

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Michael Pettit, Assistant County Executive Officer
David Sasek, Director, General Services Agency
Brian Ganley, Chief Information Officer, Information Technology Services Department
Jeff Pratt, Director, Public Works Agency

Date: January 16, 2020

From: Jeffery S. Burgh

Subject: INTERNAL SERVICE FUND ANALYSIS

The analysis has been completed of the County of Ventura's 14 Internal Service Funds ("ISFs"), which are administered by the following departments:

- County Executive Office;
- General Services Agency;
- Information Technology Services Department; and
- Public Works Agency.

The analysis was conducted by NBS Government Finance Group, as commissioned by the Auditor-Controller. The analysis report is attached for your reference.

The analysis concluded that, overall, the County of Ventura's ISFs have a high level of defensibility and documentation provided for internal cost allocation, cost accounting, and rate development built into the functional structure. The analysis resulted in recommendations in three main areas:

- allocation factors;
- cost recovery and operating reserve levels; and
- documentation and billing practices.

Although written responses to the recommendations were not required, we encourage the departments to consider implementing the recommendations in coordination with our office.

We appreciate the cooperation and assistance extended by you and your staff during this analysis.

Attachment

cc: Honorable Kelly Long, Chair, Board of Supervisors
Honorable Linda Parks, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer
Joanne McDonald, Assistant Auditor-Controller
Jill Ward, Deputy Director, Auditor-Controller's Office

MEMORANDUM

To: Jeff Burgh, Auditor-Controller, Ventura County

From: Greta Davis, Associate Director, NBS

Date: January 14, 2020

Re: Ventura County Internal Service Fund Analysis

The County of Ventura (County) retained NBS to conduct an Internal Service Fund (ISF) Analysis of the County's fourteen Internal Service Funds. The purpose of this Memorandum is to document relevant points of NBS' understanding of the ISFs, as well as strengths and opportunities for improvement related to existing methods of charging and/or cost allocating each Internal Service Fund activities and functions. The goal of this effort is two-fold. The first objective is to review existing methods of cost recovery regarding provisions of services to other County departments and agencies for full cost recovery. Additionally, this analysis will review whether charges generally comply with guidelines set forth by the State Controller's Office Handbook of Cost Plan Procedures; and federal guidelines, including Title 2 of the Code of Federal Regulations (formerly known as OMB Circular A-87).

NBS provides the following definition for Internal Service Fund for reference.

"Internal Services Funds account for the financing of goods or services provided by one department or agency to other departments or agencies on a cost-reimbursement basis. The Internal Service Fund is an independent budget with its own set of revenue and expenditure accounts... The only revenue received by internal service funds come from cross-charges made to other funds... Each individual internal service fund departmental cost allocation is calculated differently depending on the type of service the internal service fund provides."

Introduction to NBS

NBS was founded in 1996 by experienced finance and engineering professionals and has worked with more than 400 public agencies to date. NBS is an independent consulting firm serving local governmental agencies, including cities, towns, counties, municipal utilities, and special purpose districts.

Our Financial Consulting practice focuses primarily on cost recovery mechanisms and supporting justification for various agency revenue streams, including preparation of Indirect Cost Allocation Plans, Indirect Cost Rates, Cost of Service Analysis and advisement on opportunities for reimbursement. Our

professional staff completing the ISF Analysis for Ventura County possesses over 50 years of combined experience performing cost allocation plans and cost of service studies for local governments.

1. Internal Service Fund Charges, Rates, and Cost Allocation Guidelines and Methodology

1.1 In NBS' professional opinion, which aligns with industry-standard accounting and cost allocation practices, determination of the amount of any internal service fund support service should be supported by a methodology through which costs are apportioned based on the proportionate share of benefit received and recovered through rates or other charging mechanisms such as direct charges, interfund transfers, intrafund transfers, and other billing.

In addition to Generally Accepted Accounting Principles (GAAP), there are documented State of California and Federal guidelines available for use in developing rates and charging models and allocation methodologies. The most common documents used in the industry of development of rates and charges for Internal Service Funds, as well as cost allocation practices for local governments are:

1. Title 2, Code of Federal Regulations (CFR), Part 200 (formerly OMB A-87), effective 12/26/14
2. California State Controller's Office, *Handbook of Cost Plan Procedures for California Counties*, August 2016 (*Abbreviated as SCO Handbook*)

These documents establish the principles and standards that provide a uniform approach for determining costs and allocating costs. They are used extensively for approving reimbursement of direct and indirect costs from state or federal grants. California counties, for example, have been submitting their plans annually for approval from the California State Controller's Office since 1974. Over decades of governmental financial practices, consultants and county governments have used these guidelines to develop cost allocation practices for grant-reimbursement related purposes, as well as other purposes; such as, defensible documentation supporting inter-fund transfers, internal service fund rates and charges, self-insurance fund rates and charges, inclusion of overhead costs in fees and charges, etc.

1.2 Based on the above guidance, counties must meet certain requirements in developing rates and charges for cost recovery through billing mechanisms. Like a central service budget unit that bills for services, ISFs must provide all of the following six items:

- A description of the service provided and their relevance to federal and state programs conducted by the county.
- Expense items to be included in the costing methodology for each service.
- Identification of the departments receiving the services.
- Well documented description of the rates and charges calculation and methodology.
- Well documented description and accounting of adjustments if needed mid-year or at fiscal year end.
- A list of all non-operating transfers in and out of the fund.

Counties must have all direct billings approved in the annual Cost Plan Negotiation Agreement in order to claim reimbursement from grantor agencies.

In addition, GASB 34 states that “ISFs may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis. ISFs should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund”. NBS analysis determined that all fourteen ISFs meet these qualifications as outlined in GASB 34.

1.3 The objective of an ISF is to recover the total costs of providing goods and services over a period of time and is not to make a profit. The SCO’s *Accounting Standards and Procedures for Counties Manual* requires ISF rates and billings to be cost based. It further requires the use of an approved cost accounting and/or cost allocation system. This system is intended to provide information beyond that provided by the County’s general accounting system records, however, will reconcile to those records. Additionally, all users of an ISF should be billed directly in order to ensure equitable charges to all units that have received the ISF’s goods and services. If all users are not equitably billed, the fund must prepare a schedule reconciling actual charges to the amounts that should have been charged in an equitable system.

1.4 Ventura County’s Internal Service Funds rates and charges are reviewed and developed as part of the annual budget process. In addition, Unrestricted Net Position (UNP) is reviewed as part of this annual process, as well as reviewed mid-year, and adjusted if required by materiality. All departments have confirmed that FY20 ISF charges are in accordance with the Board of Supervisors approved rates.

1.5 Guidance provided by the SCO *Handbook of Cost Plan Procedures for California Counties*, states that each ISF should regularly prepare and examine its financial condition at least midway through each fiscal year. If this examination indicates a material profit or loss is anticipated for the fiscal year end, the fund’s billing rates and charges should be adjusted during the year. If immaterial, an adjustment may be offset in the subsequent fiscal year billings. ISF billing rates and charges are intended to recover full costs of the operations, including all direct costs, and indirect Department, Agency and Countywide overhead costs. ISFs must separately account for all resources received by the service, incurred expenses, and profit and/or loss. The difference between assets and liabilities is net assets. Net assets should be reported in one of three ways: 1) invested in capital assets, net of related debt (and accumulated depreciation); 2) restricted; or 3) unrestricted. It should be noted that portions of unrestricted net assets may be designated by management to be considered “not available” for general operations. ISFs may include annual depreciation in their rates and charges. Depreciation costs included must be matched to the asset and also must be discontinued once the asset is fully depreciated. Amounts collected as depreciation for an asset must be made available for expenditure when that piece of equipment is replaced or removed from service. ISFs may include a “replacement/inflationary charge” in their rates and charges to offset increases in the cost of replacement of the assets, however, the accounting for this must be evaluated and adjusted at least annually. NBS does not recommend this practice, as this “replacement/inflationary charge” is not eligible as an allowable cost for grant departments and can be complex to account for. NBS recommends inclusion of detailed footnotes in back-up files and documentation where applicable.

