

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

407



FROM: Executive Office

SUBMITTAL DATE:
September 3, 2014

SUBJECT: Revision to Board Policy B-28 "Charges for Internal Services," All Districts [\$0]

RECOMMENDED MOTION: That the Board of Supervisors approve revisions to Policy B-28 of the Board of Supervisors Policy Manual:

BACKGROUND:

Summary

On February 5, 2013, the Board approved revisions to Policy B-28 so that the need for transparency and consistency regarding charges for internal services to county departments could be met. While every effort has been made to address the many complexities within the rate setting process, continued refinement of the process necessitate the policy revisions proposed today.

In August 2014, the Executive Office met with internal services departments and members of the Rate Review Committee to discuss the rate review process and identify areas for improvement. Some of the changes recommended by the meeting attendees require revisions to Board Policy B-28.

(continued on the next page)



Karen L. Johnson
Principal Management Analyst

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A	Consent <input type="checkbox"/> Policy X
NET COUNTY COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A	
SOURCE OF FUNDS: N/A				Budget Adjustment: No	
				For Fiscal Year: N/A	

C.E.O. RECOMMENDATION:

APPROVE

BY: 
Ivan M. Chand 9/16/2014

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- Positions Added
- Change Order
- A-30
- 4/5 Vote

Prev. Agn. Ref.: 2/5/13, Item #3-02 | **District:** ALL | **Agenda Number:**

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BACKGROUND:

Summary (continued)

A complete copy of the revised policy is attached with changes highlighted. Revisions to the policy include:

- Rate Review Committee will be renamed Rate Review Advisory Council (RRAC).
- RRAC will not make recommendations for rates that are based on actuary calculations. These rates will continue to be reviewed by the Auditor-Controller and Executive Office.
- Mental Health, Parks, Office on Aging, and Riverside County Regional Medical Center representatives will be added to the RRAC.

Impact on Citizens and Businesses

There is no direct impact to Riverside County citizens or businesses.

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Policy:

The purpose of this policy is to supplement Board of Supervisors' Policy B-4, *Rates Charged for Current Services*, to define Board of Supervisors' policy regarding charges for internal services provided to county departments and districts, and to provide a uniform approach to calculating rates. This policy does not apply to rates regulated by Board of Supervisors' Policy B-3, *Contract Services to Cities* or rates charged for services to other public agencies, various non-county organizations, or individuals.

Internal Service Fund (ISF) and General Support Service (GSS) departments are responsible for the efficient and effective administration of available resources through the application of sound management practices. It is the policy of the Board of Supervisors that ISF and GSS departments recover the actual cost of providing goods or services to other county departments. *The Board of Supervisors may direct ISF and GSS departments to reduce operating costs in order to reduce charges to user departments.*

I. Definitions

- A. The term "billable unit" shall mean a measure of activity such as direct labor-hours or machine-hours that is used to assign costs for internal services.
- B. The term "capital asset" shall mean assets that must be capitalized per the Auditor-Controller's Standard Practice Manual.
- C. The term "capital improvement project" shall mean a capital asset or public works project pertaining to a county facility project of significant value that extends beyond the current year. "Significant value" shall include the professional facilities services and its associated capital improvements, including but not limited to: master planning for county facilities, acquisition of land for a county facility, acquisition of buildings, construction or expansion of county facilities, fixed assets, or enhancements to county facilities that will be used, occupied, or owned by a county entity, with a combined project value over \$100,000; major leases or any county facilities project requiring new net county cost.
- D. The term "charges" shall mean costs billed to a department for goods or services.
- E. The term "cost center" shall mean a service unit within an ISF or GSS department that adds to the cost of operations.

