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HIGHLIGHTS

Highlights of City Auditor Report #0903, a report to the City Commission and City management

WHY THIS AUDIT WAS CONDUCTED

This audit was conducted to evaluate the process for allocating costs of City internal service funds to the various departments and offices that used, or benefited from, the services rendered through those funds. The audit focused on the establishment of budgeted allocated costs for FY 2008 and the actual charges of those costs made for that fiscal year. Costs allocated through this process in FY 2008 totaled \$57.3 million. The audit also addressed annual adjustments made in recent years to address differences between budgeted and actual costs and activities.

WHAT WE RECOMMENDED

To improve the cost allocation process, we recommended that the DMA Office of Budget and Policy:

- Meet annually with staff of applicable City departments to ensure appropriate understandings of data used in the allocation process.
- Provide for an independent review of cost allocation work papers for the purpose of identifying logic and other unintended errors.
- Consider making adjustments to FY 2008 cost allocation charges for the under and overcharges resulting from the issues identified in the audit.

We also recommended that the DMA Office of Budget and Policy consider additional enhancements to the cost allocation process, as identified in the report, that would result in more equitable cost allocations.

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AUDIT OF ALLOCATED COSTS

While the overall process for allocating internal service funds costs is reasonable, appropriate, and logical, several issues were identified that have resulted in less than equitable cost allocations.

WHAT WE CONCLUDED

Overall, we found that the DMA Office of Budget and Policy has established a reasonable, appropriate, and logical process for equitably allocating internal service fund costs. We concluded that the net impact of overcharges and undercharges to individual funds were not material to the cost allocations taken as a whole.

Instances were identified that resulted in less than equitable allocations of those costs to benefiting departments. Those instances were primarily attributable to misapplications or misinterpretations of data.

The following table shows, for several funds, the “net impact” of the issues identified in our audit.

**Combined Net Impact by City Funding Source
(For Selected Funds)**

City Fund	Combined Net Impact of Misapplications or Misinterpretations of Data		Percent of Fund's Budgeted Allocated Cost Charges
General Fund	\$252,150	Overcharged	1.42%
Building Code Enforcement Fund	\$325,358	Overcharged	46.93%
Electric Operating Fund	\$328,459	Overcharged	2.14%
Gas Operating Fund	\$219,434	Undercharged	12.24%
Water Operating Fund	\$560,377	Undercharged	13.22%
Airport Operating Fund	\$118,323	Overcharged	9.30%
StarMetro Operating Fund	\$260,636	Undercharged	21.99%
Solid Waste Fund	\$115,764	Undercharged	2.64%
Stormwater Fund	\$234,772	Overcharged	10.77%

The over and undercharges in the above table reflect the “combined net impact” of the applicable issues. This is significant because many of those individual issues offset each other, thereby reducing the net impact on the FY 2008 cost allocations. Accordingly, had some of those offsetting issues not occurred, the impact of the other issues would have been even more significant than what is shown in the above table. For example, if only the issues relating to the ISS Fund (an internal service) had occurred, the impact on the General Fund would have been an overcharge of approximately \$996,884, instead of the \$252,150 shown in the above table.

Our audit also identified several enhancements to the current allocation process that would result in more equitable allocations if implemented. Those enhancements should be considered by DMA in establishing cost allocations for subsequent years.

We would like to thank the DMA Office of Budget and Policy and DMA Accounting Services Section, as well as various staffs in benefiting City departments, for their assistance during this audit.

Office of the City Auditor

Allocated Costs

AUDIT REPORT #0903

December 9, 2008



Copies of this audit report #0903 may be obtained from the City Auditor's web site (<http://talgov.com/auditing/index.cfm>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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Allocated Costs



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December 9, 2008

Executive Summary

This audit addressed the allocation of internal service fund costs to benefiting City departments and offices.

The audit focused on the establishment of budgeted allocated costs for FY 2008 and the resulting charges.

For the 10 applicable internal service funds, costs budgeted to be allocated for FY 2008 totaled \$61.5 million.

This audit addressed the process for allocating costs of City internal service funds to the various City departments and offices that used, or benefited from, the services rendered through those funds. Determinations were made as to whether (1) the establishment of budgeted allocated costs for internal service fund activity was proper, reasonable, and correct; (2) the actual charges of those allocated costs to user departments and offices were proper, reasonable, and correct; and (3) appropriate adjustments were made to address differences between charges made based on estimated costs/activity and actual costs/activity. The audit focused on the establishment of budgeted allocated costs for FY 2008 and the actual charges of those costs made (or to be made) in that fiscal year. The audit also addressed annual adjustments made in recent years for differences between internal service fund budgeted and actual costs and budgeted and actual activity (i.e., service levels). The audit also included a review of annual fluctuations in costs incurred by internal service funds and the allocation bases (statistical data) used to allocate those costs to benefiting departments and offices.

The City has 11 established internal service funds. For 10 of those 11 funds, the costs are budgeted and charged to benefiting departments and offices through an established cost allocation (or allocated accounts) process. Those 10 internal service funds and the costs budgeted to be allocated in fiscal year (FY) 2008 are shown in the following table.

	Internal Service Fund	FY 2008 Budgeted Costs
1.	Information Systems Fund	\$15,535,984
2.	Accounting Fund	\$2,935,484
3.	Purchasing Fund	\$2,597,521
4.	Human Resources Fund	\$3,854,672
5.	Reading, Billing, and Collections (Revenues) Fund	\$2,175,379
6.	Risk Management Fund	\$9,466,213
7.	Utility Services Fund	\$12,538,446
8.	Garage Operating Fund	\$11,059,232
9.	Wholesale Energy Services Fund	\$469,847
10.	800-MHz Communications Fund	\$893,512
Total		\$61,526,290
NOTE (1)	This total includes \$4,163,921 that is budgeted to be charged to <i>other</i> City internal funds, while the balance of \$57,362,369 is budgeted to be charged and recovered from other City funding sources (i.e., General Fund, Electric Operating Fund, etc.).	

Overall, DMA has established a reasonable, appropriate, and logical process for equitably allocating internal service fund costs.

Our audit showed, overall, that the Department of Management and Administration (DMA) Budget and Policy Section has established a reasonable, appropriate, and logical process for equitably allocating internal service fund costs to benefiting City departments and offices. We found, in many instances, that accurate and appropriate statistics (allocation bases) were identified and accumulated for the proper allocation of costs through that process. Similarly, for many instances, we determined that DMA Budget and Policy correctly used those statistics, as well as the correct cost data, in allocating costs for FY 2008.

Instances were identified where costs allocations were not equitable. Some City funds were significantly over or undercharged for their share of internal service fund costs as a result.

Several instances were identified, however, that resulted in less than equitable allocations (charges) of those costs to benefiting departments and offices. Those instances were primarily attributable to misapplications or misinterpretations of data during the cost allocation process. Because many of those instances offset each other, their final impact was not significant to the overall accuracy of the costs allocated for all funds taken as a whole. The following table shows the combined net overcharges and undercharges of internal service fund costs to City funds in FY 2008 as a result of those instances.

FY 2008 ACTUAL CHARGES				
Cost Impact of Issues by City Funding Source				
CITY FUND	Final Approved Budget for Allocated Costs	Impact of Allocations Resulting from Misapplications or Misinterpretations of data		Percent over/under charge is to Final Budget for Allocated Costs
General Fund	\$17,751,733	\$252,150	Overcharged	1.42%
Building Code Enforcement Fund	\$693,322	\$325,358	Overcharged	46.93%
Fire Service Fee Operating Fund	\$3,825,478	\$47,828	Undercharged	1.25%
Blueprint 2000 Operating Fund	\$32,319	\$610	Undercharged	1.89%
Electric Operating Fund	\$15,339,091	\$328,459	Overcharged	2.14%
Gas Operating Fund	\$1,792,038	\$219,434	Undercharged	12.24%
Water Operating Fund	\$4,238,943	\$560,377	Undercharged	13.22%
Sewer Operating Fund	\$4,576,594	\$2,727	Undercharged	0.06%
Airport Operating Fund	\$1,272,774	\$118,323	Overcharged	9.30%
StarMetro Operating Fund	\$1,185,048	\$260,636	Undercharged	21.99%
Solid Waste Fund	\$4,389,423	\$115,764	Undercharged	2.64%
Stormwater Fund	\$2,179,374	\$234,772	Overcharged	10.77%
Golf Course Fund (Hilaman)	\$9,712	\$51	Undercharged	0.53%
Cemetery Perpetual Care Trust Fund	\$30,463	\$240	Overcharged	0.79%
Downtown Improvement Authority	NONE	No Impact	—	—
CRA Frenchtown Operating Fund	NONE	No Impact	—	—
CRTPA	\$46,057	\$2,224	Overcharged	4.83%
CRA Downtown Operating Fund	NONE	No Impact	—	—
Total Final Approved Budget	\$57,362,369	NOTE A		
NOTE A: The over and under charges should net to zero; however, due to the tiered allocation process there is a residual immaterial over charge of \$54,099.				

Because of the impact on actual charges to individual funds as shown in the preceding table, we recommend that DMA consider adjusting the FY 2008 allocated accounts charges for the noted under and overcharges.

DMA should consider adjusting FY 2008 cost allocations for applicable issues.

Many of the issues identified in this audit offset each other, thereby reducing the final combined impact on the FY 2008 budgeted and actual charges.

Our audit also showed that DMA should consider other enhancements to the cost allocation process.

It is important to note that the preceding table reflects the “combined net impact” of issues identified in this audit that were attributable to misapplications or misinterpretations of data. This is significant because many of those individual issues offset each other, thereby reducing the final impact on the FY 2008 cost allocations. Accordingly, had some of those offsetting issues not occurred, the impact of other issues would have been even more significant than what is shown in above table. For example, if only the issues relating to the ISS Fund had occurred, the impact on the General Fund would have been much greater. Specifically, the overcharges would have approximated \$996,884 instead of the \$252,150 shown in the above table.

Details on the issues resulting in differences addressed above have been provided to the DMA Office of Budget and Policy to assist them in improving the accuracy and appropriateness of cost allocations for the 2009 fiscal year.

Our audit also identified several enhancements to the current allocation process that would result in more equitable allocations if implemented. Those enhancements should be considered by DMA in establishment of cost allocations for subsequent years. In addition, we recommend that DMA monitor fluctuations in annual internal service fund costs and related services levels for the purpose of determining if enhancements are needed to the year-end adjustment process. (Note – for an individual user department, “service levels” represent that department’s share of total services rendered by the activities of the applicable internal service fund.)

We would like to thank the DMA Budget and Policy section and DMA Accounting Services section, as well as various staffs in benefiting City departments and offices, for their assistance during this audit.

Allocated Costs



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Report #0903

December 9, 2008

Objective

The purpose of this audit was to determine if costs of the City's internal service funds were properly, accurately, and equitably allocated to user departments and offices.

The overall objective of this audit was to determine whether costs of the City's internal service funds were properly, accurately, equitably, and consistently allocated to the various City departments and offices that used, or benefited from, the services rendered through those funds. In connection with that primary objective, determinations were made as to whether (1) the establishment of budgeted allocated costs for internal service funds was proper, reasonable, and correct; (2) the actual charges of those allocated costs to user departments and offices were proper, reasonable, and correct; and (3) appropriate adjustments were made for differences between charges of those costs based on budgets developed using estimated costs and prior year service levels and charges based on current year costs and service levels.

Scope

This audit addressed cost allocation activity for 10 City internal service funds.

There are 10 internal service funds for which the associated costs are charged to benefiting departments and users through a cost allocation process. The functions accounted for in those 10 internal service funds include (1) Information Systems Services (ISS), (2) Accounting Services, (3) Purchasing, (4) Human Resources, (5) Revenues, (6) Risk Management, (7) Utility Services, (8) Fleet Garage, (9) Wholesale Energy Services, and (10) the 800-Megahertz (MHz) Radio System. The scope of this audit included the allocation of the costs of those internal service funds to City departments and offices benefiting from the related functions. This audit focused on the establishment of budgeted allocated costs (i.e., relating to internal service funds) for fiscal year (FY) 2008 and the actual charges of those costs made (or to be made) in that fiscal year. This audit also addressed annual adjustments, made to amounts charged (allocated to) benefiting departments and offices in recent fiscal years, for differences between those internal service funds' actual and budgeted costs and actual and budgeted service

levels. Additionally, this audit included a review of annual fluctuations in costs incurred by internal service funds and data/statistics used to allocate those costs to benefiting departments and users.

Methodology

We reviewed and tested various financial and statistical records and worksheets for FY 2008 and prior years.