1.6 Title 2 CFR, Part 200 provides guidance for a reserve level to be included in rates and charges by ISFs. ISFs may provide for the establishment and maintenance of a reasonable level of working capital reserve. The guidance provides for 60 days of average cash expenses as the recommended level of reserves to be included in the unrestricted, undesignated net assets. Counties are required to provide a thorough analysis of the net

assets for each ISF and describe if any portion of these assets are designated so that it is sufficiently documented, as these will be reviewed and evaluated during the SCO desk review of the Countywide Cost Allocation Plan annually. It should be noted that if an ISF's working capital chronically exceeds the amount established as allowable by Title 2 CFR, Part 200, including the recommended 60-day operating reserve, it can be deleted from Section II of the County's negotiation agreement, thus resulting in the inability to claim ISF costs for grant reimbursement. NBS cannot emphasize enough that the documentation should include a rationale and methodology for the designation of net assets that is auditable and reconciles to the County's financials. All net assets reported to the SCO as reserved or designated for any purpose other than the purposes for which these assets were designated or reserved must receive approval by the State Controller's Office County Cost Plans Unit. NBS recommends inclusion of detailed footnotes in back-up files and documentation where applicable.

1.7 There are specific requirements outlined in the *SCO Handbook of Cost Plan Procedures for California Counties*, "for those funds that use multiple billing rates", [such as Information Technology Services Department (ITSD)]. "A separate net asset and working capital reserve calculation may be required for each billing rate or service". It is indicated that an overall analysis at the combined fund level may not be appropriate because excess charges may occur in one billed service, that could potentially subsidize another billed service. In addition, all services are not used and billed to all users. A Fund should not overcharge in one service area to compensate for an undercharge in another service area.

Figure 1 on the following pages summarizes the 14 Internal Service Funds included in this analysis.

Figure 1 Internal Service Funds

Fund	Fund Description	Agency	Purpose of Charge
I100	Public Works Services	Public Works Agency (PWA)	This fund includes four major divisions/departments . Central Services provides administrative, fiscal, real estate and support services to other Public Works Departments. Engineering Services provides project management, surveyor and mapping services, subdivision engineering, development and inspection services. Watershed Protection provides planning, design, construction and maintenance of the Watershed Protection District waterways. Transportation Department provides administrative services related to project planning, construction, traffic engineering, and transportation planning, and maintains the County road system.
I110	Waterworks Operations	Public Works Agency (PWA)	This fund provides support services to Ventura County water and sanitation operations.
I200	Heavy Equipment	General Services Agency (GSA)	This fund provides for the heavy equipment needs of the County, including the purchase and maintenance of the equipment. The primary users are the Public Works Agency's Road Department and the Watershed Protection District.
I210	Transportation	General Services Agency (GSA)	This fund provides for the automotive fleet needs of the County, including Ventura County Fire Protection District and other government agencies. This fund includes purchase and maintenance of the vehicles.
I220	Materials	General Services Agency (GSA)	This fund is comprised of four divisions : Business Support Services, Procurement, Special Services and GSA Administration. GSA Administration provides Agency-wide administrative services to Heavy Equipment, Transportation, Materials, Facilities and the Parks Department. Business Support Services provides mail processing, document management and warehouse and distribution services. Procurement issues and evaluates written bids, proposals and quotations; is responsible for disposal of surplus property; provides contract management services; and administers the Convenience Copier Program. The Special Services Division administers the security guard contract and conference room rentals.
I230	Facilities	General Services Agency (GSA)	The Facilities Fund consists of three major divisions : Facilities, Housekeeping/Grounds and Facilities Projects. The Facilities Division includes three major functions including Administration, Maintenance and Utilities. Administration manages both the Facilities and Maintenance Units. Maintenance is responsible for preventative maintenance and corrective repair of building and equipment in GSA assigned facilities. The Utilities program implements the Energy Conservation Program and monitors and allocates electric, gas and water utilities. The Housekeeping/Grounds Division provides or administers contracts for custodial, rubbish, and landscaping services for the Government Center complex and numerous outlying areas. The Facilities Projects Division administers major maintenance and renovation projects under the external Job Order Contract (JOC) program.
I300	Workers' Compensation Insurance	County Executive Office (CEO)	This fund encompasses two major divisions : Workers' Compensation and Risk Management Administration. The Workers' Compensation Division is responsible for the oversight of the third-party administrator in their delivery of benefits for injured workers, as well as the reconciliation of CA Labor Code 4850 benefits for the safety departments (relates to injured public safety workers benefits). The Risk Management Administration Division provides overall management and program support services to three general sections: (1) Health, Safety & Loss Prevention Section, (2) General Liability Insurance Section, (3) Workers' Compensation Section.

Figure 1 Internal Service Funds (continued)

Fund	Fund Description	Agency	Purpose of Charge
I320	Liability Insurance	County Executive Office (CEO)	This fund administers the property, general liability and automotive liability program for all County departments, special districts and other local agencies including the medical malpractice coverage for the Health Care Agency.
I400	Personnel Services	County Executive Office (CEO)	This fund administers the services of the Human Resources Division including the administration of the Department of Transportation mandate of alcohol and drug testing, and deferred compensation program to County and non-County entities.
I410	Unemployment Insurance	County Executive Office (CEO)	This fund provides for the County's self-funded Unemployment Insurance Benefits Program. This fund contracts with a third-party administrator for the review and monitoring of unemployment insurance claims and for the support and training on benefit policy and procedures.
I420	Medical Insurance	County Executive Office (CEO)	This fund administers the County's Flexible Benefits Program including the County's medical plans, Employee Assistance Program, the Work Life Program and the Wellness Program.
I430	Employee Benefits	County Executive Office (CEO)	This fund administers the employee funded Wage Supplement Plan (WSP) through the Benefits Unit of the Human Resources Division. The WSP is an optional benefit program that provides supplemental income to eligible employees in the event of short-term disability.
I500	Information Systems	Information Technology Services Department (ITSD)	This fund consists of six divisions: Administration and Fiscal Services, Technical Services, Application Services, Enterprise Services, Health Care Agency Services and Geographic Information Services. The primary functions are to plan, analyze, develop, operate and maintain computer-assisted systems to support the information-processing requirements of the County departments and agencies.
I510	Network Services	Information Technology Services Department (ITSD)	This fund is responsible for County voice, data and radio/microwave networks, which include design, implementation, support and maintenance for all on-line systems and applications, including Cyber Security.

1.8 Aside from accurately and reasonably reflecting an organization's costs before charging them to one or more recipients, the most important step in determining allocated costs is the selection of allocation factors. These data sets should represent either actual or estimated workload of the service allocated, or a reasonable and generally accepted means of apportioning benefit for the service allocated. The following are basic guidelines followed by the industry in determining the basis for allocated costs.

