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FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Consulting Report on the Wayne County Department of Management & Budget, Cost Allocation/Chargebacks for Fiscal Years 2008 and 2009. The contents of this final report did not substantially change from the draft report, but some minor revisions and technical clarifications were incorporated. Our report is dated August 11, 2010; DAP No. 2010-57-861. The report was accepted by the Audit Committee on October 26, 2010, and formally received by the Wayne County Commission on November 3, 2010.

We are pleased to inform you officials and staff in the Department of Management & Budget provided their complete and full cooperation during our review. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: http://www.waynecounty.com/agreports.htm

Willie Mayo, CPA, CIA, CICA
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Wayne County Executive

DAP No: 2010-57-861

County of Wayne, Michigan

Department of Management & Budget

COST ALLOCATION/CHARGE BACKS FISCAL YEARS 2008 and 2009

Consulting Report

August 11, 2010

REPORT SUMMARY

Why We Performed this Engagement

In accordance with Enrolled Ordinance 2006-692, the Office of Legislative Auditor General (OAG) performed a review of the cost allocation/chargeback process utilized by the Department of Management & Budget (M&B). Charge back costs are designed to be allocated to county departments/agencies/programs based on benefit derived from the servicing departments.

The OAG identified four objectives for this engagement:

(1) Determine the amounts actually charged during FYs 2008 and 2009;
(2) Obtain an understanding of the methodology used by the county to charge back various costs to county departments and assess the uniformity, reasonableness and equity of charge back costs to county departments during FYs 2008 and 2009;
(3) To the extent possible, identify alternative methodologies to improve the equity, uniformity and reasonableness of the chargeback methodology currently used; and,
(4) Assess the county's communication to departments about charge back rates, amounts, and methodology.

What We Did

We obtained and assessed the information provided by M&B management and officials from the various charge back areas including, but not limited to, financial information recorded in the county's general ledger for the period October 1, 2007 through September 30, 2009.

- We interviewed personnel from M&B's Financial Reporting and Budget Divisions to acquire an understanding of the cost allocation/chargeback process.
- We obtained from M&B officials documentation of financial transactions and methodologies related to charge backs.
- We reviewed FYs 2008 and 2009 chargeback amounts and the county's general ledger and reviewed methodologies, allocations, and information posted on the county's intranet.
- We used trend analysis and analytical procedures to make comparisons between years to form conclusions about charge backs.
- We performed our fieldwork within the Financial Reporting and Budget Divisions of M&B.
- We contacted the U.S. Department of Health and Human Services, our cognizant agency, and inquired into methods to maximize the recovery of indirect cost from federal grants.

There are a total of eight internal service funds and the Guardian properties which generate charge backs; however, due to the complexity of charge backs we chose to perform an in-depth review and analysis on two of the eight funds in this report. For FYs 2008 and 2009, the amount of costs charged back or allocated to county departments and business units totaled approximately $441 million for the eight internal service funds.

The scope of this engagement focused primarily on the Central Services and Building and Ground Maintenance Funds. Central Service Funds are comprised of: M&B, Personnel, Corporation Counsel, and Department of Technology.

The fieldwork for this engagement was completed on August 11, 2010; we also included subsequent events up to August 11, 2010, which primarily related to certain budgetary matters currently being deliberated by the Wayne County Ways and Means Committee.

This engagement is not an audit in accordance with Government Auditing Standards, but rather a consulting engagement performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). The IIA standards define consulting engagements as advisory and related management services activities, the nature and scope of which are agreed with management and which are intended to add value and improve the county's governance, risk management, and control processes without the internal auditor assuming management responsibility.

What We Found

Overall Conclusion

We found the allocation of charge back costs to be relatively sound and reasonable and are being allocated, for the most part, on an equitable basis for fiscal years (FY) 2008 and 2009.

M&B will need to place greater emphasis on allocating indirect costs to federal and state grants in order to maximize cost recovery. In our recommendations we have suggested monitoring and reporting mechanisms that should assist the county in achieving these goals.

M&B officials also informed us that approximately $953,000 in accrued expenditures were recorded after the final charge back entries were recorded, and consequently, were not allocated to county departments. According to an M&B official, a reasonableness review was performed of expenditures in each of the charge back units prior to recording the final chargeback entry.

In conclusion, we believe greater effort should be placed on controlling costs in the internal service funds (ISF) by the executive and legislative bodies. We relied upon the opinion of the county's external auditors work performed regarding financial information reported in the ISF for this engagement and we did not perform any additional in-depth analyses of the propriety of accumulation of costs within each servicing department.