To address the stated audit objectives we reviewed and tested various records and data, including:

- Financial records documenting internal service funds' budgeted and actual costs for FY 2008 and, to some degree, prior years.
- Statistical data and reports provided by (or generated for) internal service fund departments that were used in developing the allocated accounts (cost allocations) budgets for FY 2008 and prior years.
- Worksheets prepared by the Department of Management and Administration (DMA) Budget and Policy section in the development of the allocated accounts budget for FY 2008 and prior years.
- Annual adjustments (to amounts charged/allocated user departments/offices) made by DMA Accounting Services for differences between budgeted and actual internal service fund costs.

We interviewed knowledgeable staff in the DMA Budget and Policy section, internal service fund departments, and, in some instances, departments and offices benefiting from internal service fund services.

To facilitate an understanding of the issues identified in this report, the specific audit procedures performed to meet the audit objective are addressed in a subsequent section of this report.

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and

Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Background – Overview

The City has established 11 internal service funds to account for various functions that render services to various City departments and offices.

By definition, an internal service fund accounts for the financial activity (revenues and expenses) of a government activity/function that renders services to other activities and functions of that government. Some common examples of activities accounted for in an internal service fund include the accounting function, human resources function, purchasing function, and information systems function (also commonly known as the information technology function).

The City of Tallahassee has established 11 internal service funds. Those 11 funds and the related services are described in the following table.

Table 1 – City Internal Service Funds			
	Internal Service Fund	Administering City Department/Office	Description of Services
1.	Information Systems Fund	DMA Information Systems Services (ISS)	Provides computer, telecommunications, and similar services to all City departments; also provides dedicated services to specific departments (e.g., unique software and application services used only by certain departments).
2.	Accounting Fund	DMA Accounting Services	Provides general accounting services to all City departments; those services are comprised of financial reporting, payroll, accounts receivable, fixed assets, and financial systems control.
3.	Purchasing Fund	DMA Procurement Services	Provides procurement services to all City departments; those services are comprised of purchasing and solicitation of goods and services, accounts payable, and the central warehouse. Reproduction (copy center located in City Hall) is another service accounted for in this internal service fund.
4.	Human Resources Fund	Human Resources and Equity and Workforce Development	Provides general human resource services and equity and workforce development services to all City departments; also, provides union contract negotiation services to the Police and Fire departments and required drug/alcohol testing services to applicable City departments.

5.	Reading, Billing, and Collections (Revenues) Fund	Treasurer-Clerk's Revenue Division	Provides collection services (i.e., fees for applicable City services and taxes due the City) and mailroom services for or on behalf of all City departments.
6.	Risk Management Fund	Treasurer-Clerk's Risk Management Division	Administers the City's risk management function (through a self insurance program supplemented by commercial insurance policies) for general liability, vehicle accidents, workers compensation, and property and casualty damage/loss. Those risk management services are for the benefit of all City departments.
7.	Utility Services Fund	Utility Business and Customer Services (UBCS)	Provides utility accounting, customer service, construction coordination, market and business research, environmental, and safety and training services on behalf of the City utility departments (Electric, Water, Gas, Solid Waste, Stormwater). Some of those services (e.g., utility accounting) also benefit to a lesser degree the Energy Services department, Fire department, and the City's General Fund (i.e., through collection of taxes assessed on utility services for those departments/funds).
8.	Garage Operating Fund	Fleet Management	Provides repair and maintenance services for all City vehicles (with the exception of StarMetro buses).
9.	Wholesale Energy Services Fund	Energy Services	Provides an energy audit program, key accounts administration, and gas sales program that benefit certain utilities (i.e., Electric and Gas and to a lesser degree Water and Solid Waste). Purchases of source fuels and generated power are also accounted for in this internal service fund. Also, financial activity of the City's Energy Conservation Program is accounted for in this fund.
10.	800-MHz Communications Fund	DMA ISS	Administers and services the City's 800-MHz radio system for the benefit of various City and non-City users. User City departments include Police, Fire, Fleet, UBCS, Public Works, Parks and Recreation, Neighborhood and Community Services, Growth Management, Airport, StarMetro, and the various City utilities. Non-City users include, for example, the Leon County Sheriff's Office and local university police departments.
11.	Pension Administration Fund	Treasurer-Clerk's Retirement Division	Administers the City's pension program for the benefit of all City departments.

As explained in the following pages, the majority of the costs for 10 of these 11 internal service funds are budgeted and charged to benefiting departments and offices through a *cost allocation process*. Costs for the remaining internal service fund (Pension Administration Fund) are not budgeted and charged through the cost allocation process. Activity of that internal service fund is not

included in the scope of this audit (for reasons explained in a subsequent paragraph in this report).

For FY 2008, costs budgeted to be charged to benefiting departments and offices through the City’s cost allocation process for the 10 applicable internal service funds totaled **\$61,526,290**, as shown in the following table.

For the 10 internal service funds included in the scope of this audit, FY 2008 costs budgeted to be recovered through the City’s cost allocation process totaled approximately \$61.5 million.

Table 2		
FY 2008 Budget - Internal Service Fund Costs to be Charged to User Departments and Offices (Note 1)		
	Internal Service Fund	FY 2008 Budgeted Costs (Note 2)
1.	Information Systems Fund	\$15,535,984
2.	Accounting Fund	\$2,935,484
3.	Purchasing Fund	\$2,597,521
4.	Human Resources Fund	\$3,854,672
5.	Reading, Billing, and Collections (Revenues) Fund	\$2,175,379
6.	Risk Management Fund	\$9,466,213
7.	Utility Services Fund	\$12,538,446
8.	Garage Operating Fund	\$11,059,232
9.	Wholesale Energy Services Fund	\$469,847
10.	800-MHz Communications Fund	\$893,512
Total		\$61,526,290
Note 1: This table is for the 10 internal service funds included in the scope of this audit.		
Note 2: This includes budgeted costs to be charged to benefiting City departments and offices, including other internal service funds. Of the \$61,526,290 total budgeted costs, \$4,163,921 is budgeted to be charged and recovered from other internal service funds, while the balance of \$57,362,369 is budgeted to be charged and recovered from other City funding sources (i.e., General Fund, Electric Operating Fund, Gas Operating Fund, Airport Operating Fund, etc.).		

Financing internal service funds. It is standard accounting practice for an internal service fund activity to be financed (or “funded”) from the resources available to the benefiting departments and offices that it serves. Accordingly, resources needed to operate an internal service fund function are generally

Internal Service Funds are typically financed from the resources available to the departments and offices they serve.

obtained by transferring resources from other funds that account for the benefiting departments'/offices' financial resources and activity. As an example, a government's accounting function (a typical internal service fund activity) that benefits all departments and offices of that government may be financed by transferring resources from the various funds (i.e. enterprise, general, and other internal service funds) that are used to account for the financial activity of those benefiting departments and offices. (NOTE: In some instances an internal service fund of a government entity may render services to an external entity [such as another government] in addition to serving other departments and offices of that government. In those instances, a portion of the internal services costs is often recovered by charging and collecting fees from that external entity.)

The most equitable accounting treatment provides that the amount of resources transferred to finance the operations of an internal service fund activity should equal, or closely approximate, the costs incurred by that activity. That treatment ensures that there are not any significant deficiencies or unnecessary accumulations of resources in an internal service fund.

Two primary approaches are used to budget, charge, and recover internal service fund costs.

Approaches available to budget, charge, and recover internal service fund costs. As noted above, an internal service fund function is generally financed through the transfer of resources available to the departments and offices benefiting from that function. The City employs two primary approaches to determine and make those transfers. A brief description of those approaches follows:

- Cost Allocation – Under this approach, a determination is made prior to each fiscal year of (1) the total expected *costs* to be incurred by each internal service fund activity/function, and (2) the amount of services each internal service fund is expected to render to each benefiting department/office (*i.e., service levels*). The expected costs are determined under a budgetary process (*i.e., upon consideration of prior costs, inflation, expected*

services to be provided, etc.). The expected or anticipated services to be rendered to each benefiting department are generally based on prior year data, or “statistics,” adjusted for any known or expected changes. Under this approach, the established budget for an entity reflects (among other things):

The cost allocation approach is used for the majority of the City’s internal service funds.

- For each internal service fund, revenues comprised of transfers of resources from the benefiting departments’ operating budgets.
- For each benefiting department, operating expenses to be paid to the internal service funds (through fund transfers) for the expected services. To clearly distinguish those expenses from other operating expenses, those costs are often designated in the user departments’ budget (e.g., “allocated accounts” is the designation used by DMA for the City).

Periodically (e.g., monthly), transfers of the budgeted amounts are made from the benefiting departments to the internal service funds.

This cost allocation approach is used by DMA for the majority of City internal service funds. The costs are designated in the City’s internal service fund and benefiting department budgets as “allocated accounts” revenues or expenditures (charges). DMA makes monthly transfers of resources to the respective internal service funds in amounts equal to one-twelfth of the allocated accounts budgets established for the benefiting departments.

- Rate Establishment – Under this approach, a standard rate is established based on the anticipated total costs and quantity of services. For a simplified example, a document reproduction function that is accounted for as an internal service fund and expected to reproduce 50,000 items and incur costs totaling \$50,000 in a period would establish and charge a rate of \$1 per item reproduced (i.e., \$50,000 divided by 50,000 items).

The budgets established under this approach for the user departments and offices would include their anticipated reproduction costs as part of budgeted operating expenses. For example, the total budgeted operating expenses for a particular user department expected to have 1,500 documents reproduced in the scenario described above would include \$1,500 (rate of \$1 times quantity of 1,500 items) as part of its total budgeted operating expenses.

The rate establishment approach is used for the Pension Administration Fund and a relatively small component of the Purchasing Fund.

During the budget year, as documents are reproduced by the reproduction department, transfers are made from the operating budgets of the benefiting departments (i.e., departments for whom the documents are reproduced) to the internal service fund established for that reproduction function. Accordingly, if a benefiting department had 100 copies (reproductions) made in a month, transfers of \$100 would be made from that department's budget to the internal service fund.

In regard to the City's internal service funds, this rate establishment approach and related budgeting process is used for the document reproduction function, which is one relatively small component of the City's purchasing function. This approach is not consistent with the cost allocation approach used for the majority of City internal service funds, but it precludes DMA from having to establish two separate budgetary accounts for reproduction costs – one for reproduction acquired from external vendors and another one for internal reproduction services. Because of the small amounts involved relative to other internal service costs (less than one-half of a percent), this inconsistency is deemed acceptable.

In addition, this rate establishment process is used for the Pension Administration Fund. For that function, pension plan contribution rates are determined periodically by actuaries for purposes of funding the City's pension programs. In addition to funding pension benefits, those rates are designed to recover

costs of plan administration. Those rates are applied to biweekly payroll costs and the resulting amounts are transferred into the Pension Administration Fund. Accordingly, the cost allocation process is not used for that internal service fund. As noted previously in this report, that internal service fund is excluded from the scope of this audit.

A hybrid of both approaches is used for two significant components of the Fleet Garage Operating Fund.

For certain components of one internal service fund activity, the City uses a hybrid of the cost allocation and rate processes. Specifically, for the “parts” and “services” components of the Fleet Garage Operating Fund, estimated costs and service levels are determined and budgeted using the cost allocation approach. However, rates are also established to charge users for those services. Instead of transferring one-twelfth of the budgeted amounts from user departments’ budgets to the Garage Operating Fund each month, transfers are made based on the application of those rates to actual services provided to those departments. In summary, the budgeted transfers of resources are based on estimated costs and estimated service levels using prior year data and statistics (adjusted for known differences), but the actual transfers during the fiscal year are made based on actual service levels rendered during the current year. This hybrid process is appropriate in circumstances where actual usage is readily determinable on an on-going basis (e.g., vehicle maintenance and repair services). Accordingly, although not consistent with the approach used for the majority of the City’s internal service funds, this hybrid approach is acceptable.

Under the cost allocation approach, appropriate year-end adjustments may be necessary to address differences between (1) budgeted and actual costs, and (2) budgeted and actual service levels.

Year-end adjustments. As described above, the transfers of resources from benefiting departments/offices to the internal service funds may be accomplished through a cost allocation process. For the City, those transfers are made monthly in amounts equal to one-twelfth of the allocated accounts budget. As previously described, those budgeted amounts are based on (1) *estimated* costs, and (2) *estimated* services (or service levels) to be rendered to each user department/office. Accordingly, adjustments should be made at or after year-end for differences between budgeted and actual costs

and between budgeted and actual service levels. Such adjustments ensure, for a given fiscal year, that (1) the total costs charged to user departments and offices are correct, and (2) each user department/office is charged only for the actual level of services received.

The City does make annual adjustments for the differences between actual and budgeted costs of an internal service fund. Those adjustments are made by Accounting Services staff. However, the City does not make adjustments for differences between budgeted service levels established using prior year statistics and actual service levels based on current year activity. Accordingly, while the correct amount (total actual costs of an internal service fund) is allocated to user departments, those costs may not be proportionately (equitably) allocated to the various user departments based on current year service levels. The lack of such adjustments is addressed as an issue in a subsequent section of this report. (See pages 53 through 56 where this is described and explained in more detail.)