- In general, if an expenditure (actual or planned) benefits solely one fund, department, project, or service, it should be charged directly to the beneficiary. When expenditures benefit more than one fund, department, project, or service, then costs should be allocated on a basis of proportional benefit or on a reasonable basis.
- Examples of commonly accepted allocation methods include:
 - Usage-basis – such as the costs of providing centralized purchasing services allocated based upon the quantity of purchase orders incurred for each fund, department, etc., or the costs of centralized accounts payable services allocated based upon the number of financial transactions incurred.

- Time-basis – such as the costs of access to shared equipment allocated based on tracked hours of usage, or costs of centralized information technology support allocated based on the number hours recorded for help ticket requests.
- Effort-basis – such as department or agency-wide administrative services allocated based on the percentage of effort of time tracked in support of each fund, department, program, or service.
- Square footage-basis – such as the costs of building maintenance, repair and/or replacement allocated per the square footage occupied per department, program, or service utilizing the building area.
- Default-basis – such as applying the proportionate share of operating budget expenditures, or proportionate share of full-time equivalents as the basis for allocating costs when other relevant or reasonable bases cannot be determined because of the nature of the service provided or because compiling allocation data requires undue effort or cost.
- Unacceptable cost allocation practices generally include charging expenses or costs to a particular fund, department, service, or program to remedy deficiencies in funding for other funds, departments, programs or services that receive benefit from the centralized service being allocated.

1.9 Selection of Allocation Factors

An *allocation factor* is a data source of information or statistics generated from the agency that can be used to distribute or spread the costs for the services provided by the support division or budget unit. The allocation factor or basis should represent either:

- Actual or estimated workload of the function allocated; or
- A reasonable and generally accepted means of apportioning benefit for the function allocated.

In this way, resulting cost allocations are a reasonable component to establishing the full cost of providing County services.

Similar to the indirect cost recovery charges from the Countywide Cost Allocation Plan, establishment of the County's Internal Service Fund Charges should follow a similar cost allocation or recovery method to those described as Cost Allocation Principles and Guidance. NBS reviewed the County's Internal Service Fund Charges from the perspective of full cost recovery and whether the charging method generally follows the state and federal regulations and guidance.

2. Public Works Agency (PWA)

2.1 The Public Works Agency has two ISFs: The Public Works Services Fund and the Waterworks Operations Fund. The Public Works Services Fund has multiple departments/divisions included within the fund. NBS has confirmed that all PWA charges are in accordance with the Board of Supervisors approved rates. Each of these department/divisions are described below.

Public Works Services Fund (I100) – This fund is comprised of four departments/divisions: Central Services (4411, 4412), Engineering Services (4421, 4422, 4423), Watershed Protection, (4431, 4432) and Transportation (4441, 4442). Service rates developed for major functions recover direct costs plus Department, Agency, and Countywide indirect overhead, minus interest if applicable. User departments are billed on a time and materials basis.

- Central Services provides administrative, fiscal, real estate and support services to other Public Works Departments. Costs are allocated and recovered from other Public Works departments/divisions based on an allocation of the estimated level of effort.
- Engineering Services provides project management, surveyor and mapping services, subdivision engineering, development and inspection services.
- Watershed Protection provides planning, design, construction and maintenance of the Watershed Protection District waterways.
- The Transportation Department provides administrative services related to project planning, construction, traffic engineering, and transportation planning, and maintains the County road system.

The Waterworks Operations Fund (I110) provides support services to Ventura County water and sanitation operations. Rates are developed to recover direct costs plus Department, Agency and Countywide indirect overhead, minus interest if applicable. Costs are allocated to Ventura County water and sanitation operations and recovered through utility rate revenues.

2.2 Items of Note:

- a. In Section 1.2 (page 2), County ISFs are required to provide six items. NBS reviewed the ISF descriptions for PWA provided in the annual Countywide Cost Plan, as well as other supporting documentation files provided by the Agency. All six items are included in the description and rate-setting files used for the budget development manual.
- b. NBS reviewed the rate calculation back-up documentation files for each of the rates. The County can include a 60-day operating reserve (Section 1.6, page 3) as part of the Unrestricted Net Position. PWA provides this information in the annual rate calculation files. NBS has reviewed this information and provided feedback below on each division/unit.
- c. If there are multiple billing rates within a fund [such as the Public Works Services Fund (I100)], proper documentation and accounting for each billing rate including a calculation for net asset and capital reserve calculation for each rate should be included (Section 1.7, page 4). Again, NBS reviewed the rate calculation back-up documentation files for each of the rates and this fund does contain the information per the guidelines.

2.3 Figure 2.1 on the next page summarizes the Fund/Department/Division, Description of the Fund/Department/Division, Current Allocation Factors, Common Allocation Factors, and NBS Recommendations. There are two recommendations for the Public Works Services Fund related to allocation factors.

1) Central Services (4411) – NBS recommends the consideration of alternative allocation based on either FTEs by department/division, Net expenses by department/division (labor and operating expenses), or a combination of both for those departments that support is provided to. Migrating away from the current combined method of FTE, expenses and estimated time allocation of support to each division is advised, as it is recommended to use a statistical base that closely represents the level of effort and support provided, rather than an estimate. Estimates can be considered subjective.

2) Engineering Services – NBS recommends consideration of an alternative annual review and updated approach to the “fixed allocation” portion of the cost methodology. The recommended approach would be to charge to a project number via employee time reporting system to represent the fixed allocation portion, based on actual and after the fact labor hours. The current approach is based on an annual review of the prior year time reporting and the number of contracts with adjustments based on the best information available. This approach, however, can be criticized for the subjectivity, rather than using a data set based on actual and after the fact reporting that best represents the level of support provided.

Figure 2.1 PWA Allocation Factors – identified by fund/department/division

Fund/Dept/Div Description	Fund/ Dept/Div	Current Allocation Factors	Common Allocation Factors	NBS Recommendations
Public Works Services	I100			
Central Services	4411, 4412	Indirect allocation based on FTEs, expenses and estimated time (fiscal has staff dedicated to certain funds or departments and does not perform work outside those funds/departments); Real estate direct recovery (4412)	Indirect allocation based on FTEs or Net Exp by divisions supported; Direct recovery - specific department services provided	Indirect allocation based on FTEs, Net Exp or a combination of both
Engineering Services	4421, 4422, 4423	Actual cost recovery based on Hourly Rates; Fixed allocation is based on an estimate of support based on prior year time reporting by Department/Division and # of contracts allocation	Actual cost recovery based on Hourly Rates for reported time by Department/Division	Fixed allocation based on actual after the fact time reporting by Department/Division
Watershed Protection	4431, 4432	Actual cost recovery based on Hourly Rates for reported time by Agency/Department/ Division	Rates for services	None
Transportation	4441, 4442	Actual cost recovery based on Hourly Rates for reported time by Agency/Department/ Division	Actual cost recovery based on Hourly Rates for reported time by Agency/Department/ Division	None
Waterworks Operations	I110	Actual cost recovery based on Hourly Rates for reported time by Agency/Department/ Division	Rates by classification	None

2.4 Public Works Services ISF (I100) - Unrestricted Net Position and Reserve Review

NBS reviewed the Net gain/(loss) for each division/unit as well as the Net Fund Balance. For purposes of the NBS analysis, NBS has used the FY20 Projected Fund Balance for comparison to the 60-day reserve recommended per Title 2 CFR. Please see Figure 2.2 on page 11 for summary-level results.