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- F. The term “direct cost” shall mean expenditures that can be identified specifically with a particular cost center or business objective during a specific fiscal year.
- G. The term “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-proprietary funds. See Attachment 1 for a sample list of GSS departments.
- H. The term “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, proprietary funds. See Attachment 1 for a sample list of ISF departments.
- I. The term “non-productive hour” shall mean time that is for paid time away from the job or paid time at work not directly related to producing goods or services for user departments. Some examples include vacations, sick leave, or holidays.
- J. The term “overhead cost” shall mean costs that have not been classified as a direct cost and are incurred for a common purpose benefitting more than one cost center or business objective.
- K. The term “operating outlook” shall mean a document that illustrates the department’s strategic direction over the next three fiscal years including; the department’s operating and financial goals, the actions the department will take to achieve those goals, any new initiatives planned for the department, and the impact of these initiatives on the department’s operations.
- L. The term “productive hour” shall mean time that is paid for activities directly related to producing goods or services for user departments. Productive hours are usually calculated by deducting non-productive hours from total hours.
- M. The term “rate” shall mean the cost *per billing unit* for a good or service.
- N. The term “service baseline” shall mean the minimum service level needed to adequately provide the ISF or GSS department’s core service. Additional services can be added but the level of service cannot be reduced without impeding the ISF or GSS department’s ability to provide core services.
- O. The term “tiered rate structure” shall mean a rate structure that is based on service levels. The lowest rate tier would allocate the cost of providing baseline

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services among all user departments. Additional tiers would allocate the cost of “optional” services among departments that choose to obtain those services.

- P. The term “unallowable cost” shall mean costs that do not meet the principles of an allowable cost as defined in attachment A and B of the Office of Management and Budget (OMB) Circular A-87. Some examples of potentially unallowable costs are contingencies; fines and penalties; equipment and capital expenditures; or costs related to idle facilities/capacity.
- Q. The term “working capital reserve” shall mean unrestricted cash that may be used by an ISF department to cover temporary cash flow deficits caused by timing differences between routine revenue collection and payment of normal operating costs.

II. General Guidelines for ISF and GSS Departments

The following are guidelines for developing ISF or GSS department rates:

A. Direct Costs

ISF and GSS departments may recover the direct cost of providing goods or services as long as the cost is:

1. Adequately documented, verifiable, and consistent with Generally Accepted Accounting Principles, the State of California Accounting Standards and Procedures for Counties, and the Office of Management and Budget (OMB) Circular A-87.
2. Based on actual costs incurred by the ISF or GSS department during the most recently ended fiscal year. Expected increases to these costs shall be thoroughly documented and shall be consistent with county budget policies.
3. Net of revenue and credits that may be associated with providing the good or service.
4. Necessary and reasonable for adequately and efficiently providing goods or services.
5. Not an expenditure for the purchase of a capital asset. These will always be categorized as an indirect cost of providing the service.

B. Overhead Cost Allocations

ISF and GSS departments may recover the overhead cost of providing goods and services as long as the cost is:

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1. Adequately documented, verifiable, and consistent with Generally Accepted Accounting Principles, the State of California Accounting Standards, and Procedures for Counties, and the Office of Management and Budget (OMB) Circular A-87.
2. Based on actual costs incurred by the ISF or GSS department during the most recently ended fiscal year. Expected increases shall be thoroughly documented and consistent with current fiscal year county budget policies.
3. Consistent with the amount of anticipated revenue associated with its recovery.
4. Necessary and reasonable for adequately and efficiently providing goods or services.

C. Selection of the Appropriate Billable Unit

The billable unit for a rate shall be determined in terms of labor hours, machine hours, tangible product, or other approved unit. ISF and GSS departments shall use a billable unit that "drives" the cost of providing the good or service. The total variable cost (e.g., supplies and labor) incurred in the service department shall be directly related to the billable unit. An increase or decrease in the billable unit should result in a similar increase or decrease in overall service department cost. Charges to a department shall correspond to the level of service provided to a department.

For a billable unit established as a measure of time, productive hours shall be used in the cost calculation instead of total hours available. Rates based on productive hours below 1,750 hours require additional supporting documentation.

D. Multiple Service Cost Centers within a County Department

ISF and GSS departments with multiple service cost centers shall work closely with the Auditor-Controller's Office to ensure its accounting structure is properly represented in the county's financial system. A department that calculates multiple rates shall treat costs consistently for all calculations. The same cost cannot be an overhead cost for one rate and a direct cost in another rate calculation. Total allocation shall not exceed 100% of the total cost.