Allocation bases (statistics). Under the cost allocation process, appropriate “bases” must be determined for the purpose of allocating internal service fund costs to benefiting departments in an equitable, logical, and efficient manner. Typically, those bases can be defined as statistical data that directly correlates to the level of services rendered by an internal service fund to user departments. Allocation bases, or statistics, vary widely and include, for example:

Reasonable “bases”, or “statistics,” must be determined for the purpose of equitably allocating costs to users departments and offices.

- Staff efforts spent on specific activities or services;
- Relative number or amount of transactions or items processed, installed, assigned, issued, or maintained; and
- Actual usage and activity (i.e., when known).

***Background -
DMA
Procedures for
Budget
Establishment
and Charges***

The DMA Budget and Policy section uses a detailed multi-step process in developing the allocated accounts budget.

The allocation bases, as well as the corresponding internal service fund cost components allocated by those bases, are described in **Appendix A** of this report.

As described in the background section above, the DMA Budget and Policy section uses a cost allocation approach for budgeting and charging the majority of internal service fund costs to benefiting departments and offices. That process involves using prior year statistical data to develop the budgeted costs allocations for a fiscal year. Cost allocations (charges) are made periodically throughout the fiscal year based on those budgeted amounts. Year-end adjustments are made to allocated account charges to address the differences between budgeted and actual costs incurred by the internal service funds. The following provides an overview of the specific procedures used by the DMA Budget and Policy section in connection with that process.

Budget Development. The DMA Policy and Budget section uses a multiple-step process in developing the allocated accounts budget for an internal service fund. That process entails the following for each internal service fund:

- First, the actual costs incurred by the internal service fund in the most recently completed fiscal year, for which that information is available at the time of budget preparation, is identified. For the FY 2008 budget, that consisted of FY 2006 actual costs, as FY 2007 actual costs were not known at the date that the FY 2008 budget preparation process was started. (NOTE: Actual costs incurred by an internal service fund include both (1) the direct costs incurred by the related internal service fund function consisting of salaries, materials, etc., and (2) costs allocated to that internal service fund by other internal service funds as a benefiting department. For example, the purchasing function is benefited by the accounting function, and vice versa.)

- Secondly, those prior year actual costs are allocated to the different components of the internal service fund using appropriate statistics (or bases). Statistics used for this step typically are for the same year as the prior year costs. Accordingly, when developing the FY 2008 budget, statistics for the FY 2006 year were generally used to allocate the FY 2006 costs to the different components. Each component represents a unique service rendered by an internal service fund function. For example, the City's accounting function is comprised of six components: (1) payroll, (2) financial reporting, (3) financial systems, (4) fixed assets, (5) accounts receivable, and (6) external audit fees. Those allocations to individual components are made using the most equitable, logical, and efficient allocation base (statistics). For the accounting function, that allocation base has been staff efforts. Specifically, for the FY 2008 budget process, total FY 2006 costs were allocated to each of the six components based on the amount of collective staff efforts spent on each component in FY 2006.

The FY 2008 allocated accounts budget was primarily based on estimates derived from FY 2006 costs and data.

(NOTE: In some instances this second step is not necessary, as costs of each component for an internal service fund are captured separately in the City's accounting system. For example, costs of the various components of the Purchasing Fund, are, for the most part, captured separately in the City's accounting system.)

- After prior year costs are allocated to the respective components, other appropriate prior year statistics are used to allocate the costs of each component to the benefiting departments and offices. In DMA Budget and Policy worksheets, benefiting departments and offices are represented by "cost centers." (There are generally multiple cost centers for each City department and office.) Those statistics (or allocation bases) used to allocate component costs to cost centers vary from component to component. (See **Appendix A** of this

report.) Again, those statistics used in the development of the FY 2008 budget typically pertained to FY 2006.

- At this stage of the FY 2008 budget development process, FY 2006 actual costs were allocated to applicable users (benefiting departments/offices represented by cost centers) based on FY 2006 statistics. For each cost center, the costs allocated from all components of the applicable internal service fund were totaled. A determination was then made as to the percentage that each cost center's total represented of the total costs (FY 2006) for that internal service fund. [EXAMPLE: If a benefiting cost center was allocated the following from the Accounting Fund components - \$50,000 from the payroll component, \$75,000 from the financial systems component, \$15,000 for the fixed assets component, and \$80,000 for the financial reporting component, the total allocation would be \$220,000. If the total costs for the Accounting Fund was \$3 million, then that cost center's percentage would be 7.34% (\$220,000 divided by \$3 million).]
- Next, the total costs expected to be incurred by that internal service fund for FY 2008 were determined and budgeted. The percentages for each cost center as determined through the process explained in the previous step are then applied to that FY 2008 total budget cost amount. For each cost center, the resulting amount represents that cost center's FY 2008 budgeted costs for that internal service fund activity. Those amounts are budgeted to be paid (transferred) by that cost center to that internal service fund in FY 2008. [EXAMPLE: Continuing with the above example, if the total FY 2008 budget for the Accounting Fund is \$3.2 million, the budget for the applicable cost component's share of Accounting Fund costs would be \$235,000 (i.e., 7.34% times \$3.2 million).]

Overall, DMA's process for budgeting and charging internal service fund costs to benefiting departments is sound and reasonable.

In summary, the determination of the FY 2008 allocated account budget for each internal service fund was accomplished by identifying and applying allocation percentages, based on FY 2006

costs and FY 2006 services, to FY 2008 total budgeted costs for the internal service fund. That was accomplished through a multiple-step process.

Transfer of Funds. For internal service fund costs budgeted through the cost allocation process, DMA executes transactions that transfer one-twelfth of the budgeted amounts from the benefiting cost centers to the internal service funds each month. This process ensures consistent transfers of those budgeted funds to cover internal service costs throughout the fiscal year. Those transfers, in essence, represent actual “cost allocation charges” (also termed “allocated account charges”).

Year-end Adjustments. After the end of each fiscal year, DMA Accounting Services staff compares actual costs incurred by each internal service fund to the funds transferred to those internal service funds by benefiting cost centers (transfers represent charges of budgeted costs). Adjustment transactions are then executed to adjust amounts transferred (from benefiting cost centers to the internal service funds) to represent actual costs. Those adjustments, however, are made using the same prior year statistics (service levels) that were used to develop the budget. Accordingly, the total actual internal service fund costs are charged (allocated) to benefiting cost centers, but those charges/allocations remain based on prior year service levels and not current year service levels. This is addressed in more detail as an audit issue in a subsequent section of this report. (See pages 53 through 56 where this is described and explained in more detail.)

Detailed records and worksheets are prepared and retained by the DMA Budget and Policy section and the DMA Accounting Services section that document and support the budget development process, the monthly transfers, and the year-end adjustments.

In conclusion, other than the potential need for year-end adjustments to address significant differences in actual allocations based on prior year service levels and allocations that would be appropriate based on current year service levels, the process

Background – Audit Procedures

We performed detailed audit procedures to review (1) establishment of budgeted cost allocations, (2) transfer of budgeted funds from benefiting cost centers to applicable internal service funds, and (3) appropriate year-end adjustments.

employed by DMA for budgeting and charging costs of internal service fund functions to benefiting City departments and offices is sound and appropriate.

Various audit procedures were completed to accomplish our audit objective. A brief overview of those procedures is described in the following.

Budget Establishment. To determine if the establishment of budgeted allocated costs for internal service funds were proper, reasonable, and correct:

- The various DMA Budget and Policy worksheets used to develop the FY 2008 allocated accounts budget were reviewed for logic, accuracy, and support. This included verifications that the formulas and calculations were logical, correct, and consistent.
- The financial and statistical data used in the development of the FY 2008 allocated accounts budget was reviewed to ensure it was supported, reasonable, logical, and appropriate. That process included ensuring the data was for the appropriate period (i.e., FY 2006 costs and statistics were generally appropriate for the FY 2008 budget process).
- Verifications were made that amounts established pursuant to the FY 2008 budget worksheets agreed with the amounts represented in the City's FY 2008 approved operating budget.

Transfers of Funds. Financial records (i.e., PeopleSoft Financials System and DMA's "Filetran" records) and journal entry records were reviewed to determine the process used to transfer budgeted funds from benefiting cost centers to the applicable internal service funds, and to review the amounts transferred.

The impact of each audit issue was determined; in some instances the combined impact of multiple issues was also determined.

Year-End Adjustments. Journal entry records and related support were reviewed to determine the accuracy, propriety, and logic of year-end adjustments executed for FY 2006, FY 2005, and FY 2004

(year-end adjustments had not been completed at the time of our audit fieldwork for FY 2007).

Impact of Audit Issues. For each internal service fund, determinations were made as to the impact of each identified issue on applicable City funding sources (i.e., General Fund, Fire Services Fund, various utility operating funds, etc.). Furthermore, for those issues attributable to misapplications and/or misinterpretations of statistical data and also directly impacting actual FY 2008 cost allocations, determinations were made as to their combined impact (by internal service fund) on each applicable City funding source. (See Table 3 in a subsequent section of this report).

Overall Summary

In many instances, we found that costs of the City's internal service funds, totaling approximately \$60 million annually, were properly, accurately, equitably, and consistently allocated (charged) to benefiting City departments and offices. Specifically:

- In many instances, the establishment of the FY 2008 budget for "allocated accounts" relating to the 10 applicable internal service funds was proper, reasonable, and correct.
- In many instances, the charges of "allocated accounts" amounts to benefiting departments and offices were proper, reasonable, and correct.
- Appropriate year-end adjustments were made for differences between budgeted and actual internal service fund costs.

In many instances we found that internal service fund costs have been properly and equitably allocated; however, issues were identified that indicate the need for adjustments.

However, several instances were identified that resulted in less than equitable allocations (charges) of those costs to benefiting departments and offices. Because many of those instances offset each other, their final impact was not material to the overall accuracy of the costs allocated for all funds taken as a whole. Nonetheless, the identified issues indicate that DMA needs to make and consider appropriate adjustments for subsequent year cost allocations. Because of the significant impact that several of those

~~issues have on charges to various individual City funds,~~ consideration should be given to also making appropriate adjustments to FY 2008 allocated account charges. The identified issues are described in the following sections of this report.

***Allocation
Issues Resulting
in Over and
Under Charges***

During our review of records and processes used by DMA in developing the FY 2008 budget for allocated accounts, several issues were identified that resulted in inappropriate or less than equitable allocations of internal service fund costs. Because the budgeted amounts generally determine actual charges to benefiting departments and offices (i.e., transfers of resources from the funds of those benefiting departments and offices to the internal service funds), those issues impacting the budget also directly impacted actual charges in many instances. This section of the audit report addresses those issues affecting actual charges.

Summary Impact of Misallocations Resulting in Under and Overcharges of Costs. For reporting purposes, it is not practicable to reflect the impact of each audit issue on each benefiting cost center and internal service fund. Accordingly, this report shows the *impact of all issues for all internal service funds at the “fund” level.* Specifically, this report discloses the combined net impact of all issues for all internal service funds by City funding source (i.e. General Fund, Gas Fund, Fire Fund, Electric Fund, Airport Fund, Sewer Fund, Building Inspection Fund, etc.). For example, the impacts of all issues on all cost centers funded by the General Fund are combined and shown in total for the General Fund. That overall combined impact by funding source is shown for FY 2008 actual allocated account charges. The combined (net) impacts are reflected as overcharges and undercharges. Those disclosures are made in **Table 3** below.

Table 3 of this report shows the impact of all audit issues by City funding source.