Central Services shows a loss of (845,200) for projected FY20, which is a -17.65% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 797,950, while the Net Fund Balance is 298,500, which is -62.59% and (499,450) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.

Engineering Services shows a gain of 226,700 for projected FY20, which is a 3.55% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 1,063,200, while the Net Fund Balance is (18,200), which is -101.71% and (1,081,400) less than the recommended 60-day operating reserve. NBS recommends a review and possible use of the gain and also increase in FY21 rates to include the 60-day reserve level recommended.

Watershed Protection shows a loss of (1,188,500) for projected FY20, which is a -5.12% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 3,871,683, while the Net Fund Balance is 3,950,200, which is 2.03% and 78,517 greater than the recommended 60-day operating reserve. NBS recommends a review and possible increase in rates to full cost recovery.

Transportation shows a loss of (300,100) for projected FY20, which is a -1.89% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 2,646,283, while the Net Fund Balance is 1,667,800, which is -36.98% and (978,483) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and funding of the recommended 60-day operating reserve possibly over a few-year period.

2.5 Waterworks Operations ISF (I110) - Unrestricted Net Position and Reserve Review

Waterworks Operations Fund shows a loss of (57,200) for projected FY20, which is a -0.57% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 1,669,933, while the Net Fund Balance is 819,300, which is -50.94% and (850,633) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and funding of the recommended 60-day operating reserve possibly over a few-year period.

Figure 2.2 PWA Net Gain/(Loss) and Operating Reserve by fund/department/division

Fund/Dept/Div Description	Fund/Dept/Div	Net Gain/(Loss) of FY20 Requested Budget	Variance % to FY20 Requested Budget	Net Fund Bal (FY20) [1]	OMB Guidelines (60 day operating reserve)-based on FY20 Requested Budget [2]
Public Works Services	I100				
Central Services	4411, 4412	(845,200)	-17.65%	298,500	797,950
Engineering Services	4421, 4422, 4423	226,700	3.55%	(18,200)	1,063,200
Watershed Protection	4431, 4432	(1,188,500)	-5.12%	3,950,200	3,871,683
Transportation	4441, 4442	(300,100)	-1.89%	1,667,800	2,646,283
Waterworks Operations	I110	(57,200)	-0.57%	819,300	1,669,933

[1] FY20 Fund Bal used as UNP

[2] Based on FY20 Requested Budgeted Expenses

3. General Services Agency (GSA)

3.1 The General Services Agency has four ISFs: Heavy Equipment, Transportation, Materials, and Facilities. NBS has confirmed that all GSA charges are in accordance with the Board of Supervisors approved rates. Each of the funds is described below. The Materials and Facilities Funds have multiple divisions/units included within the funds.

Heavy Equipment Fund (I200) – This fund provides for heavy equipment needs of the County, including the purchase and maintenance of the equipment. The primary users are the Public Works Agency’s Road Department and the Watershed Protection District. This fund uses rates based on vehicle class for the piece of equipment (monthly fixed rate, and a variable rate charged based on either miles driven or hourly/fixed monthly activity).

Transportation Fund (I210) – This fund provides for the automotive fleet needs of the County, including the Ventura County Fire Protection District and other government agencies. This fund includes purchase and maintenance of the vehicles. Departments are charged a fixed rate and variable mileage rate for assigned vehicles by vehicle class. Fuel costs are directly charged based on actual fuel usage including indirect cost recovery.

Materials Fund (I220) – This fund is comprised of four divisions: Business Support Services, Procurement, Special Services, and GSA Administration.

- GSA Administration provides administrative services to Heavy Equipment, Transportation, Materials, Facilities, and the Parks Department. GSA administrative costs are allocated based on estimated personnel and percentage of operating budget.
- Business Support Services provides mail processing, document management, and warehouse and distribution services. Mail rates are developed per direct services and actual postage charges. Graphics/Document Management and Publishing rates are developed based on direct services. Warehouse and Distribution services rates are developed based on direct services as well.
- Procurement issues and evaluates written bids, proposals, and quotations; is responsible for disposal of surplus property; provides contract management services; and administers the Convenience Copier Program. Rates vary based on established ranges of purchase order amounts plus fixed fees for initial processing and change order requests. The Convenience Copier Program allocates costs based on a per-copy charge.
- The Special Services Division administers the security guard contract and conference room rentals. Security services are based on square footage with direct charges for additional coverage requests. Room rental and audio-visual equipment charges are based on established rates per room and equipment type.

Facilities Fund (I230) – This fund consists of three major divisions: Facilities, Housekeeping/Grounds and Facilities Projects.

- The Facilities Division includes three major functions including F&M Administration, Maintenance and Utilities. F&M Administration manages both the Facilities and Maintenance Units. These costs are allocated to divisions/units based on the estimated level of support provided. Maintenance is responsible for preventative maintenance and corrective repair of buildings and equipment in GSA assigned facilities. Facilities maintenance is allocated based on square footage. The Utilities program implements the Energy Conservation Program, as well as monitors and allocates electric, gas and water utilities. The utility costs are allocated based on square footage.
- The Housekeeping/Grounds Division provides or administers contracts for custodial, rubbish, and landscaping services for the Government Center complex and numerous outlying areas. These costs are allocated based on square footage.
- The Facilities Projects Division administers major maintenance and renovation projects under the external Job Order Contract (JOC) program. These costs are based on direct costs charged by external contractors plus a surcharge.

3.2 Items of Note:

- a. In Section 1.2 (page 2), County ISFs are required to provide six items. NBS reviewed the ISF descriptions for GSA provided in the annual Countywide Cost Plan, as well as other supporting documentation files provided by the Agency. All six items are included in the description and rate-setting files used for the budget development manual.
- b. NBS reviewed the rate calculation back-up documentation files for each of the rates. The County can include a 60-day operating reserve (Section 1.6, page 3) as part of the Unrestricted Net Position. GSA provides this information in the annual rate calculation files. NBS has reviewed this information and provided feedback below on each division/unit.
- c. If there are multiple billing rates within a fund, such as [Materials I220 and Facilities I230], proper documentation and accounting for each billing rate including a calculation for net asset and capital reserve calculation for each rate should be included (Section 1.7, page 4). Again, NBS reviewed the rate calculation back-up documentation files for each of the rates and both contain the net asset and capital reserve calculation for each rate.

3.3 Figure 3.1 on the next page summarizes the Fund, Fund Description, Division/Unit, Current Allocation Factors, Common Allocation Factors, and NBS Recommendations. There are two recommendations for these four funds related to allocation factors.

- 1) GSA Administration (4601) – For remaining costs other than HR, NBS recommends an allocation based on either FTEs by division, Net expenses by division (labor and operating expenses), or a combination of both. Migrating away from the estimated time allocation of support to each division is advised, as it is recommended to use a statistical base that closely represents the level of effort and support provided, rather than an estimate. Estimates can be considered subjective.
- 2) F&M Administration (4701) – NBS recommends allocation based on either FTEs by division, Net expenses by division (labor and operating expenses), or a combination of both. Migrating away from the estimated time allocation of support to each division is advised, as it is

recommended to use a statistical base that closely represents the level of effort and support provided, rather than an estimate. Estimates can be considered subjective.

