is qualified or willing to meet the County's specified requirements.

#### ***Attachments***

As a visual aid to users, a process flow diagram of the rate setting process has been attached to this document.

In addition, a copy of the Excel-based rate model used by the Purchasing Division to determine annual rates is attached to this document. It also contains the 10 year forecast model used to project Changes in Net Assets (fund balances).

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**ATTACHMENTS**

# Riverside County Purchasing Department Cost Allocation Model