Why Charge backs Exist

A government unit that produces a product or delivers a service incurs overhead costs. These costs, at the county, are commonly categorized as direct, shared, and indirect costs and are referred to as "charge backs". Thus, charge backs are synonymous to overhead costs and must be recovered in order for the governmental unit to continue to provide goods or services.

In Wayne County the recovery of overhead costs are referred to as "charge backs." A key managerial principle about charge backs is that they must be uniform, equitable and consistently allocated to those departments/divisions/business units that receive benefit. Failure to follow this cost allocation principle could distort the cost allocation plan that is required to be maintained on file by OMB Circular A-87 in order to bill federal grants for indirect costs.

Executive Authority to Levy Charge backs

The Wayne County Home Rule Charter authorizes the Chief Executive Officer (CEO) to annually establish the budget. Therefore, the development and allocation of charge backs are an integral part of the budget process and the application and distribution methodologies fall within the scope of authority granted the CEO and Chief Financial Officer (CFO) by the Charter.

It has been discussed by some county officials as to whether a county department can elect out of participating in the charge backs and independently contract for certain services, such as, information technology, corporation counsel, etc.

We believe the answer to that question is no for the following reasons: (1) authority for these centralized services rest solely with the executive branch; (2) inconsistencies in the quality, availability and levels of service may exist; and, (3) separately contracting for these services could lead to deficiencies in internal controls, which could lead to fraud, waste, and abuse.

What Comprises Wayne County Internal Service Funds

There are a total of eight internal service funds (ISF), and an enterprise fund (parking lot fund). The books and records of these funds, more commonly referred to as proprietary or enterprise funds are maintained on the full accrual basis of accounting. In addition, a debt service fund for the Guardian Building makes up chargeback costs. In our opinion, the proprietary or enterprise fund is the preferred method because it allows the county to recover full cost for services being provided to other departments/divisions/business units at the time benefit is being received, referred to as the matching principle, which is an important basic accounting principle.

Who are Levied Charge backs

All Wayne County departments are levied charge back costs based on benefit derived. In other words, if a department/division/business unit receives a benefit directly or indirectly they will receive a charge back. In most cases, charge backs at the county primarily consist of allocation of accumulated costs from the following funds: central service; buildings and ground maintenance; the Guardian building properties; as well as six other ISF which are not specifically addressed in this report.

Indirect Costs

Indirect cost is defined by OMB Circular A-87 as: "those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved." More specifically, whereas the ISF have direct and shared charges, indirect cost is being generated from general fund activities that are not directly identifiable to a specific cost objective.

The circular also requires an indirect cost allocation plan (ICAP) to be prepared annually and maintained on file to support indirect costs being charged to federal programs. We determined that M&B has complied and prepared the ICAP for the periods under review.

Summary of Conclusions and Recommendations

Listed below are summaries of our observations, conclusions and recommendations to strengthen Wayne County's charge back system. You may review the detail discussions regarding these recommendations starting on page 16 through 51 of this report.

Objective 1 - Amounts Charged for FY 2008 and 2009

Accumulated chargeback costs to the county departments for central services and building and ground maintenance totaled $93.8 million in FY 2008 and $93.3 million in FY 2009. This represents a small decrease in charge back costs of $0.5 million.

Observations

- Charge back expenditures allocated to county business units for direct service costs remained fairly constant between FYs 2008 and 2009, increasing by $214,959. However, shared costs showed a significant increase between FYs 2008 and 2009 of $4.4 million.

Conclusions

- ❖ The increase in expenditures was primarily attributed to shared costs within the departments of Technology (DOT), Corporation Counsel, and indirect costs. Shared costs are the residual costs after deducting direct costs that cannot be directly charged to a benefitting business unit. There appears to be a greater need to focus more on direct costs in the future in order to reduce the upward trend in shared costs.
- ❖ Based on our review of the two fiscal years, the ISF recorded a net operating loss or undercharge of $558,000. This amount appears reasonable based on the total amount of chargeback expenses incurred for the ISF for the two-year period.

Objective 2 - Reasonableness and Equity of Charge Back Costs

We concluded the uniformity, reasonableness and equity of chargeback costs for county departments appear to be consistently applied and equitable. However, we noted areas that could be strengthened.