TABLE 3 - FY 2008 ACTUAL CHARGES					
Cost Impact of All Issues by City Funding Source					
CITY FUND	Final Approved Budget for Allocated Costs	Over and Undercharges Resulting from All Issues		Combined Net Impact of Overcharges and Undercharges	
		Overcharges	Undercharges		
General Fund	\$17,751,733	\$1,331,485	(\$1,079,335)	\$252,150	Overcharged
Building Code Enforcement Fund	\$693,322	\$334,828	(\$9,470)	\$325,358	Overcharged
Fire Service Fee Operating Fund	\$3,825,478	\$176,177	(\$224,005)	(\$47,828)	Undercharged
Blueprint 2000 Operating Fund	\$32,319	\$642	(\$1,252)	(\$610)	Undercharged
Electric Operating Fund	\$15,339,091	\$1,259,132	(\$930,673)	\$328,459	Overcharged
Gas Operating Fund	\$1,792,038	\$471	(\$219,905)	(\$219,434)	Undercharged
Water Operating Fund	\$4,238,943	\$3,944	(\$564,321)	(\$560,377)	Undercharged
Sewer Operating Fund	\$4,576,594	\$118,294	(\$121,021)	(\$2,727)	Undercharged
Airport Operating Fund	\$1,272,774	\$133,810	(\$15,487)	\$118,323	Overcharged
StarMetro Operating Fund	\$1,185,048	\$488	(\$261,124)	(\$260,636)	Undercharged
Solid Waste Fund	\$4,389,423	\$79,169	(\$194,933)	(\$115,764)	Undercharged
Stormwater Fund	\$2,179,374	\$308,968	(\$74,196)	\$234,772	Overcharged
Golf Course Fund (Hilaman) (Note A)	\$9,712	\$3	(\$54)	(\$51)	Undercharged
Cemetery Perpetual Care Trust Fund	\$30,463	\$978	(\$738)	\$240	Overcharged
Downtown Improvement Authority	NONE	No Impact	No Impact	No Impact	—
CRA Frenchtown Operating Fund	NONE	No Impact	No Impact	No Impact	—
CRTPA	\$46,057	\$3,430	(\$1,206)	\$2,224	Overcharged
CRA Downtown Operating Fund	NONE	No Impact	No Impact	No Impact	—
Total Final Approved Budget	\$57,362,369	NOTE B			
NOTE A:	DMA indicated that it is their intent to not charge the Hilaman Golf Course Fund for internal service fund costs, rather Hilaman’s share of internal service fund services are to be charged and paid through the City’s General Fund appropriations for the Parks and Recreation Department. Based on those circumstances, the relatively minor amounts reflected for Fund 615 in the table should be consolidated with the General Fund amounts reflected in the first line of this table.				
NOTE B	The over and under charges should net to zero; however, due to the tiered allocation process there is a residual immaterial overcharge of \$54,099.				

Table 3 shows that over and undercharges occurred, ranging from a \$560,377 undercharge to a \$328,459 overcharge.

The impact of the various issues offset each other to some degree; if some of the offsetting issues had not occurred, the final impact of several issues on actual charges would have been even more significant.

Table 3 shows that net over and undercharges to benefiting City departments and offices will be made because of the combined net impact of all issues. Those amounts range from an undercharge of \$560,377 to the Water Operating Fund to an overcharge of \$328,459 to the Electric Operating Fund, with the General Fund overcharged \$252,150. Additionally, Table 3 shows that the overcharge to the Building Code Enforcement Fund represents 46.93% of that fund's allocated accounts budget.

It is also important to note that many of the individual issues offset each other, thereby reducing the final impact on the FY 2008 budget. If some of the offsetting issues had not occurred, the impact of the other issues would have been even more significant. For example, if only the issues relating to the ISS Fund had occurred, the combined impact on the General Fund would have been much greater. Specifically, the net overcharges would have approximated \$996,884 instead of the \$252,150 reflected in Table 3.

Description of Misallocations Resulting in Under and Overcharges of Costs. Various issues were identified that resulted in the over and under charges of allocated account amounts as shown above in Table 3. In many instances, those issues were the result of the incorrect interpretation and/or incorrect/incomplete application of allocation base data (prior year statistics) by DMA Budget and Policy staff when preparing the FY 2008 budget. The individual issues having significant impacts are described below. Those issues are categorized by the applicable internal service fund to which they primarily pertained.

[NOTE: For each of the following issues addressed in this section of the audit report, the noted impacts generally do not consider the impact of other audit issues. In addition, these noted impacts do not reflect the impact that over and undercharges to other Internal Service Funds had on the users of those funds' services. However, the final impact after consideration of those items is reflected in

Table 3 of this report for this and all other audit issues addressed in this section of the report.]

ISS FUND

During the budget preparation process, statistics used to establish the allocated accounts budgets for the ISS Fund and four other internal service funds that benefited from the services of the ISS Fund were incorrectly adjusted on the basis that certain software maintenance costs would be budgeted in and paid by those four benefiting internal service funds when, in fact, those maintenance costs were budgeted in and paid by the ISS Fund.

Significant under and over statements occurred when certain software maintenance costs of the ISS fund were treated as if they were budgeted and paid from other internal service funds.

Among other things, ISS maintains various computer software on behalf of City departments and offices. That includes software used by other internal service funds. For example, ISS maintains (1) the PeopleSoft Financials System on behalf of the Accounting Fund, (2) the PeopleSoft Customer Information System (CIS) on behalf of the Utility Services Fund, (3) the PeopleSoft Human Resources (HR) System on behalf of the Human Resources Fund, and (4) a unique parking ticket processing program on behalf of the Revenue Fund. Maintenance costs for that software were budgeted in and will be paid by the ISS Fund (i.e., for FY 2008 as was done in prior years). Accordingly, it would be appropriate for the allocated accounts budget to be established on that basis.

However, during the budget preparation process for FY 2008, DMA Budget and Policy staff adjusted prior year costs and prior year statistics to reflect those maintenance costs as having been paid directly by the four benefiting internal service funds. As those maintenance costs remained budgeted in (and have been/will be paid by) the ISS Fund, this resulted in inequitable allocations of those costs to the various City departments and offices that benefit from all services of the ISS Fund and from the services of the four applicable internal service funds. That result occurs because statistics used for allocating FY 2008 budgeted costs for each of the five internal service funds (ISS Fund and the other four) were incorrectly “weighted” based on the incorrect premise that

Incorrect treatment of software maintenance costs significantly impacted benefiting departments and offices of each of the five affected internal service funds.

maintenance costs would be paid directly by the four benefiting internal service funds. The ultimate impact was:

- For each of the four applicable internal service funds (Accounting Fund, Utility Services Fund, Human Resources Fund, and Revenue Fund), the City departments and offices that benefited from the applicable software were allocated larger portions of the FY 2008 budgets (established for each of those four internal service funds) than they should have been. Conversely, the City departments and offices that benefited from other services (i.e., services not relating to the software) rendered by those four internal service funds were allocated smaller portions of the FY 2008 budgets (established for each of those four internal service funds) than they should have been.
- For the ISS Fund, City departments and offices benefiting from ISS services not pertaining to software services (e.g., telecommunications, network administration, radio communications, GIS services) were allocated larger portions of the FY 2008 ISS budget than they should have been. Conversely, the four applicable internal service funds were allocated smaller portions of the FY 2008 ISS Fund budget than they should have been.

In our discussions on this issue, DMA Budget and Policy staff indicated their intent was to improve the allocation process through the adjustments to the statistics, but acknowledged that not adjusting the corresponding source (budgets) from where the maintenance costs would be paid resulted in the noted inequitable allocations and charges.

This issue was also compounded somewhat by a separate issue whereby certain software maintenance costs were assigned to the incorrect software. Specifically, some of the software maintenance costs pertaining to the PeopleSoft CIS and HR Systems were incorrectly assigned by DMA Budget and Policy staff to the PeopleSoft Financials System.

As shown in the following, the combined impacts of these issues (primarily the incorrect adjustment of statistics) were often significant.

Incorrect treatment of software maintenance costs resulted in under and overcharges by funding source in amounts ranging up to \$680,145.

- In relation to services provided by the ISS Fund, the resulting under and over charges ranged from an undercharge of \$624,760 to the Utility Services Fund to a \$680,145 overcharge to the General Fund.
- In relation to services provided by the Accounting Fund, the resulting under and over charges ranged from an undercharge of \$13,828 to the General Fund to a \$23,233 overcharge to the Electric Operating Fund.
- In relation to services provided by the Utility Services Fund, the resulting under and overcharges ranged from an undercharge of \$154,532 to the Electric Operating Fund to a \$94,408 overcharge to the Fire Service Fee Operating Fund. (NOTE: These under and overcharges for the Utility Services Fund also include the impact of a separate, but similar, audit issue addressed as the next issue in this report.)
- In relation to services provided by the Human Resources Fund, the resulting under and over charges ranged from an undercharge of \$2,378 to the Fire Service Fee Operating Fund to a \$1,512 overcharge to the General Fund.
- In relation to services provided by the Revenue Fund, resulting under and overcharges ranged from an undercharge of \$9,676 to the Electric Operating Fund to a \$14,847 overcharge to the General Fund.

Similar to the above issue, statistics used in the allocation of debt service costs for the City’s System Integration Project were incorrectly based on the premise those costs would be paid by the Utility Services Fund, when those costs were budgeted in and paid by the ISS Fund. The System Integration Project (also known as “Total Integration Project,” or TIP) benefits the City’s basic utilities - electric, water, and gas. Debt incurred to finance that project has been, and continues to be, budgeted and paid

Similar to the previous issue, significant under and overcharges occurred when certain debt service costs of the ISS fund were treated as if they were budgeted and paid from the Utility Services Fund.

through the ISS Fund. Accordingly, for purposes of budgeting the allocation of internal service fund costs, equitable portions of that debt service costs should be budgeted as allocated account charges to be paid by the benefiting utilities to the ISS Fund. However, DMA Budget and Policy staff established the statistics for purposes of developing the allocated accounts budget on the basis those costs would be budgeted and paid from the Utility Services Fund (a different internal service fund). The result was that the statistics used in establishing budgets for both the ISS Fund and the Utility Services Fund were incorrectly “weighted.” That incorrect weighting of statistics, will in turn result in significant under and overcharges of allocated costs in those two internal service funds. Specifically:

- In relation to services provided by the ISS Fund, the resulting under and overcharges ranged from an undercharge of \$400,114 to the Electric Operating Fund to a \$457,640 overcharge to the General Fund.
- In relation to services provided by the Utility Services Fund, the under and overcharges resulting from this issue and the previous issue ranged from an undercharge of \$154,532 to the Electric Operating Fund to a \$94,408 overcharge to the Fire Service Fee Operating Fund (as also disclosed for the previous audit issue).

In regard to the GIS services function, which is accounted for in the ISS Fund, costs for the GIS personnel component were allocated using incorrect statistics. The GIS function pertains to geographical information system (GIS) services rendered by ISS to other City departments. For budgetary purposes, that function is split by DMA into three components:

- (1) Interlocal – represents payments to the county for GIS services they provide to the City.
- (2) Personnel – represents costs of ISS staff administering the GIS function.
- (3) Support – represents all remaining ISS costs incurred for administering the GIS function.

DMA used the incorrect set of statistics to allocate certain GIS services costs, resulting in under/overcharges ranging up to \$296,499.

For FY 2008 budget purposes, we found that costs for the interlocal and support components were allocated based on GIS staff efforts. Except for the circumstances explained in the following audit issue, that allocation process for those two components was proper and equitable. However, we found that DMA Budget and Policy staff incorrectly allocated costs of the personnel component based on ISS staff efforts spent on the City's Permit Enforcement Tracking System (PETS), which is a separate ISS function. The impact was significant, as it resulted in errors ranging in an undercharge of \$81,668 to the Electric Operating Fund to an overcharge of \$296,499 to the Building Code Enforcement Fund.

Errors were identified in the "GIS staff efforts" statistics used to allocate costs of the GIS interlocal and support components of the GIS function.

As noted above, the GIS function provides services to various City departments, and costs for the interlocal and support components of that function are logically allocated based on GIS staff efforts. Those staff efforts were determined by allocating each employee's salary to the departments and offices benefiting from his/her services. Then, the salary costs allocated to each cost center (department or office) from all employees were totaled; and, the percentage those total allocated costs for that cost center represented of total salary costs for all employees became the allocation percentage used to allocate FY 2008 costs. This process is also known as using "weighted salaries" to determine staff efforts.

Errors in determining salaries of applicable ISS employees resulted in incorrect "weighting" of allocation statistic; which, in turn, resulted in incorrect charges ranging up to \$44,693.

While that process is appropriate and logical, we found errors in some employee salary amounts used by DMA Budget and Policy during the FY 2008 budget establishment process. Those errors generally consisted of material overstatements of individual salary amounts. For example, annual salary costs of employees that approximated \$70,000 were incorrectly identified as approximately \$175,000. In other instances, the salary amounts for individual employees were understated. (NOTE: Those incorrect salaries appeared to have been reported to DMA by ISS staff; when notified of these errors during the audit process neither DMA nor ISS staffs were able to determine the cause of the erroneous amounts.) The

net impact of those errors was under and overcharges in allocated costs, ranging from an undercharge of \$44,693 to the Electric Operating Fund to an overcharge of \$14,693 to both the Utility Services and Gas Operating Funds.

Support or reasoning was not available to justify one of the statistics used in allocating costs of the ISS applications systems component; use of that statistic resulted in overcharges to the General Fund in the amount of \$89,859.

The ISS applications systems component provides general system application support for the various computer systems used by City departments and offices. One system served is the City's Permits Enforcement Tracking System (PETS). The primary City department using that system is the City's Growth Management department.

Costs of the application systems component are logically allocated based on staff efforts of the ISS staff providing those services. Accordingly, DMA Budget and Policy properly obtains from ISS the amount of time (hours) each applicable staff employee works on each benefiting department/office's applications. For the most part, we found that those statistics were properly accumulated and used in FY 2008 cost allocations.

Allocation statistics used from an earlier cost study were not substantiated as applicable in FY 2008.

