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Audit Follow-Up Report #2 June, 2002 Internal Services

The County has made some progress toward improving its management of internal services, but significant risks remain.

Background

The Auditor's Office issued the audit report *Internal Services - Clearly define business operations* in December 2000. The purpose of the audit was to look at the fairness of the internal service billing systems for: Data Processing and Telecommunications; Facilities and Property Management; and Fleet, Records, Electronics, and Mail Distribution. The audit found that improvements were needed in three major areas if the County was to fairly bill internal services based on actual services provided; these were: (1) improving county-wide policies, (2) identifying services and measuring results, and (3) accounting for debt and reserves consistently. The County was in general agreement with the report and agreed to implement the recommendations.

Scope and Methodology

The objective of this follow-up review was to determine how the County had progressed in implementing the audit recommendations. We

interviewed the managers and staff of the three internal service functions noted above, the County's Finance Director, and staff in the Budget and Service Improvement Division. We also reviewed documents and procedures for billing these internal services currently and in the near future. We focused on the second recommendation, "defining and measuring results," because we believe this was critical to establish fair and equitable billing and to promote efficiency and effectiveness in operations. We conducted our work in accordance with the General Standards section of Government Auditing Standards.

Accomplishments:

County-wide policies

The County has made some progress in setting policies that will enable internal managers to balance the needs of individual departments and the County as a whole. Executive Order 251 issued on September 11, 2000, gives the Fleet Manager increased authority in allocating

vehicles and setting policy for their use. The County implemented a consolidated Information Technology organization and is currently defining a revised IT governance structure to balance departmental and organizational needs.

Presently the County is looking at making policy changes for internal services using the concept of shared services. These changes can provide an opportunity to reevaluate balancing the two objectives of meeting both department and Countywide needs.

Consistent accounting for debt and reserves

We also found progress toward implementing our third recommendation to consistently account for debt and reserve replacement for the internal service funds. The Finance Director has proposed including policies for fund balances and replacement reserves in the County's Financial Policy and also including annual measurement toward those goals, similar to how the County's General Fund is reported.

Significant Risks Remain:

Little progress has been made in what we consider the most critical area: identifying and measuring services using commercial equivalent or industry standards, although there has been agreement to move in that direction.

The County should:

1. Separate services into identifiable components or options.
2. Identify commercial equivalents and industry standards.
3. Establish written service descriptions when needed.
4. Measure results for both quality and cost based on the industry standards and service descriptions.

Identify services

We found little progress toward billing internal services based on the service provided. Instead the focus has remained on the cost allocation of

operating expenses.

The major reason for identifying services is to provide customers with a clear understanding of exactly what service they are buying. The services should also be identified so they can be compared to industry standards or commercial equivalents.

Facilities and Property Management has made some progress by identifying what they consider to be "base" services for building occupants and other identified services which are billed separately. However, other work done by the division needs to be identified and specified more clearly, such as a statement of project management services or a list of activities that planners will perform on a project.

Most of the other internal services we looked at in our audit had identified services for the purpose of classifying and allocating their operating costs. But those classifications may require revisions if they are not identified in a way that can be compared with commercial equivalents or industry standards.

As part of the move towards shared services, the County has begun looking at costing systems that may provide additional capacity and the opportunity to separate services into identifiable components or options.

Identify commercial equivalents and industry standards

We have found almost no progress in the efforts to identify commercial equivalents and industry standards. Most of the services provided by the County's internal service divisions can also be purchased commercially. We believe the County may provide these services internally at less cost than purchasing the services from the community. However this assertion is only speculation unless we have the ability to identify commercial equivalents and standards with which to compare both cost and quality. In some instances there may be no industry standards, such as long-range planning or policy mandated services. However, these services or programs

can be identified as such. For other services industry comparables should be identified and used.

Establish written service agreements

The purpose of establishing written service agreements is two-fold: (1) to aggregate multiple services for a customer into one agreement and (2) to clearly describe services being purchased that may not have a commercial equivalent or other standard or for services which may be modified from those standards.

Service agreements that merely identify how operating costs of the internal service organizations are allocated will provide little progress toward billing internal services based on actual services provided.

Some progress has been made in the area of service agreements. Facilities and Property Management has made good progress in clarifying service expectations and establishing written service agreements for the monthly building charges to departments. Additional work is still needed for other areas of service, including construction and building maintenance. It is our understanding that data processing services sold by the Information Services Division will be identified by service agreements.