Department of Technology

Develop Policy to Allocate Costs for All Service Requests

Observations

- Based on a discussion with DOT management, they indicated all service requests from county business units may not always be allocated directly to the user business units. According to management, some direct service requests may not be assigned a work order number and could be categorized as an indirect service to the user and result in being charged out as shared costs.
- The ratio of direct charges to total cost for IT technical services are less than 25 percent and could be a reflection of not properly accounting for direct billable costs benefitting other departments/business units. Additionally, Telecom ratio of direct to total costs for FY 2009 is only at 60 percent which could also be problematic.
- During FY 2009, we determined there were nine executive appointees whose personnel costs totaling approximately $1 million were paid out of a DOT business unit with no supporting evidence of work performed for the department.

Conclusions

- ❖ Because DOT management has not established a criterion to determine which IT services should be classified as direct or indirect, this can result in indirect charges being allocated to all county business units and not based on direct benefit received.
- ❖ DOT direct charges for IT technical services are less than 25 percent of total costs which could mean they need to revise their policies regarding direct billing or are failing to properly identify costs chargeable to other county departments based on direct benefit received.
- ❖ Additionally, we believe the commission should more closely monitor IT technical and Telecom direct charges for services rendered. Studies have shown that failure to require accountability for services rendered serves to promote inefficiencies and waste.
- ❖ While we were unable to obtain an explanation from management regarding the increase in shared costs, personnel costs for the executive appointees could have been a contributing factor for the increase in DOT shared costs.

Recommendation 2010-01

- ➢ The commission should consider adopting the concept of "Zero Based Budgeting" (ZBB) for internal service funds. ZBB is a method of budgeting in which all expenses must be justified for each budget year including vacant/unfilled positions in the following charge back departments: M&B, DOT, Buildings and Grounds, and Corporation Counsel since they comprise 86 percent of total charge backs for these two ISF.

Recommendation 2010-02

A. We recommend management within the Departments of Technology and M&B establish a policy, including criteria, for allocating costs to a business unit that directly received the benefit of those services provided. This will establish a fair and equitable method of allocating chargeback costs to ensure other county business units will not share in costs attributed to business units receiving a direct benefit.

B. Additionally, we recommend the commission should require a detailed quarterly report from DOT of the charge backs ratio of direct charges to shared costs with targeted goals of 75 percent – 80 percent in direct charges for services rendered.

Develop Mechanism to Verify Network Connections Annually

Observations

- Based on our review of M&B shared charge back allocation schedules for IT Services – Shared Costs, we found the number of devices connected to the network for all business units did not change between FYs 2008 and 2009. However, the charges for IT Services - Shared Costs increased by approximately $2.1 million, or 18 percent. DOT management stated the last physical inventory was performed in January of 2009.
- The scope of our engagement did not require us to obtain an explanation for this increase. Consequently, we were not able to determine what portion of the increase in shared cost was attributed to DOT failing to allocate direct cost when service was being performed.

Conclusion

- ❖ Because a more accurate inventory list of devices was not used for the FY 2009 IT Services - Shared expenses allocation, we could not determine whether charges for shared costs to various county business units were allocated in a fair and equitable manner based on benefit derived. Consequently, county business units could have been over/under charged for these costs.

Recommendation 2010-03

A. We recommend management within the Departments of Technology and M&B establish policies and procedures to develop a mechanism to identify the number of devices connected to the network on an annual basis and submit the results to M&B prior to the preparation of the cost allocation entries to ensure the proper allocation of IT Services-Shared costs to county business units.

B. We recommend the DOT and M&B establish policies and procedures to conduct a physical inventory of devices connected to the network, at least triennially, to ensure the accuracy of the information captured and reported to M&B.

Buildings and Ground Maintenance

Develop a checklist to Accrue all Expenses before Allocating Charge back costs

Observations

- We were informed by M&B officials that in FY 2009 approximately $650,000 of Buildings and Ground Maintenance shared costs were posted after the chargeback allocation to other county business units and resulted in these expenses not being allocated out to other user departments.
- Due to a $6.8 million loss on the disposal of capital assets the Building and Ground Maintenance Fund has a $4.8 million deficit for the FYE 2009.
- The county is currently renting the store facility at Frank Murphy Hall of Justice at a fee of $400 per month on a month-to-month basis. The lease expired in Oct. 2007.