However, we determined that, in addition to allocating a portion of application systems support costs to the Growth Management department using those statistics (e.g., for staff efforts spent on the PETS), DMA Budget and Policy allocated an additional 6% of those total costs to that department. A determination was made that the additional 6% was allocated based on an earlier cost allocation study performed by a consultant in July 2003, in which 6% of total costs had been allocated directly to the PETS. Reasons for allocating an additional 6% in the earlier cost allocation study were not documented or otherwise known by current staff. Discussions with ISS and DMA Budget and Policy staffs disclosed that there was no support or reasoning justifying the additional charge of 6% in FY 2008. In conclusion, current circumstances did not justify the allocation of the additional 6% of total costs to the Growth Management department.

The result of applying the additional 6% of total costs to the Growth Management department were under and overcharges that ranged from an undercharge of \$8,493 to the StarMetro Operating Fund to a \$89,859 overcharge to the General Fund.

REVENUES FUND

For the Revenues Fund, errors in the development of statistics used for allocation of costs for the cash receipts component resulted in significant under and over charges of allocated costs in some City funds.

One of the three components comprising the Revenues (Reading, Billing, and Collections) Fund is “cash receipts.” That component represents services provided in connection with revenue/cash collection services for or on behalf of the various City departments and offices, excluding tax revenues. (Tax revenue collection services are included in a different component of the Revenues Fund.) Costs associated with the cash receipts component are identified and allocated to the benefiting City departments and offices (cost centers) through the cost allocation process. DMA Budget and Policy allocates those costs based on each benefiting department/office’s (cost center’s) share of total collections, excluding tax revenues. While that is a reasonable and logical allocation approach, we found that certain collections were erroneously excluded, and other collections erroneously included, during DMA’s development of statistics used for determination of FY 2008 allocated account charges. Specifically:

Errors in determining cash receipt statistics resulted in less equitable allocations of Revenues Fund costs.

- Collections of approximately \$24 million, resulting from the sales of natural gas and energy on behalf of the Energy Services Department, were incorrectly excluded in the determination of non-tax revenues/collections.
- Certain tax revenues (i.e., ad valorem taxes, state sales taxes, etc.) were improperly identified and treated as (non-tax) cash receipts for cost allocation purposes.

The exclusion and inclusion of the noted collections resulted in errors in determination of statistics used for allocating costs of the cash receipts component.

Our audit calculations show that the impact of this issue on the FY 2008 allocated account charges ranged from an undercharge of \$64,214 to the Wholesale Energy Services Fund to an overcharge of \$132,973 to the General Fund.

RISK MANAGEMENT FUND

Statistics provided by the Risk Management Division were misinterpreted by DMA Budget and Policy, resulting in inaccurate costs allocations. The City's Risk Management Division manages risk for four areas: (1) general liability, (2) vehicle accidents, (3) workers' compensation, and (4) property loss. Each of those four areas represents a separate component for which the respective costs are allocated to benefiting City departments and offices through the cost allocation process.

In establishing the FY 2008 cost allocations for those components, appropriate statistics were first determined based on FY 2006 activity. (See description of the DMA budget establishment process in the background section of this report.) Specifically, the total FY 2006 costs of the Risk Management Fund were first distributed (allocated) to each of the four components. Costs for each component were then allocated to benefiting departments and offices. Based on those allocations of FY 2006 costs, weighted percentages were determined and then applied to the total funds budgeted for the Risk Management Fund for FY 2008. Monthly charges have been made based on those budgeted costs. That allocation process involved multiple steps, as explained in the following:

An incorrect interpretation of "staff efforts" statistics resulted in significant under and overcharges.

- First, total FY 2006 costs of the Risk Management Fund were split between two general categories: (1) commercial premium costs purchased for property loss, and (2) all other costs, consisting of internal administrative costs (e.g., salaries and supplies) incurred for each of the four

components and supplemental commercial insurance premiums for workers' compensation.

- Second, total FY 2006 costs for the second category (i.e., comprised of all costs except costs for commercial property insurance) were further allocated to each of the four respective components. The allocation base used to distribute (allocate) those costs (excluding supplemental commercial workers' compensation insurance) to those components was the relative percentage of staff efforts spent on each component. (The cost of the supplemental commercial workers' compensation insurance is allocated directly to the workers' compensation component.) Accordingly, Risk Management provided statistics to DMA Budget and Policy that reflected the amount of staff efforts (expressed in relative percentages) spent on those four areas. Then:

- Costs for each of three components (general liability, vehicle accidents, and workers' compensation) were further allocated to benefiting departments and offices based on the relative number of claims filed by each user department/office for accidents, damages, etc. For example, workers' compensation costs were allocated to a specific department based on that department's share of total workers' compensation claims.
- Costs assigned to the fourth component (property loss) were allocated to benefiting departments and offices based on their proportional shares of total property values.
- The resulting allocations of FY 2006 costs for all four components were totaled for each benefiting department/office (cost center), and those accumulated costs were used to develop "weighted" percentages. Those weighted percentages were then used to establish the FY 2008 allocated accounts

budget for the Risk Management Fund (i.e. by applying those weighted percentages to the appropriate amount budgeted for the Risk Management Fund for FY 2008).

- Monthly charges were made based on those budgeted cost allocations.
- Lastly, commercial premium costs purchased for property loss (i.e., the first general category) were allocated (and charged) to benefiting departments and offices based on their proportional shares of total property values.

While that process was reasonable, we found that DMA Budget and Policy staff incorrectly interpreted the statistics provided by Risk Management regarding the staff efforts spent on each of the four components - general liability, vehicle accidents, workers' compensation, and property loss. Specifically, DMA staff incorrectly interpreted staff efforts spent on administrative efforts for three of the components (general liability, vehicle accidents, and workers' compensation) as efforts spent on the property loss component. As a result, the allocation percentages used by DMA Budget and Policy in establishing the budgeted allocated account charges were incorrect.

The impact of those errors on FY 2008 cost allocations ranged from an undercharge of \$121,312 for the General Fund to an overcharge of \$203,255 to the Electric Operating Fund.

Statistics for the property loss component were incorrectly over weighted, resulting in significant under and overcharges. As described in the previous issue, to establish the FY 2008 allocated account charges for the Risk Management Fund, DMA Budget and Policy first derived appropriate allocation statistics from FY 2006 activity, and then applied those statistics (represented by weighted percentages) to the total amount budgeted for FY 2008.

One factor that impacted those percentages was the amount of FY 2006 costs assigned to each of the four components. Specifically, the amount of FY 2006 costs assigned (or allocated) to each of the

An incorrect weighting of property loss costs materially impacted the allocation statistics, resulting in under and overcharges of cost allocations that ranged up to \$847,053 for one funding source.

four components determined the “weight” that would be applied to the allocations for each component. The larger the costs assigned to a component, the greater the “weight” that component has relative to the other components. Departments and offices benefiting from services of the heavier weighted components are allocated a proportionately greater share of total fund costs compared to the lesser weighted components.

While that process is reasonable, we found that DMA Budget and Policy incorrectly weighted the allocation percentages for the property loss component. That over weighting occurred when costs for that component were incorrectly overstated by the amount of commercial property premiums, or \$2,819,534. As a result, those City departments and offices benefiting from the Risk Management services relating to property loss protection were allocated greater shares of the FY 2008 costs than they should have been. Conversely, those departments and offices benefiting from other Risk Management services were allocated smaller shares of the FY 2008 costs than they should have been.

From a fund perspective, the impact of those errors on FY 2008 allocated accounts charges ranged from an undercharge of \$417,803 for the General Fund to an overcharge of \$847,053 to the Electric Operating Fund.

In determining allocation statistics, costs for workers’ compensation commercial insurance premiums were incorrectly assigned as costs of the general liability component.

As described above, the Risk Management Fund is comprised of four separate components: (1) general liability, (2) vehicle accidents, (3) workers’ compensation, and (4) property loss. As also described above, the determination of appropriate allocation statistics (weighted percentages) for purposes of establishing FY 2008 cost allocations was based on the accurate assignment of prior year (FY 2006) costs to each component.

While FY 2006 costs were generally properly identified and assigned to the proper components, we noted that DMA Budget and Policy staff incorrectly assigned costs for supplemental commercial

Allocation statistics were adversely impacted when costs relating to the workers’ compensation component were incorrectly assigned as costs of the general liability component.

workers' compensation insurance, totaling \$432,013, to the general liability component. As a result, those City departments and offices benefiting from the Risk Management services relating to general liability protection were allocated greater shares of FY 2008 fund costs than they should have been. Conversely, those departments and offices benefiting from Risk Management services relating to workers' compensation were allocated smaller shares of FY 2008 fund costs than they should have been.

From a fund perspective, the impact of those errors on FY 2008 allocated accounts charges ranged from an undercharge of \$27,744 to the Fire Service Fund to an overcharge of \$51,255 to the Electric Operating Fund.

UTILITY SERVICES FUND

Statistics pertaining to general government were incorrectly interpreted as applicable to the City's stormwater function.

Statistics pertaining to general government functions were incorrectly interpreted as applicable to the stormwater function.

Costs of two UBCS functions (environment and safety) were logically allocated to benefiting departments and offices based on statistics reflecting staff efforts spent on activities for those departments and offices. Those staff efforts were reported by knowledgeable UBCS staff to DMA Budget and Policy to assist in the establishment of the FY 2008 budget. DMA Budget and Policy staff generally properly interpreted those statistics. However, we determined that DMA Budget and Policy interpreted staff efforts relating to general government functions (e.g., real estate, public works, economic development) that are funded through the City's General Fund as pertaining to stormwater services. As a result:

- In regard to the environmental function, the Stormwater Fund was overcharged by \$195,055 in FY 2008, while the General Fund was undercharged by the same amount.
- In regard to the safety function, the Stormwater Fund was overcharged by \$18,961 in FY 2008, while the General Fund was undercharged by the same amount.

Costs for the custodial component of the UBCS construction coordination function were not allocated using the best

available statistics. The UBCS construction coordination function is comprised of two components: (1) construction coordination, which pertains to utility locator services, and (2) custodial services, which relates to custodial services rendered to the facility in which the Electric and Gas Utility administrative functions are housed (i.e., that custodial activity is organizationally assigned to the utility locator services function).

Costs of a custodial function were allocated using the incorrect statistics.

For FY 2008 budget establishment purposes, we found that DMA Budget and Policy correctly allocated costs of the larger function, construction coordination, based on the applicable utilities' (Electric, Gas, Water, and Sewer) proportional share of total miles of underground utility lines. However, DMA Budget and Policy also allocated costs of the custodial function using those same statistics. However, the appropriate statistics for allocation of the custodial function costs was staff efforts, as provided by UBCS staff to DMA Budget and Policy. Those statistics showed that 75% of the custodial function costs should be allocated to the Electric Utility and the remaining 25% to the Gas Utility.

For the four affected utility operating funds, the impact of this issue ranged from an understatement of \$33,872 to the Electric Operating Fund to an overstatement of \$19,251 to the Water Operating Fund.

Recommendations. To address the above issues, we recommend that:

- DMA ensure that all allocation statistics are established based on the actual fund from which internal service fund costs will be paid (i.e., see the first two issues in this report section).
- DMA establish a procedure to meet with staff of applicable City departments and offices requested to provide critical allocation data (e.g., statistics used as allocation bases) to (1) explain the purpose and planned uses of the requested data; (2) ensure a proper, complete, and accurate understanding of the data when it is provided; and (3) ensure any significant organizational changes that would impact the cost allocation process are disclosed and understood. Discussions and explanations resulting from such meetings should help reduce the types of

misunderstandings and misapplications of data addressed in several issues described in this report section.

- DMA further review allocation base (statistical) data provided by applicable City departments and offices for logic and accuracy (e.g., accuracy and logic of reported employee salary amounts).
- DMA provide for an independent review of cost allocation work papers for the purpose of identifying logic and other errors (e.g., allocations made by each staff should be independently reviewed by a different staff). Such reviews are likely to identify relatively simple, yet significant, errors or mistakes in calculations and logic.
- Because of their significant impact as noted in Table 3 of this report, DMA consider adjusting FY 2008 cost allocation charges for the under and overcharges resulting from the issues described in this section of the audit report.

Recommended Cost Allocations Enhancements

Except for the issues identified in the previous section of this report, we found the FY 2008 cost allocations to be reasonable, equitable, and otherwise appropriate. However, we identified certain areas where we believe that enhancements to the process should be made to further the degree of equitability in those cost allocations. Those areas are addressed in this section. Those areas (issues) are categorized by the applicable internal service fund to which they pertained.

[NOTE: The areas addressed in this section of the report are for management's consideration. Accordingly, the impacts noted in this section of the report are not included in the under and overcharges shown in Table 3, which is presented and discussed in the previous section of this report.]