Figure 3.1 GSA Allocation Factors – identified by fund/department/division

Fund/Dept/Div Description	Fund/ Dept/Div	Current Allocation Factors	Common Allocation Factors	NBS Recommendations
Heavy Equipment	I200	Usage rates based on piece of equipment	Usage rates based on class or piece of equipment	None
Transportation (Fleet)	I210	Rental charge is based on fixed costs; Per Mile charge is based on variable costs (maintenance & operations); Fuel costs are directly recovered based on actual cost	Usage rates per vehicle or vehicle class	None
Materials	I220			
Graphics (Doc Mgmt/Publishing)	4641	Rates developed per direct services	Rates developed per direct services	None
Warehouse	4643	Rates developed per direct services	Rates developed per direct services	None
Mail	4645	Rates developed per direct services and actual postage charges	Rates developed per direct services and actual postage charges	None
Purchasing	4621	Percentage of Expenses and a per document cost, based on a four year average	# of P.O.s	None
Special Services	4661	Security costs allocated based on number of patrol stops at each facility; Security Guard service allocated based on square foot by facility; other direct services allocated direct	Square footage occupied	None
GSA Admin	4601	HR Allocated on FTEs. Remaining costs allocated to divisions based on estimated level of support provided	FTEs or Net Expenses by division	For remaining costs other than HR, recommend FTEs, Net Expenses or a combination of both by division
Facilities	I230			
F&M Admin	4701	Allocated to divisions based on estimated level of support provided	FTEs or Net Expenses by division	FTEs, Net Expenses or a combination of both by division
Facilities Maint	4703	Square footage occupied	Square footage occupied	None
Utilities	4705	Square footage occupied	Square footage occupied	None
Housekeeping	4721	Square footage occupied	Square footage occupied	None
Grounds	4723	Square footage occupied	Square footage occupied	None
Fac Projects	4741	Actual costs	Actual costs	None

3.4 General Services Agency - Unrestricted Net Position and Reserve Review

NBS reviewed the Net gain/(loss) for each division/unit as well as the Net Fund Balance. For purposes of the NBS analysis, NBS has used the FY20 Projected Fund Balance for comparison to the 60-day reserve recommended per Title 2 CFR. Please see Figure 3.2 on page 18 for summary-level results.

Heavy Equipment ISF (I200) shows a loss of (634,827) for projected FY20, which is a -12.93% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 810,742, while the Net Fund Balance is 9,169,582, which is 1,031% and 8,358,840 greater than the recommended 60-day operating reserve. NBS recommends the review and designation of a portion of the fund balance to be “designated” as capital replacement. Additionally, NBS recommends a possible increase in FY21 recovery level to full cost recovery and/or use of the Net Fund Balance to offset the loss/draw down the fund balance if there is remaining fund balance after “designated” capital asset replacement.

Transportation ISF (I210) shows a loss of (38,284) for projected FY20, which is a -.20% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 2,986,141, while the Net Fund Balance is 3,729,713, which is 24.90% and 743,572 greater than the recommended 60-day operating reserve. NBS recommends a possible use of the Net Fund Balance to offset the loss/draw down the fund balance.

Materials ISF (I220)

- Graphics (Doc Mgmt/Publishing) (4641) shows a loss of (82,501) for projected FY20, which is a -2.27% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 595,423, while the Net Fund Balance is (563,946), which is -194.71% and (1,159,369) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.
- Warehouse (4643) shows a loss of (50,701) for projected FY20, which is a -5.50% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 153,849, while the Net Fund Balance is (1,063,379), which is -791.18% and (1,217,228) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.
- Mail (4645) shows a gain of 20,622 for projected FY20, which is a .67% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 512,516, while the Net Fund Balance is 507,442, which is -0.99% and (5,074) less than the recommended 60-day operating reserve. NBS recommends review in FY21 recovery level to full cost recovery with rates estimated close to FY20 level.
- Purchasing (4621) shows a loss of (60,000) for projected FY20, which is a -1.50% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 662,692, while the Net Fund Balance is 2,036,080, which is 207.24% and 1,373,388 greater than the recommended 60-day operating reserve. NBS recommends a review and possible use of the excess fund balance to lower/offset FY21 rates to draw down the fund balance over the next few years.

- Special Services (4661) shows a loss of (270,953) for projected FY20, which is a -4.39% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 1,029,064, while the Net Fund Balance is 2,291,762, which is 122.70% and 1,262,698 greater than the recommended 60-day operating reserve. NBS recommends a review and possible use of the excess fund balance to lower/offset FY21 rates to draw down the fund balance over the next few years.
- GSA Admin (4601) shows no gain/loss for projected FY20. NBS estimates the recommended 60-day operating reserve at 722,139, while the Net Fund Balance is (6,327), which is -100.88% and (728,466) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in the indirect allocation included for FY21 to include funds for the 60-day reserve level recommended.

Facilities ISF (I230)

- F&M Admin (4701) shows no gain/loss for projected FY20. NBS estimates the recommended 60-day operating reserve at 54,339, while the Net Fund Balance is 117,944, which is 117.05% and 63,605 greater than the recommended 60-day operating reserve. NBS recommends no change to cost recovery level and to possibly use the excess fund balance in the subsequent year to offset any potential loss and draw down the excess fund balance.
- Facility Maintenance (4703) shows no gain/loss for projected FY20. NBS estimates the recommended 60-day operating reserve at 2,683,573, while the Net Fund Balance is 1,166,783, which is -56.52% and (1,516,790) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.
- Utilities (4705) shows a loss of (354,326) for projected FY20, which is a -1.70% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 1,748,311, while the Net Fund Balance is 1,543,709, which is -11.70% and (204,602) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase to full cost recovery in FY21 and to fund the 60-day reserve level recommended.
- Housekeeping (4721) shows a loss of (48,892) for projected FY20, which is a -0.74% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 1,109,522, while the Net Fund Balance is 1,077,106, which is -2.92% and (32,416) less than the recommended 60-day operating reserve. NBS recommends review and minimal increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.

- Grounds (4723) shows no gain/loss for projected FY20. NBS estimates the recommended 60-day operating reserve at 306,437, while the Net Fund Balance is 1,235,558, which is 303.20% and 929,121 greater than the recommended 60-day operating reserve. NBS recommends a review and possible decrease in rates and use of the excess fund balance in FY21 to offset the rates to full cost recovery and draw down the excess fund balance, based on the 60-day reserve level recommended.
- Facility Projects (4741) shows a loss of (108,766) for projected FY20, which is a -4.54% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 399,223, while the Net Fund Balance is (1,527,081), which is -482.51% and (1,926,304) less than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.