E. Rate Adjustments

ISF and GSS departments shall continuously monitor the financial performance of operations and perform rate maintenance at mid-year, if necessary, to align service revenues with their respective costs. Rate adjustments shall be approved by the Board of Supervisors.

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F. Establishing Service Baselines and Tiered Rate Structures

ISF and GSS departments are encouraged to establish a tiered rate structure for goods or services to promote equity in cost allocation among user departments. ISF and GSS departments shall collaborate with user departments to identify service baselines and establish a practical tiered rate structure if necessary.

ISF and GSS department must ensure the all users (county and non-county) are billed the same rate for the same service.

G. Capital Improvement Projects

Expenditures related to a capital improvement projects shall be approved by the Board of Supervisors prior to any impact on rate calculations. Capital improvement projects proposals submitted to the Board of Supervisors for approval shall include a description of any potential impact to rates charged to user departments in the current and future fiscal years. The capital improvement project expenditures shall be a component of the capital improvement program pursuant to Board of Supervisors' Policy B-22. *GSS departments shall not include capital improvement project costs in its rate calculations unless given Board of Supervisors approval to recover these costs through rates.*

III. ISF Department Working Capital Reserve

ISF departments shall maintain a working capital reserve. The funding level shall be targeted at a level not to exceed the average sixty-days of operating expenses during the prior twelve months. Funds that exceed this limit, or some other limit established by the Executive Officer, at the end of the fiscal year shall be credited to user departments the following fiscal year through the use of a "rate holiday" or billing credit. The credit for each user department shall be proportionate to its charges billed for the fiscal year recently ended.

ISF departments shall ensure that excess working capital reserve that has been designated for a specific purpose by the Board of Supervisors is reported as reserved in the county's financial system. *GSS departments shall not maintain a working capital reserve.*

The working capital reserve fund level limits shall not apply to ISF departments with services directly related to employee insurance benefits or county self-insurance programs. The working capital reserve for these departments shall not exceed levels established by an actuary, approved by the Board of Supervisors, and permitted by other regulatory authorities.

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IV. Rate Review Advisory Council (RRAC)Rate Review Committee (RRC)

The ~~RRAC~~RRAC shall serve as an advisory committee for policies related to rates and charges for current services. The ~~RRAC~~RRAC shall consist of the department head or designee from the: ~~Department of Public Social Services, Assessor-Clerk-Recorder's Office, District Attorney's Office, Treasurer's Office, Sheriff's Office, Transportation and Land Management Agency, Assessor-Clerk Recorder's Office, Department of Public Social Services, District Attorney's Office, Mental Health, Office on Aging, Parks, Probation, Riverside County Regional Medical Center, Sheriff's Office, Treasurer's Office, Transportation and Land Management Agency, Auditor-Controller's Office, and Executive Office.~~ Department of Public Social Services, Assessor-Clerk-Recorder's Office, District Attorney's Office, Treasurer's Office, Sheriff's Office, Transportation and Land Management Agency, Assessor-Clerk Recorder's Office, Department of Public Social Services, District Attorney's Office, Mental Health, Office on Aging, Parks, Probation, Riverside County Regional Medical Center, Sheriff's Office, Treasurer's Office, Transportation and Land Management Agency, Auditor-Controller's Office, and Executive Office. The Executive Office representative shall serve as chairperson and shall appoint a department head or designee from an ISF or GSS department to serve on the committee each year.

~~At minimum, the RRAC and internal service departments shall meet annually to ensure that proposed internal service rates are in compliance with Board of Supervisors policies discuss proposed internal service rates. Based on the information obtained during the meeting, the RRAC will make recommendations to the Executive Office regarding proposed rates that are not based on actuarial calculations. The Executive Office will take the RRAC's counsel into consideration when developing final rate recommendations for Board of Supervisors approval. ISF and GSS department representatives may meet with the RRC to present its proposed rate(s) and discuss any concerns on an annual basis.~~

V. Annual Productivity and Efficiency Report

ISF and GSS departments shall prepare an *Annual Productivity and Efficiency Report* for each fiscal year and submit to the Executive Office no later than September 30th of the following fiscal year or 30 days after preliminary year-end reports are issued by the Auditor-Controller Office, whichever occurs first. The report shall also be made available to user departments and shall include the following information for each service unit:

- Total units of service/product provided during the recently ended fiscal year.
- Total units of service/product billed during the recently ended fiscal year.
- Actual productive hours during the recently ended fiscal year if the billable unit is based in units of time.
- Actual non-productive hours during the recently ended fiscal year if the billable unit is based in units of time.
- Total overtime and standby hours for the recently ended fiscal year.