PURCHASING FUND

DMA Budget and Policy should consider purchase activity relating to the Municipal Supply Center in determining costs

Considering purchase activity for the City's Municipal Supply Center would result in more equitable cost allocations.

allocations for the general purchasing component. General purchasing services is one of the components of the Purchasing Fund. Costs of those services are budgeted and charged to user departments through the cost allocation process. DMA Budget and Policy allocates those costs based on each user department/office's (cost center's) share of total purchase orders. While that is a reasonable and logical allocation base, we found that purchase orders prepared and issued for acquisitions of goods for the City's central warehouse (Municipal Supply Center, or MSC) were excluded and not considered in this allocation process. If those purchase orders for the MSC were included/considered as part of the cost allocation process, those departments and offices (cost centers) requisitioning and receiving goods through the MSC could be allocated a more equitable share of general purchasing costs.

To determine the impact of this issue, we determined what the FY 2008 cost allocations would be if purchase orders issued for the MSC warehouse (and requisitions/issuances from MSC) had been considered as part of the allocation process. Our review showed the resulting differences ranged from an increase in cost allocations of \$41,672 to the Electric Operating Fund to a reduction in cost allocations of \$26,662 to the General Fund.

For the Purchasing Fund, costs of the purchasing function were assigned and allocated to two service components – general purchasing and solicitations; consideration should be given to assigning and allocating costs to a third component – the City purchase card program.

The purchasing function is comprised of three basic components:

- General purchasing, which represents purchases made through the PeopleSoft Financials System purchase requisition and purchase order process;
- Solicitations, which represents efforts by purchasing staff in preparing, issuing, evaluating, and administering solicitations for goods and services (e.g., request for competitive bids and proposals); and

Activity relating to the City P-Card program should be considered in determining cost allocations for the Purchasing Fund.

- City purchase card (P-Card) program, which represents purchases made using a City P-Card.

Staff in Procurement Services (i.e., the internal service fund activity accounted for in the Purchasing Fund) administers each of those three components.

In prior years, activity relating to the P-Card program was not as significant as it is now. Accordingly, in prior years it was logical to not allocate costs to that component. However, because usage of City P-Cards by City departments and offices has increased significantly in recent years, and because that usage differs proportionately from usage of general purchasing and solicitation services, it would be more equitable to assign and allocate a proportionate share of Purchasing Fund costs to that component as part of the cost allocation process.

As part of our audit, we determined what the cost allocations would have been in FY 2008 if the City P-Card program had been considered a separate component. That review showed that the differences in cost allocations ranged from a reduction of \$44,144 to the Electric Operating Fund to an increase of \$17,518 to the General Fund.

Consideration should be given to activity relating to utility satellite warehouses when developing allocated accounts charges for the Purchasing Fund's "supply" function.

One of the functions accounted for in the Purchasing Fund is the supply, or central warehouse, function. The City's Municipal Supply Center (MSC) performs that function. For cost allocation purposes, DMA Budget and Policy allocates associated MSC costs based on each user department/office's proportional share of the monetary value of total supply issuances. While that is a reasonable and logical allocation base, we found that issuances by MSC to utility warehouses were excluded in this cost allocation process. Addressing supply issuances by MSC to the utility warehouses should result in more equitable allocations, as those issuances ultimately benefit the various City utility departments.

Issuances of supplies to the City's satellite utility warehouses should be considered in determining cost allocations for the supply function.

If supply issuances to utility warehouses had been considered, our audit calculations show differences in FY 2008 cost allocations ranging from a reduction of \$68,960 to the Electric Operating Fund to an increase of \$51,626 to the Water Operating Fund.

HUMAN RESOURCES FUND

Consideration should be given to adjusting the allocation statistics used for the union contract negotiation component.

Statistics used for allocating union contract negotiation costs to the Police and Fire departments should be revised.

Human Resources staff negotiates contracts with the police and fire unions. Accordingly, costs associated with that process are identified and allocated to the applicable Police and Fire costs centers through the cost allocation process. For the FY 2008 budget, 1/3 of those costs was allocated to a Police department cost center and the remaining 2/3 was allocated to a Fire department cost center. That same proportion (1/3 police and 2/3 fire) was also used in FY 2005, FY 2006, and FY 2007. Based on our discussions with knowledgeable Human Resources staff involved in the negotiations, we found that a more appropriate and equitable allocation would be to allocate 1/2, or 50%, of total costs to each cost center (police and fire). That suggested allocation is based on the premise that in certain years more efforts may be spent on one versus the other (e.g., in the year that the fire union contract is being renewed staff will spend more effort on that contract than the police union contract) but, over time, the amount of effort spent on each one will be approximately the same.

Under the premise that the most equitable allocation is 50% to police and 50% to fire, the FY 2008 cost allocations for the General Fund (Police cost center) would be increased by \$26,790 and the FY 2008 cost allocations for the Fire Services Fund would be reduced by the same amount.

REVENUES FUND

For the Revenues Fund, consideration should be given to allocating a portion of mailroom costs to benefiting enterprise funds. The City's mailroom provides various mail-related services to all City departments and offices, including, but not limited to,

interoffice mail services. The mailroom is organizationally assigned to the Treasurer-Clerk's Revenue Division and accounted for in the Revenues Fund. As an internal service fund activity, it is therefore appropriate that the associated costs be allocated to benefiting departments and offices through the cost allocation process.

It would be more equitable to allocate a proportional share of mailroom costs to benefiting enterprise-funded operations.

However, we found that all mailroom costs were allocated to the City's General Fund. No costs were allocated to those City departments and offices funded by sources other than the General Fund, although those departments and offices benefited from mailroom services.

Based on our discussions with mailroom staff, it would be more equitable to allocate somewhere from 5% to 10% of mailroom costs to those City departments and offices funded through enterprise funds. Had this approach been used for the FY 2008 cost allocations:

- The General Fund would be charged somewhere between \$27,350 and \$54,700 less.
- Each of the City's 10 enterprise funds (Fire Services, Electric, Gas, Water, Sewer, Aviation, StarMetro, Solid Waste, Stormwater, and Hilaman) would be charged from \$2,735 to \$5,470 more.

RISK MANAGEMENT FUND

Consideration should be given to budgeting and charging specific City departments for their portions of commercial property insurance premiums previously paid by the General Fund. As described previously in this report, for FY 2008 budget purposes the costs of commercial property insurance premiums were allocated to benefiting departments and offices based on those departments/office's proportional shares of total City property values. That approach is reasonable and equitable and, for the most part, was used by DMA Budget and Policy in establishing cost allocations for FY 2008. However, we found that some of the premium costs that pertained to the Fire, Police, Parks and Recreation, Stormwater, and StarMetro departments and to the

Consideration should be given to allocating all portions of commercial property insurance costs to funding sources established for the benefiting departments/offices.

City's 800-megahertz radio function were allocated/charged to a special appropriations cost center funded by the City's General Fund. That treatment was not consistent with other premium costs that were allocated and charged to the specific departments to which the insured properties pertained (e.g., Electric, Aviation, and Water).

From a fund perspective, we calculated what the noted benefiting departments and offices would have been charged had they been allocated their representative portions of commercial property insurance premiums (i.e., instead of charging the General Fund). When compared to the DMA FY 2008 cost allocations, our calculations showed differences ranging from a reduction of \$198,253 to the General Fund to an increase of \$101,101 to the 800-Megahertz Fund.

To eliminate some annual fluctuations in amounts allocated to individual departments and offices, DMA Budget and Policy should consider using a three-year claim average.

As previously noted in this report, costs for the general liability, vehicle accidents, and workers' compensation components are allocated to benefiting departments and offices based on their proportional shares of total claim costs. The allocation base used to identify each department/office's proportional share was the relative number of claims incurred by each user department/office for accidents, damages, etc. For example, workers' compensation costs were allocated to a specific department based on that department's share of total workers' compensation claims.

To eliminate some annual fluctuations, DMA should consider allocating claims-related costs using a three-year annual claims average.

To date, DMA Budget and Policy has determined those proportional shares based on claims activity for the most recently completed fiscal year at the date of budget preparation. For the FY 2008 budget, claims data from FY 2006 was used, which is consistent with the overall DMA budget establishment process as explained in the background section of this report.

While that process is reasonable and acceptable, DMA Budget and policy staff indicated that using average annual claims data for the most recently completed three-year period, rather than claims data

for the most recent year, would alleviate fluctuations in budgeted amounts for the various City departments and offices. For example, under the current process, if a department had no claims for one year but significant claims the subsequent year, its budget allocated accounts charges significantly increase from one year to the next. But, if a three-year annual claims average was used under that scenario, the budgeted allocated accounts charges for that department would remain relatively constant from one year to the next.

DMA Budget and Policy staff indicated that it has considered applying the three-year annual claims average in the cost allocation process. However, to date, annual claims data has been used. From a fund perspective, we calculated what the noted benefiting departments and offices would have been allocated/charged in FY 2008 if the most recent three-year annual claims average had been used. When compared to the DMA FY 2008 cost allocations, our calculations showed differences ranging from a reduction of \$69,788 to the Sewer Operating Fund to an increase of \$30,838 to the Solid Waste Fund.

Consideration should be given to revising the cost allocation process to give benefiting City departments and offices credit for their proportional shares of claim recoveries. Net allocable costs (exclusive of the property loss component) for the Risk Management Fund consists of (1) payments for general liability, vehicle accidents, and workers' compensation claims less (2) claim recoveries from liable third parties. As described in previous issues, those net costs are allocated to benefiting departments and offices based on the department/office's proportional share of claims paid by the City.

In establishing the risk management cost allocation budget for FY 2008, benefiting City departments and offices should be given credit for their proportional shares of claim recoveries.

In essence, that process allocates both claim payments and claim recoveries based on each department/office's proportional share of claims payments. However, claim recoveries by department/office are not at the same proportion as the claim payments for the individual departments/offices. For example, a specific department

may incur 15% of total claims, but claim recoveries received on its behalf may represent 30% of total claim recoveries.

A more equitable process would be to (1) allocate claim payments to individual departments and offices based on their proportional claims payments activity, and (2) allocate claim recoveries to individual departments and offices based on their proportional share of claim recoveries. For each department and office, the results of both allocations could then be netted to determine the department/office's budgeted share of total net allocable costs.

DMA Budget and Policy staff indicated that it considered the more equitable process (as described in the preceding paragraph) in developing the FY 2008 budget. However, as data was not readily available at the time of budget preparation, that process was not used.

From a fund perspective, we calculated what the noted benefiting departments and offices would have been allocated/charged in FY 2008 if individual departments and offices were given credit for their proportional shares of claim recoveries. When compared to the DMA FY 2008 cost allocations, our calculations showed differences ranging from a reduction of \$40,623 to the Electric Operating Fund to an increase of \$15,920 to the General Fund.

UTILITY SERVICES FUND

Consideration should be given to allocating Utility Business and Customer Services (UBCS) administrative function costs to each benefiting component within each of the UBCS functions.

For FY 2008 budget determination purposes, base year (FY 2006) costs of the UBCS administrative function were logically allocated to each of the other four UBCS functions that provide direct services to various City departments and offices. Two of those functions each provide services through a single component (i.e., just provide one basic service), while the other two functions each have multiple components (i.e., each of those functions provides more than one identifiable service). The base year costs (FY 2006) of the various UBCS components (including any amounts allocated

Consideration should be given to allocating UBCS administrative costs to each benefiting ISS component.

from the UBCS administrative function) are used in the establishment of “weighted” statistics for purposes of developing FY 2008 cost allocations.

For the two UBCS components that consist of multiple components, we found that DMA Budget and Policy only allocated FY 2006 UBCS administrative costs to a single component within each of those functions. The other components within those two functions were not allocated any of those costs. As a result, the statistics developed for the components to which those costs were allocated could be considered “over-weighted” in relation to the statistics developed for the components to which none of those costs were allocated.

Based on our audit calculations, the differences in FY 2008 cost allocations if UBCS administrative costs had been allocated to each benefiting component ranged from an increase in Electric Operating Fund costs of \$78,483 to a reduction in Fire Services Fund costs of \$37,364.

Similarly, we found that “internal” administrative costs for one of the four functions were allocated only to one activity (component) of that function. (NOTE: The internal administrative costs pertain just to that function whereas the UBCS administrative costs pertain to all UBCS functions.) The impact was similar to that described above for the UBCS administrative costs. Specifically, when accumulated by funding source, our calculations show the differences in FY 2008 cost allocations if those internal administrative costs had been allocated to each benefiting component of that function ranged from an increase in the Electric Operating Fund costs of \$66,664 to a reduction in Sewer Operating Fund costs of \$28,474.

Recommendations. For each of the issues described in this section of the audit report, DMA Budget and Policy should evaluate the benefits and costs of implementing the recommended actions. If determined to be cost beneficial, DMA should implement those actions for FY 2009 cost allocations.