Figure 3.2 GSA Net Gain/(Loss) and Operating Reserve by fund/department/division

Fund/Dept/Div Description	Fund/Dept/Div	Net Gain/(Loss) of FY20 Requested Budget	Variance % to FY20 Requested Budget	Net Fund Bal (FY20) [1]	OMB Guidelines (60 day operating reserve)-based on FY20 Budget [2]
Heavy Equipment	I200	(634,827)	-12.93%	9,169,582	810,742
Transportation (Fleet)	I210	(38,284)	-0.20%	3,729,713	2,986,141
Materials [3]	I220			4,279,314	2,889,884
Graphics (Doc Mgmt/Publishing)	4641	(82,501)	-2.27%	(563,946)	595,423
Warehouse	4643	(50,701)	-5.50%	(1,063,379)	153,849
Mail	4645	20,622	0.67%	507,442	512,516
Purchasing	4621	(60,000)	-1.50%	2,036,080	662,692
Special Services	4661	(270,953)	-4.39%	2,291,762	1,029,064
GSA Admin	4601	-	0.00%	(6,327)	722,139
Facilities [3]	I230			14,060,866	8,292,132
F&M Admin	4701	-	0.00%	117,944	54,339
Facilities Maint	4703	-	0.00%	1,166,783	2,683,573
Utilities	4705	(354,326)	-1.70%	1,543,709	1,748,311
Housekeeping	4721	(48,892)	-0.74%	1,077,106	1,109,522
Grounds	4723	-	0.00%	1,235,558	306,437
Fac Projects	4741	(108,766)	-4.54%	(1,527,081)	399,223

[1] FY20 Fund Bal used as UNP

[2] Based on FY20 Rate Preliminary Budgeted Expenses

[3] The Net Fund Balance and OMB Guidelines (60 day operating reserve) provided at the Fund level includes CAFR adjustment; data not available at the division level

4. County Executive Office (CEO)

4.1 The County Executive Office has six ISFs: Workers' Compensation Insurance, Liability Insurance, Personnel Services, Unemployment Insurance, Medical Insurance, and Employee Benefits. NBS has confirmed that all CEO charges are in accordance with the Board of Supervisors approved rates. Each of the funds is described below.

Workers' Compensation Insurance (I300) – This fund encompasses two major divisions: Workers' Compensation and Risk Management Administration. The Workers' Compensation Division is responsible for the oversight of the third-party administrator in their delivery of benefits for injured workers, as well as the reconciliation of CA Labor Code 4850 benefits for the safety departments (relates to injured public safety workers benefits). The Risk Management Division provides overall management and program support services to three general sections: (1) Health, Safety & Loss Prevention Section, (2) General Liability Insurance Section, and (3) Workers' Compensation Section. The Workers' Compensation costs are allocated to County departments and recovered using a rate as a percentage of payroll. The Workers' Compensation is charged out to County departments based on the following allocation formula of 70% experience using a five-year loss history and 30% exposure, which meets the recommended guidelines per the SCO Handbook 2260 of 60-80% experience and 20-40% exposure using a 5-7 year loss history. Risk Management Administration division costs are recovered from the general insurance funds, workers' compensation fund and from departments receiving specific services on a direct cost basis.

Liability Insurance (I320) – This fund administers the property, general liability and automotive liability program for all County departments, special districts and other local agencies including the medical malpractice coverage for the Health Care Agency. General Liability insurance costs are allocated to County departments based on an allocation formula of 70% experience using a five-year loss history and 30% exposure, which meets the recommended guidelines per the SCO Handbook 2260 of 60-80% experience and 20-40% exposure using a 5-7 year loss history. Property insurance not specific to any department is allocated on square feet occupied in each building by department. Departments are directly charged for policies specific to the beneficiary. The Medical Malpractice reserves and annual loss experience is based on the actuarial report. The premium costs are direct billed to the Health Care Agency.

Personnel Services (I400) – This fund administers the services of the Human Resources Division including the administration of the Department of Transportation mandate of alcohol and drug testing, and deferred compensation program to County and non-County entities. Full costs are recovered by direct bills to users of County departments and other agencies.

Unemployment Insurance (I410) – This fund provides for the County's self-funded Unemployment Insurance Benefits Program. This fund contracts with a third-party administrator for the review and monitoring of unemployment insurance claims and for the support and training on benefits policy and procedures. Rates are reviewed annually and adjusted on the basis of claims experience based on state data. The premiums are collected through the payroll system.

Medical Insurance (I420) – This fund administers the County's Flexible Benefits Program including the County's medical plans, Employee Assistance Program, the Work Life Program, and the Wellness Program.

Premium rates for self-funded programs are reviewed annually and directly recovered at full cost to users. Costs and revenues for the County benefit plans are not recorded in the ISF and instead processed through the payroll system.

Employee Benefits (I430) – This fund administers the employee-funded Wage Supplement Plan (WSP) through the Benefits Unit of the Human Resources Division. The WSP is an optional benefit program that provides supplemental income to eligible employees in the event of short-term disability. Premium rates are based on historical claims experience and charged to employees through the payroll system.

4.2 Items of Note:

- a. In Section 1.2 (page 2), County ISFs are required to provide six items. NBS reviewed the ISF descriptions for the CEO provided in the annual Countywide Cost Plan, as well as other supporting documentation files provided by the Agency. All six items are included and meet the requirement in the description and rate-setting files used for the budget development manual.
- b. NBS reviewed the rate calculation back-up documentation files for each of the rates. The County can include a 60-day operating reserve (Section 1.6, page 3) as part of the Unrestricted Net Position and in some cases additional reserves related to self-insurance and catastrophic reserves, however, it is recommended that those be identified as “designated”. CEO provides this information in the annual rate calculation files. NBS has reviewed this information and provided feedback on the next page on each division/unit.

4.3 Figure 4.1 on the next page summarizes the Fund, Fund Description, Current Allocation Factors, Common Allocation Factors, and NBS Recommendations. There are no recommendations for these six funds related to allocation factors. Based on Industry Standard and NBS experience, the current allocation factors in use are consistent with NBS’ recommended approach.

Figure 4.1 CEO Allocation Factors – identified by fund

Fund Description	Fund	Current Allocation Factors	Common Allocation Factors	NBS Recommendations
Workers' Compensation Insurance	I300	Formula comprised of Class Code Rate (incorporated claims costs history per class code), Department Experience Factor (incorporates 70% loss experience) and Billable Amount by Class Agency	Combination of history of claim losses by class/department and claim loss amount by class/department	None
Liability Insurance	I320	Self-Insurance - allocated using historical losses and FTEs; Additional insurance is allocated direct; Property insurance allocated on square footage	Liability insurance - Is commonly allocated using a combination of loss history and loss amount; Additional Insurance - Direct allocation; Property Insurance - Directly identified to occupant (if single occupant), or by square footage if multiple occupants	None
Personnel Services - Department of Transportation (DOT) - Mandated Alcohol and Drug Testing and Deferred Compensation	I400	DOT Testing - Contract Rates per test - direct cost recovery; Deferred Compensation - Current expenses are funded by plan revenue credits; no rates/charges have been incurred by participants	DOT Testing - Contract Rates per test - direct cost recovery; Deferred Compensation - Rate based on plan costs	None
Unemployment Insurance	I410	Rate based on percentage of payroll	Rate based on percentage of payroll	None
Medical Insurance	I420	Rates per participant	Rates per participant	None
Employee Benefits - Wage Supplement	I430	Rates per participant based on selected service level	Rates per participant based on selected service level	None

4.4 County Executive Office – Unrestricted Net Position and Reserve Review

NBS reviewed the Net gain/(loss) for each division/unit as well as the Net Fund Balance. For purposes of the NBS analysis, NBS has used the FY20 Unrestricted Net Position (UNP) for comparison to the 60-day reserve recommended per Title 2 CFR. Please see Figure 4.2 on the next page for summary-level results.

Workers' Compensation Insurance Fund (I300) shows a gain of 2,893,401 for projected FY20, which is a 7.22% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 6,713,175, while the Net Fund Balance is 6,390,887, which is -4.80% and (322,288) less than the recommended 60-day operating reserve. NBS recommends a review and a possible reduction in FY21 recovery level to full cost recovery, and possible use of the gain to fund the shortfall in the 60-day reserve level recommended.