Unless internal services are billed on the basis of a business service provided, these service agreements will only serve to describe how operating costs are allocated rather than as a true agreement of services sold by the internal service organization.

Measure results for both quality and cost

Some attempts at measuring results have been made, but these are hindered because the County has not yet adopted a business model which would allow for comparisons of both cost and quality of internal services as discussed above.

The County had a study done to compare information services with other organizations and plans to replicate the study on a regular basis. According to management, the Division is also planning on hiring a consultant to look at their billing system, with the objective of designing a new system that will enable them to compare to commercial equivalents.

The County fleet is billed using computer software that was selected because other jurisdictions in the area use the system which would have facilitated comparisons. However, according to the Fleet manager the system has not worked as expected and may require replacement.

As noted above, the County is currently reviewing costing systems that will provide an opportunity for the internal service organizations to look at both the cost and billing process in a new way. There is a risk that the ability to more accurately calculate operating costs would lead only to a new cost allocation system. A business model for internal service billings would include other factors in addition to cost into the billing model, such as charges for social policies like living wages, environmental considerations, etc.

More focus and effort needed

The focus of our audit was to direct the County in adopting a business model based on commercial equivalent or industry standards for internal service billings. Such a model would enable the County to measure the effectiveness and efficiency of internal services.

Although the full concept of shared services for the County has not been fully developed, it is our understanding that some of the direction for shared services includes looking at internal services more on a business model than simply allocating budgets.

We recognize that moving towards a business model will require both effort and a philosophical change. The philosophical change

is one of considering internal services as “services sold by the internal service unit, and purchased by the user department” versus looking at “allocating the internal service unit’s operating costs.” This effort should balance the decisions of when to outsource services, when to accept social values as part of the cost, and how to balance the good of the user department versus the good of the County as a whole. By moving towards a business model that has the ability to compare services with commercial and industry equivalents, the County will finally have good information on which to make those critical decisions.

Management Response to the Report

We appreciate your follow-up report to the audit report “Internal Services – Clearly define business operations”. These follow-up reports provide a good opportunity to reflect on the progress made and assess the work that remains to be done.

The accomplishments that you cite regarding progress made in setting policies that enable internal managers to balance the needs of individual departments and the County as a whole reflect a broader internal effort from Chair Linn’s Office to view the County as a single integrated network of systems rather than a series of independent departments.

The January 2002 consolidation of the Department of Sustainable Community Development and the Department of Support Services into the Department of Business and Community Services has brought all of the County’s internal services into a single organization. This important reorganization is symbolic of Chair Linn’s emphasis on the County as a single enterprise. The consolidation improves the opportunities for internal services to consistently focus on County enterprise needs while still providing the County’s direct service programs with the tools and services required for them to meet their clients’ needs.

As the follow-up report points out, the County’s current research into the concept of shared services can help in our efforts to balance the objectives of meeting both user program and Countywide needs. Achieving this balance will require both operational and philosophical changes throughout the County. Achieving the appropriate balance will not be quick or easy, but will result in better value to the taxpayers.

Whether internal services are provided through centralized, decentralized, or other approaches, methods of identifying and measuring services are critical to success. The decision of the County on how to provide specific support services should be made based on cost, performance data, and social values set by the Board. Identifying commercial equivalents or industry standards and measuring performance against those standards are certainly important aspects of that decision. We agree with the follow-up report that more progress is needed in this area.

The work and training currently underway to create the new Information Technology organization are focused on identifying services and costs in a manner that allows both understanding by the customers and comparisons with other organizations. Industry experts are being consulted to help in developing a new charge system and service level agreement structure. An excellent recent presentation to BCS staff by Molly Olson, Intel’s Director of IT Services – Worldwide, emphasized the importance of using identified services and costs to help programs better utilize support services. All of the BCS internal service organizations will benefit from the learning derived from this project.

Efforts are also currently underway in FREDS and Facilities Management to better identify the components of the services that they provide and their commercial equivalents or industry standards. This information is critical to measuring performance and useful in determining the methods to be used to price services, which may or may not relate directly to the actual costs. Pricing structures can be tied to actual costs or may tie to implementation of other policy decisions.

Again we appreciate the efforts of the Auditor’s Office in providing this follow-up report and will continue to make efforts to meet the recommendations provided.

Submitted by,



M. Cecilia Johnson
Director of Department of
Business & Community Services