Issues Impacting the Budget

In addition to the above issues that impact actual charges of FY 2008 allocated costs, we identified the following issues that significantly impacted the determination of FY 2008 “budgeted” cost allocations, but not the resulting actual charges. These issues are disclosed because the inaccurate determination of budgeted costs results in limitations in the usefulness of the budget to City management in fulfilling its managerial and oversight capabilities. Similar to the previous report sections, these issues are categorized by the applicable internal service fund to which they pertained.

[NOTE: The noted impacts described in this section of the audit report are intended to demonstrate the significance of each individual issue. Because these issues did not impact actual charges of allocated costs, the noted impacts are not included in the under and overcharges shown in Table 3, which is presented and discussed in a prior section of this report.]

GARAGE (FLEET) OPERATING FUND

Incomplete statistics were used to develop the budgeted allocated costs for the Fleet “parts” component. The Garage Operating (Fleet) Fund is comprised of three components: (1) administration, (2) services, and (3) parts. The costs of each component should be allocated using the most appropriate base.

The parts component consists of two primary activities – vehicle parts issuances and fueling operations for City vehicles. Accordingly, the Fleet department captured and provided statistics for both parts issuances and fuel billings to DMA Budget and Policy for purposes of establishing the allocated accounts budget for FY 2008. However, we found that DMA Budget and Policy only considered the parts issuances when establishing that budget. Fuel billings were not considered. This issue significantly impacted the budgeted allocated accounts charges for the Garage Operating Fund in FY 2008.

Our audit calculations show that the impact of this issue on the FY 2008 budgeted allocated account charges, when accumulated by

Incomplete statistics were used to develop the budgeted allocated costs of the parts component.

funding source, ranged from an understatement (budgeted costs) of \$267,430 to the General Fund to an overstatement of \$309,248 (budgeted costs) to the Solid Waste Fund.

As explained in the background section of this report, charges of costs for the parts component are made by applying rates to actual services provided (i.e., see page __ of this report that explains the hybrid approach used for this component). Accordingly, this issue impacts only the budgeted amounts and not actual charges of allocated accounts costs. However, the incorrect and inaccurate determination of the budgeted costs resulted in limitations of the usefulness of that budget to City management in fulfilling its managerial and oversight responsibilities. Efforts should be enhanced to ensure accurate and correct determinations of allocable costs for future budgets.

Statistics reflecting activity of the Utility Business and Customer Services function were not considered in the development of the FY 2008 allocated accounts budget for the Garage Operating Fund.

As noted in the previous issue, the services and parts components are two of the components for which the associated costs are allocated to benefiting departments and offices. For budget development purposes, costs for both components are allocated based on proportional usage of the Fleet department's vehicle services as captured in the City's fleet management system (FASTER).

Statistics pertaining to the UBCS functions were incorrectly not considered in the development of budgeted cost allocations.

Our audit showed that usage by the Utility Business and Customer Services function was not considered when DMA Budget and Policy developed the FY 2008 allocated accounts budget for the Garage Operating Fund. Not considering that usage had significant impacts on budgeted costs for certain funds, especially the UBCS Fund. Specifically, the budgeted allocated accounts charges for the UBCS Fund were understated by \$178,260. The budgeted allocated accounts charges for remaining City funds were overstated, in amounts ranging up to \$49,666 for the General Fund.

Budgeted charges to the UBCS Fund are in turn allocated as budgeted charges of the various City utility funds. Accordingly, the

understatement to the budget for the UBCS Fund, in turn, resulted in understatements of budgeted allocated accounts charges for those utility funds (e.g., Electric, Gas, Water, and Sewer Operating Funds).

As explained in the background section of this report, charges of costs for the parts and services components are made by applying rates to actual services provided (i.e., see page 13 of this report that explains the hybrid approach used for this component). Accordingly, this issue impacts only the budgeted amounts and not actual charges of allocated accounts costs. However, the incorrect and inaccurate determination of the budgeted costs resulted in limitations of the usefulness of that budget to City management in fulfilling its managerial and oversight responsibilities. Efforts should be enhanced to ensure accurate and correct determinations of allocable costs for future budgets.

The best available statistics were not used in developing the FY 2008 budgeted allocated accounts charges pertaining to the Fleet administrative function.

As previously noted, one of the three components comprising the Garage Operating Fund is administration. The appropriate and logical base identified by DMA Budget and Policy for allocation of those costs was the proportional number of City vehicles maintained by each benefiting City department and office. In response to our inquiry, Fleet staff confirmed that the proportional number of vehicles was appropriate for allocation of their administrative costs.

The most appropriate set of statistics was not used in the development of budgeted administrative costs.

However, we found that DMA Budget and Policy used City department/offices' proportional shares of total vehicle fuel billings to allocate Fleet administrative costs. As a result, the FY 2008 budget was not established on the most equitable basis.

When accumulated by funding source and compared to DMA's budgeted FY 2008 cost allocations, our audit calculations using the more appropriate statistics resulted in budgeted cost allocations that ranged from an increase of \$104,784 to the General Fund to a reduction of \$166,984 to the Solid Waste Fund.

Notwithstanding that the budgeted allocated accounts charges of Fleet administrative costs were incorrectly based on fuel billings, we found that DMA Accounting Services properly and logically charged actual costs based on the department/offices' proportional shares of total vehicles. Accordingly, this issue impacts only the budgeted amounts and not actual charges of allocated accounts costs. However, the incorrect and inaccurate determination of the budgeted costs resulted in limitations of the usefulness of that budget to City management in fulfilling its managerial and oversight responsibilities. Efforts should be enhanced to ensure accurate and correct determinations of allocable costs for future budgets.

RISK MANAGEMENT FUND

While likely to be corrected during the year-end adjustment process, a \$1.4 million overstatement of allocable costs resulted in corresponding overstatements of FY 2008 budgeted cost allocations. We noted that net allocable costs (i.e., budgeted to be allocated through the cost allocation process) for the Risk Management Fund, as determined by DMA Budget and Policy, were overstated by \$1,424,284. This overstatement occurred when a budgeted transfer from the Special Insurance Reserve Fund to the Risk Management Fund was not considered in the determination of allocable costs.

A \$1.4 million overstatement of estimated allocable risk management costs resulted in overstatements in each benefiting department/office's allocated accounts budget.

That overstatement of FY 2008 allocable costs resulted in corresponding overstatements in the allocated accounts budgets established for each benefiting department and office (cost center). When accumulated by funding source, those budget overstatements were significant for certain funds. Specifically, the allocated accounts budget for the General Fund was overstated by \$455,424 and the allocated accounts budget for the Electric Operating Fund was overstated by \$510,566.

The resulting overstatements of FY 2008 budgeted costs should be identified and corrected by DMA Accounting Services when year-end adjustments are made for differences between actual and budgeted costs. Notwithstanding, the establishment and

presentation of accurate budgets is necessary to assist City management in fulfilling its managerial and oversight responsibilities. Efforts should be enhanced to ensure accurate determinations of allocable costs for future budgets.

WHOLESALE ENERGY SERVICES FUND

An error in entering amounts into the DMA budget database resulted in overstatements in the allocated accounts budgets for four utility funds. The majority of costs budgeted in the Wholesale Energy Services Fund are not budgeted and allocated through the City's cost allocation process. For example, the costs of source fuels are charged to users (primarily the Electric and Gas Utilities) through direct charges.

However, certain wholesale energy costs are budgeted and allocated to benefiting City departments and offices (Electric, Gas, Water, and Solid Waste Utilities) through the City's cost allocation process. Those costs pertain to the City's energy audit program, gas sales program, and key (customer) accounts administration. We found that, for the most part, DMA Budget and Policy properly, logically, and correctly determined the FY 2008 budgeted allocated accounts charges for those costs. But, those properly determined budget amounts were not accurately entered into the DMA FY 2008 budget database. The result was that the budgeted allocated accounts charges for those four funds were overstated in amounts ranging from \$2,345 for the Solid Waste Fund to \$199,610 for the Electric Operating Fund.

Budgeted cost allocations were not accurately entered into the DMA budget database for four utility funds, resulting in overstatements in the budgeted amounts for those funds.

The resulting overstatements of FY 2008 budgeted costs should be identified and corrected by DMA Accounting Services when year-end adjustments are made for differences between actual and budgeted costs. Notwithstanding, the establishment and presentation of accurate budgets is necessary to assist City management in fulfilling its managerial and oversight responsibilities. Efforts should be enhanced to ensure accurate determinations and recordings of allocable costs for future budgets.

Recommendations. To address the issues described in the report section, we recommend:

- DMA use the most appropriate (and complete) statistics when developing the budget for the Fleet Garage Operating Fund.
- DMA consider the impact of planned (and budgeted) transfers to and from the Special Insurance Reserve Fund when developing cost allocations for the Risk Management Fund.
- DMA continue efforts to ensure that budget determinations are accurately entered into the budget database.

Year-End Adjustments

As explained on pages 13 and 14 of this report, under the current cost allocation process, the City transfers one-twelfth of budgeted allocated accounts charges from benefiting departments/offices to the applicable internal service funds each month of the fiscal year. Those transfers represent *charges* to the benefiting departments/offices and *revenues* to the applicable internal service funds. As explained on pages 15 through 17 of this report, those budgeted allocated accounts charges are determined using statistics derived from prior year costs and prior year service levels. Accordingly, those budgeted charges represent *estimates* of what actual costs and service levels will be for the applicable year. As described on page 18 of this report, year-end adjustments are generally necessary to compensate for those cost allocations (i.e., charges, or transfers, of allocated costs) based on the *estimated* costs and *estimated* service levels and what those allocations would be based on *actual* costs and *actual* service levels. If made, such adjustments ensure, for a given fiscal year, that (1) total costs charged to user departments and offices are correct, and (2) each user department/office is charged only for the level of services actually received.

In our audit we noted that the DMA Accounting Services prepares year-end adjustments in connection with the allocated accounts

charges relating to the ten applicable internal service funds. However, the following issue was identified that indicates DMA should consider enhancing that adjustment process.

Our analyses indicate that DMA should continue to evaluate the need for, and feasibility of, an enhanced year-end adjustment process. At fiscal year end, DMA Accounting Services determines the differences between total budgeted and total actual costs for each of the ten applicable internal service funds. For each internal service fund, adjustments addressing those differences are then made to allocated accounts charges for that fiscal year. (As explained above, the charges prior to the adjustments represent the total of the twelve monthly transfers of budgeted costs made during the year.) Those adjustments ensure for each internal service fund that the total costs charged (allocated) to all benefiting departments and offices (users) for that year are correct (i.e. total charges represents actual costs incurred by the internal service funds).

Our fluctuation analyses indicate that there have been some significant fluctuations in both internal service fund costs and service levels, thereby indicating that DMA should consider an enhanced year-end adjustment process.

However, we noted that those year-end adjustments were made using the same “service level allocation statistics” developed and used in the preparation of the budgeted allocations/charges. In other words, adjustments were not made to address differences between charges (allocations) based on *estimated* service levels and charges based on *actual* service levels. (Note – for an individual user department, “service levels” represent that department’s share of total services rendered by the activities of the applicable internal service fund.) In the event that significant differences exist between estimated and actual service levels rendered to a benefiting department or office, the lack of such adjustments result in portions of an internal service funds costs charged to that department/office being under or overstated for that year. The following example demonstrates this issue.

[EXAMPLE: This example serves to demonstrate the circumstances addressed in the preceding paragraph. For purposes of this example, the facts are: (1) an internal service fund for which the estimated annual costs based on prior year data totaled \$90,000 and final actual annual costs totaled \$100,000; (2)

two user departments that receive and benefit from the services of that internal service fund; and (3) the “prior year” service levels on which the current year budget was established for that internal service fund and the two user departments were:

- Department #1 – 50%
- Department #2 – 50%

STEP #1 - Initial budget and resulting charges. Based on the above, each of the two user departments would be initially budgeted (allocated) \$45,000. During the year, amounts totaling \$45,000 would be transferred in equal monthly installments from each of the two user departments to the internal service fund. Those transfers would represent “charges” for the services received.

STEP #2 – Year-end adjustment for differences in costs. At year-end, an adjustment would be made for the differences between the budgeted costs of \$90,000 and actual costs of \$100,000. That adjustment would be made using the “prior year” service levels (i.e., 50% for both user departments). As a result, each of the two user departments would be “charged” an additional \$5,000 as part of the adjustment process. The end result is that total actual costs of \$100,000 have been allocated (charged) to the user departments using the prior year service levels.

IMPACT OF NOT ADJUSTING FOR DIFFERENCES BETWEEN PRIOR YEAR AND CURRENT YEAR SERVICE LEVELS. Based on the above, each of the two user departments would be allocated (charged) \$50,000 as each one received 50% of that internal service fund’s services based on the prior year service levels. However, if during the current year the actual service levels were, instead, 40% for Department #1 and 60% for Department #2, then Department #1 should have been allocated (charged) \$40,000 and Department #2 allocated (charged) \$60,000. Without a year end adjustment for the differences between prior year and current year service levels, the result would be that Department #1 was over allocated (charged) \$10,000 and Department #2 under allocated (charged) \$10,000. The final result is that the total actual

costs of \$100,000 for the internal service fund was allocated (charged) to user departments, but not in the proper proportions.]