Liability Insurance Fund (I320) shows a loss of (5,689,258) for projected FY20, which is a -29.16% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 3,251,647, while the Net Fund Balance is 5,695,301, which is 75.15% and 2,443,654 greater than the recommended 60-day operating reserve. The documentation provided to the State Controller's Office (SCO) also shows a recommended Management Catastrophic Reserve of \$2,944,186 that would draw down the excess UNP and reflects a deficit of 500,532. Please note that the Management Catastrophic Reserve amount can change and fluctuate on an annual basis and therefore would need to be closely reviewed and updated annually as necessary. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve and Management Catastrophic Reserve level recommended of 2.9M.

Personnel Services Fund (I400) shows a loss of (15,000) for projected FY20, which is a -2.02% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 123,896, while the Net Fund Balance is 105,922, which is -14.51% and (17,974) less than the recommended 60-day operating reserve. NBS recommends a review and possible slight increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.

Unemployment Insurance Fund (I410) shows a loss of (228,790) for projected FY20, which is a -58.75% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 103,039, while the Net Fund Balance is 1,401,431, which is 1260.10% and 1,298,392 greater than the recommended 60-day operating reserve. Management recommends a 90-day operating reserve as more prudent in the amount of 155,000, along with a stabilization reserve of 345,000, for a total of 500,000 of the excess 1.3M to be designated as reserve, leaving approximately 900,000 in UNP with approval of the 500,000 reserve level. The department has also put together a proposal for a 3-year and 5-year use of the UNP. NBS recommends review and monitoring of the UNP and reserve levels in FY21 to confirm use of the 60-day reserve level recommended, the alternate 90-day reserve level, as well as the stabilization reserve. If the additional reserve levels above the 60-day level is approved, NBS recommends showing those amounts as "designated" in the back-up documentation.

Medical Insurance Fund (I420) shows no loss/gain for projected FY20. NBS estimates the recommended 60-day operating reserve at 654,710, while the Net Fund Balance is 2,148,621, which is 228.18% and 1,493,911 greater than the recommended 60-day operating reserve. The proposed rate structure recommended shows using the balance of the UNP above the 60-day operating reserve to off-set rates. NBS recommends review and consideration of the recommended use of the excess UNP above the 60-day reserve level recommended to draw down the fund balance.

Employee Benefits Fund (I430) shows a loss of (11,303) for projected FY20, which is a -17.48% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 10,775, while the Net Fund Balance is 59,634, which is 453.45% and 48,859 greater than the recommended 60-day operating reserve. NBS recommends a review and possible slight decrease in FY21 recovery level to full cost recovery to draw down the UNP slightly to the 60-day reserve level recommended.

Figure 4.2 CEO Net Gain/(Loss) and Operating Reserve by fund

Fund Description	Fund	Net Gain/(Loss) of FY20 Requested Budget	Variance % to FY20 Requested Budget	UNP (FY20)	OMB Guidelines (60 day operating reserve)-based on FY20 Requested Budget [1]
Workers' Compensation Insurance	I300	2,893,401	7.22%	6,390,887	6,713,175
Liability Insurance	I320	(5,689,258)	-29.16%	5,695,301	3,251,647
Personnel Services - Department of Transportation (DOT) - Mandated Alcohol and Drug Testing and Deferred Compensation	I400	(15,000)	-2.02%	105,922	123,896
Unemployment Insurance	I410	(228,790)	-58.75%	1,401,431	103,039
Medical Insurance ISF	I420	-	0.00%	2,148,621	654,710
Employee Benefits - Wage Supplement	I430	(11,303)	-17.48%	59,634	10,775

[1] Based on FY20 Requested Budgeted Expenses

5. Information Technology Services Department (ITSD)

5.1 The Information Technology Services Department has two ISFs: Information Systems Fund and Network Services Fund. NBS has confirmed that all ITSD charges are in accordance with the Board of Supervisors approved rates. The Information Systems Fund has multiple departments/divisions included within the fund. Each of these departments/divisions are described below.

The **Information Systems Fund (I500)** consists of six divisions: Administration and Fiscal Services, Technical Services, Application Services, Enterprise Services, Health Care Agency (HCA) Services, and Geographic Information Services. The primary functions are to plan, analyze, develop, operate and maintain computer-assisted systems to support the information-processing requirements of the County departments and agencies. Service rates for the Data Center Operations include normal maintenance and support. Incremental and new services are charged on a time and materials basis, until such time as service becomes integrated with the specific services, at which time will be included in the service rate. Rates vary based on the service, application or agency-specific application (direct to agency) (ex., per data base, per license, per server, etc.). Geographic Information Services are provided on a cost estimate basis using hourly labor rates. Costs for HCA are tracked separately and billed direct to the agency.

The **Network Services Fund (I510)** is responsible for the County voice, data and radio/microwave networks, which includes design, implementation, support and maintenance for all on-line systems and applications, including Cyber Security. Rates include direct costs, Countywide, Agency, and Department indirect costs and depreciation for the data, voice, radio network and security assets. Network services overhead costs are distributed to all service program areas based on a percentage of all direct costs and the number of full-time equivalent employees. Voice and Data Network Access rates include normal maintenance and support for the voice and data network. New services are charged on a time and materials basis until the service is established as a component of the existing network, at which time becomes part of the Voice/Data Network Access rates. Rates vary depending on the service (ex., per access, per device, etc.). Radio communication rates include normal system maintenance and support; however incremental or new services will be charged on a time and materials basis. Rates vary depending on the service provided (ex., per access or per device).

5.2 Items of Note:

- a. In Section 1.2 (page 2), County ISFs are required to provide six items. NBS reviewed the descriptions for ITSD provided in the annual Countywide Cost Plan, as well as other supporting documentation files provided by the department. All six items are included in the description and rate-setting files used for the budget development manual.
- b. NBS reviewed the FY20 UNP Calculation FY2020 Projected file, as well as the FY20_BDM calculation files for each of the rates. The County can include a 60-day operating reserve (Section 1.6, page 3) as part of the Unrestricted Net Position. While the expenses versus revenue file and the BDM function calculation files both include a profit/loss identified, neither included the 60-day reserve level recommendation at the division/unit level, however, the UNP calculation contains this information at the fund level. NBS recommends determining if it is possible to provide this information at the division/unit level and incorporating this as part of the annual review and rate-setting process. The department indicates that this may be possible

going forward, by identifying change in investments and projected profit/loss, by division/unit and that the challenge is how to apportion the “beginning UNP balance” at the outset of this practice.

- c. If there are multiple billing rates within a fund, proper documentation and accounting for each billing rate including a calculation for net asset and capital reserve calculation for each rate should be included (Section 1.7, page 4). Again, NBS reviewed the FY20 Expense vs Revenue 12.21.2018 file, as well as the FY20_BDM calculation files for each of the rates, and while both contain the profit/loss amount identified, these do not provide the net asset and capital reserve calculation for each rate. NBS recommends an internal discussion to determine if this level of detail is possible and how best to capture and provide the documentation if requested by the State Controller’s Office. The department indicates that this may be possible going forward, by identifying change in investments and projected profit/loss, by division/unit and that the challenge is how to apportion the “beginning UNP balance” at the outset of this practice.
- d. It has been brought to our attention that past practices have allowed for discounted costs for application development services that resulted in a known loss for projects. While there might be pressure to keep rates low, there are provisions and guidelines in the SCO Accounting Standards & Procedures for Counties Manual (Section 1.3, page 3) that indicates, “if all users are not equitably billed, the fund must prepare a schedule reconciling actual charges to the amounts that should have been charged in an equitable system.” NBS recommends against this practice, as it can create additional costly accounting for the department for subsequent year rate development.

