

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: J. Matthew Carroll, Chief Information Officer
Information Systems Department (ISD)

Date: January 29, 2007

From: Christine L. Cohen

Subject: FOLLOW-UP VERIFICATION OF IBM SYSTEM COST ALLOCATION
FRAUD HOTLINE ISSUE: 04-0006

We have completed our follow-up verification of Fraud Hotline Issue 04-0006, regarding ISD's allocation of IBM system costs. The results our follow-up verification are summarized below.

This report is not deemed confidential since the results of our verification related to the propriety of a policy, system or procedure, and not the conduct of particular employees operating thereunder. Therefore, this report may be subject to public inspection in accordance with Government Code Sections 6254(c) and 6255.

BACKGROUND: ISD's Data Center administers and maintains the IBM system for use by certain County departments. The costs of running the IBM system are allocated to departments based on projections since ISD develops internal service fund rates approximately 9 months before the rates go into effect. The cost projections are then allocated to departments based on IBM utilization data from the most recently completed fiscal year (FY) at the time of the rate development. For FY 2005-06, the total projected cost of the IBM system was approximately \$1.5 million, which was allocated to approximately 25 user departments.

SCOPE: Our overall objective was to evaluate the corrective action taken by ISD to address the issues noted in our prior verification report dated June 10, 2004. Specifically, we reviewed adjustments made by ISD management to: properly allocate salary costs to the IBM system; and properly allocate total IBM system costs to the appropriate departments for FY 2005-06. For our follow-up verification, we used various cost allocation documents from FY 2003-04 through FY 2005-06.

RESULTS: Overall, ISD had made progress in implementing procedures to properly allocate IBM system costs. Specifically, we found that ISD's method of allocating IBM system costs to user departments appeared reasonable and FY 2005-06 cost allocations were properly based on FY 2003-04 IBM utilization data. However, opportunities were available to further strengthen support for allocating salary costs to the IBM system. Summarized below are the details of the areas where improvements were needed. ISD management initiated corrective action during the verification as noted.

Documentation of Salary Allocations. ISD did not maintain supporting documentation for adjustments made to the percentage of salaries charged to the IBM system. ISD claimed to have properly used prior year actual labor distribution data from the Information Systems Request (ISR) system as the basis for FY

2005-06 salary costs charged to the IBM system. However, we found that ISR supported salary costs of approximately \$550,000 were adjusted with an increase of approximately \$125,000 (23%) without support documenting the justification and approval for the adjustments. Although we believe ISD's explanation for the adjustments appeared reasonable, documentation was necessary to establish authority for such significant adjustments.

Management Action. ISD management concurred with our finding and stated:

"ISD utilizes prior year actual labor distribution data from the Information System Request (ISR) System as a starting point for projecting the labor costs to be allocated among user departments, for the IBM platform.

"In the past, the labor costs have typically comprised approximately one third of the total IBM platform cost. Each year, an adjustment to the prior year labor costs may be necessary in order to provide a more accurate projection of next year's IBM platform labor costs. Any adjustments are based on information about the following year's platform labor requirements that becomes available during the budget development process. For example, the labor costs for FY 2006-07 were adjusted down from the FY 2005-06 actual labor costs due to a known planned decrease in the utilization of the IBM platform by the County Human Services Agency. Therefore, to reflect this known planned decrease in utilization, a decrease to the labor resources required to operate the system was factored into our FY 2006-07 budget development process.

"As noted in the verification report, ISD has not maintained supporting documentation for the adjustments. ISD concurs that supporting documentation is necessary to establish the internal authority for any adjustment. ISD will formalize the documentation of these types of adjustments by the end of Fiscal Year 2006-07. The formal documentation process will then be used in the development of the FY 2008-09 and subsequent budgets.

"ISD management appreciates the assistance and oversight afforded by your staff in order to help improve internal processes and provide financial accountability in delivering services to user departments."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management's planned corrective actions were responsive to the verification findings. ISD management planned to complete corrective actions by June 30, 2007.

We appreciate the cooperation and assistance extended by you and your staff during our verification.

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter Foy, Board of Supervisors
Honorable John K. Flynn, Board of Supervisors
John F. Johnston, County Executive Officer