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- Total overtime and standby hour costs, including those related to benefits.
- Total charges to user departments for the recently ended fiscal year.
- Data comparisons for all of the above listed items as well as all operating expenditures and revenue for the two fiscal years prior to the fiscal year recently ended.

Report data shall be consistent with the data in the county financial and human resources systems. Inconsistencies shall include a written explanation.

VI. Rate Package Submission

The Executive Office shall establish the deadline for rate package submission each year. ISF and GSS departments shall submit rate packages to the Auditor-Controller for audit and the Executive Office for review prior to the deadline. Additional documentation and information may be requested after submission. The rate package shall include the following:

- Three-year operating outlook that includes future revenue and expenditure projections.
- Long-term capital asset purchase and replacement plan for the future replacement and purchase of capital assets. ISF and GSS departments shall show how this plan will impact rates over the next three fiscal years. ISF departments that accumulate funds for the purpose purchasing or replacing capital assets shall ensure these funds are reported separate from its working capital reserve in the county's financial system.
- Documentation of Board of Supervisor approval for inclusion of capital improvement project costs in rate calculations, if applicable.
- Cash management plan that describes the projected department cash flow for the next two fiscal years. It shall explain how anticipated changes in balance sheet accounts and income affect cash.
- An explanation of any significant increases (10% greater than amount most recently approved by the Board of Supervisors) in individual cost centers, individual rates, or charges to departments.
- Documentation to support the proposed rate(s) pursuant to the policies and practices established by the Auditor-Controller.
- Rate proposals on a Form 11.

VII. Departmental Billings

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ISF and GSS departments shall provide user departments with monthly billings invoices within 21 days of the end of each month. Billing invoices shall only include charges for goods and services provided unless the Board of Supervisors has given approval for advanced billings. Billing invoice shall be timely and include charges for the month recently ended. Billing invoices sent to user departments shall also include the following:

- Date service/product provided.
- Description of service/product provided. This description shall include the type of service/product provided and location where services were provided when applicable.
- Total units billed (e.g., hours, pages, square footage).
- Total charges billed to the user department for the billing cycle.
- Percentage of the billed charges that can be associated with unallowable costs. Departments shall consult OMB Circular A-87 attachment A and B for guidance on identifying unallowable costs.

Prior to each fiscal year-end, ISF and GSS departments shall provide user departments with a billing invoice that includes projected charges for the final billing month.

VIII. Record Maintenance

ISF and GSS departments shall maintain detailed records of goods and services billed. These records shall be made available to user departments or the Auditor-Controller upon request. All records are subject to audit. ISF and GSS departments are responsible for ensuring documentation is maintained pursuant to Board of Supervisors' Policy A-43, *County Records Management and Archives Policy*.

Reference:

Minute Order 3.4 of 06/15/2010

Minute Order 3.2 of 02/05/2013

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Attachments to Follow: List of ISF and GSS departments

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Attachment 1

List of ISF and GSS Departments

This list may not be all inclusive

ISF Departments

Central Mail
Economic Development Agency (EDA) - Custodial
EDA – Maintenance
EDA – Project Management
EDA – Real Estate
Fleet Services
Human Resources (HR) – Auto/General Liability
HR – Long-term Disability
HR – Occupational Health and Wellness
HR – Property
HR - Safety
HR – Short-term Disability
HR – Temporary Assistance Pool
HR – Unemployment Insurance
HR – Workers' Compensation
Printing Services
Public Safety Enterprise Communication (PSEC)
Records Management and Archive Program
Riverside County Information Technology
Supply Services

GSS Departments

Auditor- Controller Payroll
County Counsel
HR – General Services