5.3 Figure 5.1 on the next page summarizes the Fund, Fund Description, Cost Pool or Function, Division/Unit, Current Allocation Factors, Common Allocation Factors, and NBS Recommendations. There are four recommendations for these two funds related to allocation factors.

- 1) Technical Services – Daily Maintenance and Operations – NBS recommends using the total number of devices for a base year period, as it is a statistic data set, that is maintained by ITSD. The current allocation factor requires a large amount of resources for accounting and tracking to maintain. The intent is the selection of an allocation basis that uses statistical information, that can be compiled without prohibitive costs and that provides a direct causal relationship between the allocation method used and the expenditures allocated.
- 2) Network Services – Core Services/Data – Based on discussions with ITSD, current practices, Industry Standard and NBS experience, NBS recommends using the “number of authorized users” to allocate costs, and bill monthly based on the base number of “authorized users” at proposed rate-setting time period (not to be updated each month), with the exception of the direct services provided to some departments (ex. Jail Console).
- 3) Network Services – Security – Based on industry-standard practice and NBS experience, NBS recommends inclusion of the Cyber Security function with the core services.

- 4) Network Services – Fiber Broadband (INET) – NBS recommends further review and evaluation for full cost recovery to the end user.

Figure 5.1 ITSD Allocation Factors – identified by cost pool/function

Fund	Fund Description	Cost Pool/Function	Division/Unit	Current Allocation Factors	Common Allocation Factors	NBS Recommendations
I500	Information Systems Fund	Fiscal/Admin Services	4801	Percentage of Direct costs and FTE allocation	Indirect recovery, based on Net Expenses or FTE allocation of support divisions	None
I500	Information Systems Fund	Tech Services - Daily maintenance & operations	4802	Rates per desktop, server, data base, device, license, etc.	# of devices	Recommend combination of core services for maintenance and operations with rate per # devices; current rate structure, accounting and resources to track and maintain requires resources and is costly
I500	Information Systems Fund	Tech Services - Web hosting	4802	Rates per site	Rates per site	None
I500	Information Systems Fund	Tech Services - new/custom services	4802	Actual costs based on labor rates	Actual costs based on labor rates	None
I500	Information Systems Fund	App Services	4803	Direct to end user	Direct to end user	None
I500	Information Systems Fund	App Services - new/custom services	4803	Actual costs based on labor rates	Actual costs based on labor rates	None
I500	Information Systems Fund	Enterprise Services	4804	Direct to end user/users; if multiple, split method (VCHRP) using time tracked in Service Now application	Direct to end user/users; if multiple, split method by objective data source	None
I500	Information Systems Fund	GIS Services	4805	Allocations determined by GIS Steering Committee; Specialized services based on approved hourly rates	Actual costs using hourly rates	None
I500	Information Systems Fund	HCA IT Services	4806	Direct to end user	Direct to end user	None
I510	Network Services Fund	Network Services - Voice/ Telecommunications	4851	Rates per # phones	# of phone/lines/numbers	None
I510	Network Services Fund	Network Services - Core Services/Data (PC/servers/user accounts)	4851	Rates per # access	# of devices	# of "authorized users"
I510	Network Services Fund	Network Services - security	4851	Rates per # accounts	Include with "Core Services" above	Include with "Core Services" above
I510	Network Services Fund	Network Services - Fiber Broadband (INET services)	4851	Rates per # access	Direct cost to end user	Recommend further review and evaluation for full cost recovery to end user

5.4 Information Technology Services Department – Unrestricted Net Position and Reserve Review

NBS reviewed the Net gain/(loss) for each division/unit as well as the Net Fund Balance. For purposes of the NBS analysis, NBS has used the FY20 Unrestricted Net Position (UNP) for comparison to the 60-day reserve recommended per Title 2 CFR. Please see Figure 5.2 below for summary-level results for the two funds in ITSD.

Information Systems Fund (I500) shows a loss of (561,523) for projected FY20, which is a -1.66% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 5,635,328, while the Net Fund Balance is 8,174,309, which is 45.05% and 2,538,981 greater than the recommended 60-day operating reserve. NBS recommends a review and use of the excess fund balance over a period of three to five years in FY21 to offset recovery level to full cost recovery and to include the 60-day reserve level recommended and/or to designate a portion of the excess Net Fund Balance for capital purchases based on an approved capital purchase plan.

Network Services Fund (I510) shows a loss of (1,500,799) for projected FY20, which is a -6.59% variance to the current budget. NBS estimates the recommended 60-day operating reserve at 3,792,952, while the Net Fund Balance is 4,312,137, which is 13.69% and 519,185 greater than the recommended 60-day operating reserve. NBS recommends a review and possible increase in FY21 recovery level to full cost recovery and to include the 60-day reserve level recommended.

Figure 5.2 ITSD Net Gain/(Loss) and Operating Reserve by fund

Fund	Fund Description	Net Gain/(Loss) of FY20 Requested Budget	Variance % to FY20 Requested Budget	UNP (FY20) [1]	OMB Guidelines (60 day operating reserve)- based on FY20 Requested Budget [2]
I500	Information Systems Fund	(561,523)	-1.66%	8,174,309	5,635,328
I510	Network Services Fund	(1,500,799)	-6.59%	4,312,137	3,792,952

[1] FY20 Fund Bal used as UNP

[2] Based on FY20 Requested Budgeted Expenses

6. Conclusion

NBS' professional staff completing this review of the County's Internal Service Funds relied on their extensive experience in preparing internal service fund reviews, indirect cost allocation studies, indirect cost rate proposals, cost of service studies, and reviewing allocation methodologies for various types of support costs. For each Internal Service Fund, NBS determined whether current practices are generally consistent with industry standards and provided recommendations, as needed, regarding the County's approach and methodology to cost allocation and/or development of rates and charges.

Overall, the County of Ventura's Internal Service Funds has a high level of defensibility and documentation provided for internal cost allocation, cost accounting and rate development built into the functional structure. County department staff that assisted with this analysis also have a high level of knowledge related to cost recovery, rate development, the recommended 60-day operating reserve and Unrestricted Net Position (UNP). The rate development files reviewed as part of this analysis appear sufficient for the intended use and could continue to be used effectively, however, with some of the aforementioned recommendations and improvements, the Internal Service Fund allocations and documentation could be enhanced, follow recommended state and federal guidelines more closely and provide solid defensible documentation for compliance.

Furthermore, NBS believes that consideration of these recommendations can assist the County in providing more accurate accounting, a higher level of recovery and migration to full cost recovery of rates and charges, and provide better documentation. This will, in turn, provide for more effective communication on the rates and charges outcomes to stakeholder departments and divisions within the county or agencies external to the county.

The recommendations presented here by NBS are not intended to prepare the Internal Service Fund rates and charges for submittal and/or audit by a cognizant/approval agency, but rather to assist the County with a better prepared and well-documented methodology for internal use and for external stakeholders.

Disclaimer: In preparing this report and the opinions and recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial data and operations. This information and assumptions, including the County's expenditure, revenue, allocation basis data, and workload information from County staff, were provided by sources we believe to be reliable; however, NBS has not independently verified such information and assumptions.