To ascertain whether there were significant differences between actual and estimated services levels for a given year, we conducted fluctuation analyses of the statistics used in establishing service levels in the most recent three years. Those analyses were conducted for selected allocation bases used in 8 of the applicable 10 internal service funds. We also analyzed fluctuations in total annual costs incurred by those internal service funds during that three-year period. That analysis of annual cost fluctuations was performed because any significant fluctuations of both annual costs and annual service levels may result in significant under and overstatements to benefiting departments and offices that are not “offset” in subsequent years. In simpler terms, if there are significant fluctuations in service levels but total annual costs remain relatively constant, any resulting under/over statements in one year will likely be offset by corresponding over/understatements in subsequent years. However, if those costs do not remain relatively constant, any under/overstatements in one year may not be offset in subsequent years.

Our review of the most recent three-year period showed that there have been some significant fluctuations in both (1) annual service levels (or each benefiting department/office’s proportionate share of total services rendered by internal service funds), and (2) annual internal service fund costs. Accordingly, the current cost allocation process (which lacks year-end adjustments addressing differences between estimated and actual service levels) may not provide the most equitable allocations of internal service fund costs. However, because a sufficient number of years have not elapsed since the current cost allocation process was initially implemented (i.e., in the FY 2006 budget year), an accurate determination cannot yet be made as to whether differences in annual service levels and annual costs over an extended period (e.g., a 5 to 10-year period) would significantly impact the accuracy of the City’s cost allocations.

Recommendations. Over the next few years, we recommend that DMA monitor the change in annual service levels to determine their ~~significance in relation to changes in annual internal service fund~~ costs. Based on that review, DMA should evaluate the necessity for, and if applicable the feasibility of, making year-end adjustments addressing differences in charges based on estimated (prior year) service levels and charges that would be appropriate based on current year (actual) services.

Conclusion

While the overall process for allocating internal service fund costs to benefiting departments and offices is sound, several issues were identified that resulted in less than equitable allocations of some of those costs.

Our audit showed, overall, that DMA Budget and Policy has established a reasonable, appropriate, and logical process for equitably allocating the costs of internal service funds to the applicable benefiting City departments and offices. In addition, we found that accurate and appropriate statistics (allocation bases) were generally identified and accumulated for the proper allocations of internal service fund costs through that process. For the most part, we also found that DMA Budget and Policy correctly used those statistics, as well as the correct cost data, in allocating those costs through the FY 2008 budgetary process.

However, we identified several instances where misapplications or misinterpretations of data resulted in allocations of costs that were less equitable than they should have been. Several of those issues significantly impacted FY 2008 allocations of internal service fund costs. Other areas were also identified for which enhancements to the current process should be considered to provide more equitable costs allocations. Recommendations were made to address the noted issues.

To ensure equitable allocations, we also recommend that DMA monitor and evaluate fluctuations in annual service levels relative to fluctuations in annual internal service fund costs for the purpose of ascertaining if enhancements are needed to the year-end adjustment process.

We would like to thank DMA Budget and Policy and DMA Accounting Services staffs in their assistance during this audit.

***Appointed
Official's
Response*****City Manager:**

We appreciate the City Auditor's recent audit on the internal service fund allocated account process. We are pleased that the City Auditor has affirmed that the city's current process is reasonable, appropriate and logical for equitably allocating internal service funds costs. We also appreciate the audit's list of recommendations for fine-tuning this complex allocation process. Staff will review these recommendations and make adjustments to future allocations as deemed appropriate.

Although the auditor's review affirmed the current allocated account process, the audit identified various instances where statistics utilized for allocation of various costs were misinterpreted by staff. It should be noted that the allocated account process is an extremely detailed and complex one. A total of 62 allocation statistics are utilized to allocate the costs of 10 internal service funds totaling approximately \$61.5 million among the city's 260 cost centers. The process also utilizes a multistep-tiered approach to ensure that allocated funds are not allocated to themselves. Over the last few years, staff has worked diligently to ensure that costs related to the internal service funds are equitably distributed among the user departments. We believe that the current process, albeit complex, provides the most equitable method of allocating internal service costs.

The Office of Budget & Policy has been working with the City Auditor throughout this process and corrections for issues identified in this audit were incorporated into the allocation of costs for the approved fiscal year 2009 budget. Furthermore any incorrect allocation of costs for fiscal year 2008 have been corrected as part of the fiscal year 2008 budget closeout and true-up process.

I would like to thank the audit staff as well as staff from the Department of Management & Administration (DMA) on the cooperative effort in this audit. As the Action Plan indicates, a number of recommendations have already been implemented as a

result of the joint effort between the City Auditor and DMA. We look forward to reviewing the remaining recommendations and making appropriate adjustments as part of the next year's budget process.

Appendix A		
Allocated Internal Service Components and Allocation Bases		
Information Systems Fund		
<u>Component</u>		<u>Allocation Base</u>
1	Administration – Personnel	Proportional share of total employees for all benefiting ISS functions
2	Administration – Non-Personnel	Proportional share of total system log-ons to the City network
3	Debt Service Costs for City TIP Project	Direct assignment to benefiting cost center
4	Operation & Customer Services – General Services	Proportional share of total system log-ons to the City network
5	EDMS Services	Proportional share of staff efforts
6	Unique Software Programs	Direct assignment to benefiting cost center
7	Citywide Software Programs	Proportional share of total system log-ons to the City network
8	Application System – PETS System	Proportional share of staff efforts
9	City Applications	Proportional share of staff efforts
10	Telecommunications	Proportional share of total telecommunication lines
11	Distributed Network Systems	Proportional share of total system log-ons to the City network
12	GIS Services – Interlocal	Proportional share of staff efforts
13	GIS Services - Personnel	Proportional share of staff efforts
14	GIS – Support Services	Proportional share of staff efforts
15	Technology Planning	Proportional share of total system log-ons to the City network
Accounting Fund		
<u>Component</u>		<u>Allocation Base</u>
1	Financial Reporting	Proportional share of accounting (expenditure/expense) transactions
2	Payroll	Proportional share of paychecks (remittance advices)
3	PeopleSoft Costs	Proportional share of accounting (expenditure/expense) transactions
4	Accounts Receivable	Proportional shares of various statistics, including number of customers, number of billing requests, number of related receipts, number of adjustments processed, etc.
5	External Audit	Proportional share of accounting (expenditure/expense) transactions
6	Fixed Assets	Proportional share of fixed assets maintained

Purchasing Fund		
<u>Component</u>		<u>Allocation Base</u>
1	General Purchasing	Proportional share of total purchase orders issued
2	Solicitations	Proportional share of total solicitations
3	Supply Warehouse	Proportional share of total value of supply issuances
4	Accounts Payable	Proportional share of accounting (expenditure/expense) transactions
Human Resources Fund		
<u>Component</u>		<u>Allocation Base</u>
1	General Human Resource Services	Proportional share of total paychecks (advices)
2	Union Contract Negotiation	Proportional share of staff efforts
3	Drug & Alcohol Testing	Proportional share of amounts expended for services
4	Equity and Workforce Development	Proportional share of total regular employees
Revenues Fund		
<u>Component</u>		<u>Allocation Base</u>
1	Cash Receipts	Proportional share of collections
2	Tax Revenues and Mailroom	Direct assignment to the General Fund
3	Postage	Proportional efforts by City funding sources
Risk Management Fund		
<u>Component</u>		<u>Allocation Base</u>
1	General Liability	Proportional share of incurred claims
2	Vehicle Accidents	Proportional share of incurred claims
3	Workers' Compensation	Proportional share of incurred claims
4	Property - Commercial Policy Coverage	Proportional share of total property values
Utility Services Fund		
<u>Component</u>		<u>Allocation Base</u>
1	Administration & Special Projects	Proportional share of total employees
2	Utility Location Services	Proportional share of total miles of underground utilities
3	Custodial	Proportional share of facilities used
4	Marketing & Business Research	Proportional share of total utility service agreements

5	Environmental Services	Proportional share of staff efforts
6	Safety & Training	Proportional share of staff efforts
7	Utility Billing	Proportional share of total utility service agreements
8	Various Financial Activities	Proportional share of total utility service agreements
9	Meter reading	Proportional share of total meters read (weighted by type and complexity of meters)
10	Customer Services - Walk In/Call Center	Proportional share of total utility service and energy loan agreements
11	Customer Services – Account Management	Proportional share of total utility service and energy loan agreements
12	Customer Services – Field Services	Proportional share of total filed transactions processed
13	Customer Services - Diversion	Proportional share of total diversion cases
14	Parking Tickets	Direct assignment to benefiting cost center
Garage Operating (Fleet) Fund		
<u>Component</u>		<u>Allocation Base</u>
1	Administration	Proportional share of total vehicles maintained
2	Maintenance and Repair Services	Proportional share of total FASTER System billings for those services
3	Parts (includes Fuel)	Proportional share of total FASTER System billings for those services
Wholesale Energy Services Fund		
<u>Component</u>		<u>Allocation Base</u>
1	Various (Energy Audits, Gas Sales, Key Customer Accounts Management)	Proportional share of total staff efforts
800-MHz Communications Fund		
<u>Component</u>		<u>Allocation Base</u>
1	800-MHz Communication	Proportional share of total mobile data units and radios
NOTE A:	The descriptions of the allocations bases within this table are simplified to enable concise disclosure. Many of the noted allocation bases involve unique characteristics and circumstances that are taken into account during the allocation process. For example, in some instances the proportional staff efforts are “weighted” by the salaries paid to the respective staff.	
NOTE B:	In addition to the allocation bases for each component as described above, there are often separate allocations bases for “functions.” Functions are defined as activities that often are comprised of two or more individual components. Descriptions of those functions and their allocation bases are not included in this table. However, similar allocation bases are used to allocate total function costs to the applicable components comprising those functions. For example, staff efforts are used to allocate total costs for the Risk Management claim processing function among the three applicable components – General Liability, Vehicle Accidents, and Workers’ Compensation.	

Appendix B – Action Plan

Action Steps	Responsible Employee	Target Date
A. Objective:	Ensure accurate and complete cost allocations.	
DMA BUDGET AND POLICY		
1. Cost allocations statistics will be established based on the actual fund from which costs will be paid.	Becky Simpson	Complete* 9-30-2008
2. To help ensure accurate and equitable cost allocations, DMA Budget and Policy staff will establish a process to meet with staff of the City departments and offices requested to provide critical allocation data (e.g., statistics and allocation bases). In those meetings, DMA Budget and Policy staff will (1) explain the purpose and planned uses of the requested data; (2) ensure a proper, complete, and accurate understanding of the data that is provided; and (3) ensure any significant organizational changes that would impact the cost allocation process are disclosed and understood.	Becky Simpson	10-1-2009
3. DMA will provide for an independent staff review of cost allocation worksheets and work papers for the purpose of identifying logic and other errors.	Becky Simpson	Complete* 10-1-2008
4. DMA will evaluate the under and overcharges presented in Table 3 of this report and make appropriate adjustments to the FY 2008 cost allocation charges.	Becky Simpson	Complete* 10-31-2008
B. Objective:	Enhance the current cost allocation process.	
DMA BUDGET AND POLICY		
1. DMA Budget and Policy will review each of the recommended enhancements to the cost allocation process. Those enhancements determined appropriate, will be implemented during the FY 2009 budget process.	Becky Simpson	9-30-2009

Action Steps	Responsible Employee	Target Date
C. Objective:	Ensure accurate and appropriate “budgeted” cost allocations.	
DMA BUDGET AND POLICY		
1. In future budgets (starting with FY 2009), the cost allocation budget for the Fleet Garage Operating Fund will be developed using the most appropriate and complete statistics available from the FASTER System.	Beckye Simpson	Complete* 9-30-2008
2. In future budgets (starting with FY 2009), budgeted transfers to and from the Special Insurance Reserve Fund will be properly considered in the establishment of budgeted cost allocations for the Risk Management Fund.	Beckye Simpson	Complete* 9-30-2008
3. DMA will continue efforts to ensure that budget determinations are accurately entered into the City’s budget database.	Beckye Simpson	Complete* 10-1-2008
D. Objective:	Ensure equitable year-end adjustments.	
DMA Accounting Services		
1. DMA Accounting Services will monitor changes in annual service levels to determine their significance in relation to changes in annual internal service fund costs. Those reviews will be used to ascertain the necessity and feasibility of making year-end adjustments that address differences in charges based on estimated service levels and charges that would be appropriate based on current year (actual) service levels.	Rick Feldman	3-31-2009

*Per department, action plan step has been completed as of indicated date. Completion will be verified during the audit follow-up process.