Conclusion

- ❖ Based on our review of the methodology and statistics used by M&B for FYs 2008 and 2009 for Buildings and Grounds Maintenance charge backs, we determined the process was uniformly allocated during both fiscal years and the allocation methodology appears reasonable and consistently applied.
- ❖ However, because an additional $650,000 was not allocated to other county business units when the final charge back entry was posted; county business units did not receive their equitable share of costs from Buildings and Ground Maintenance business units.
- ❖ The loss on disposal of capital assets caused this fund to incur a deficit of $4.8 million at FYE 2009 and resulted in an aggregated deficit of $3.2 million for all ISF combined.
- ❖ We believe rent for the store facility at Frank Murphy Hall of Justice could be increased to a more competitive market rate. DPS Management has indicated that due to high traffic volume at this location, management believes a concession contract could be negotiated which normally requires a percentage of annual gross revenue for this facility.

Recommendation 2010-04

A. We recommend M&B management develop a close-out checklist to provide assurance that all accruals are properly made in each of the internal service fund business units before chargeback costs are allocated on a quarterly basis.

B. We recommend that DPS Building Management, in conjunction with Corporation Counsel, negotiate a concession contract arrangement with the present occupants or bid out the concession store space at Frank Murphy Hall of Justice as a concession contract requiring a percentage of annual gross revenues.

DPS Management Comments

DPS management indicated that Corporation Counsel has advised them that the Frank Murphy Hall of Justice sundry store should be competitively bid out as a concession contract, with the successful bidder contracted to pay the county a percentage of its' annual gross revenue. Because of the high number of people who work in and visit the FMHJ daily, it is reasonable to assume that several vendors will be interested in the opportunity to operate the store, and competition will be vigorous. The county expects to receive concession fees much greater than the current rent of $400 per month.

Corporation Counsel

Observations

- For FY 2009, shared cost is 55 percent of total costs for Corporation Counsel – Legal (CC-L). As previously stated, shared costs are those costs that are general in nature and not connected to a direct or professional legal service being provided.
- According to management, they review budget to actual expenditures on a monthly basis. However, we found no periodic monitoring by management or the commission on the ratio of direct charges to total costs.

Conclusions

- ❖ Because shared or administrative costs for CC – Legal Division are 55 percent of chargeback costs, it appears CC – Legal management may not be assigning or billing costs for department attorneys that work on legal issues for particular county business units. Management should explore methods to increase direct billable hours, revise their policies regarding direct billing, or reduce the number of attorneys on staff so as to achieve a 75 – 80 percent billing rate based on direct services being rendered.
- ❖ Studies have shown that failure to require accountability for services rendered serves to promote inefficiencies and waste.

Recommendation 2010-05

A. We recommend Corporation Counsel review the direct billable hour ratio for legal services to other county departments to achieve a 75 – 80 percent billable ratio of direct costs to total costs, revise their policies regarding billing direct costs, or reduce the number of staff because the shared cost ratio to billable hours are not congruent with the type of services provided.

B. Additionally, for monitoring purposes, we recommend the commission require a detailed quarterly report from Corporation Counsel of the charge backs ratio of direct charges to total costs for legal services with targeted goals of 75 – 80 percent in direct charges for legal services rendered.

Departments of M&B and Personnel/Human Resources

Observation

- M&B and Personnel/Human Resources use various methods to allocate cost to other county departments receiving benefit. However, it was noted that management changed the method of allocating accumulated costs in the Grants Division from FY 2008 to 2009 to more accurately reflect time spent on various functions. We concur with the change and believe it is a more equitable statistic for recovering costs.

Conclusions

- ❖ Based on our understanding of the methodologies and statistics applied, it appears that the charge back costs allocated for M&B functions were consistently applied for both years and the allocation methodology appears reasonable.

- ❖ There were no recommendations based on our review of the M&B and Personnel/Human Resources divisions as to the methodology and allocation of costs to departments receiving benefit.

Indirect Costs

Allocation of Allowable Indirect Costs

Observations

- Total allowable indirect cost included in the ICAP for FY 2009 was $9.0 million; but, due to grant restriction provisions only $6.0 million was allocated and even a smaller amount of $2.5 million was allocated in FY 2008.
- We noted that the Commission Policy Research and Analysis department reviews and analyzes all contracts being submitted to the commission for approval by the executive branch; but, this department's costs are not included in the ICAP.

Conclusions

- ❖ M&B changed its methodology from FY 2008 to FY 2009 which brought FY 2009 indirect cost budgeted expenditures more in line with the actual charge back costs incurred.
- ❖ The Commission Policy Research and Analysis department stated they spend approximately 75 percent (or $468,213) of their time reviewing and analyzing contracts submitted by county departments for approval. Commission leadership needs to require Policy Research and Analysis department to prepare weekly time sheets documenting how their time is spent over a three month period to support time spent on processing contracts for possible inclusion in the ICAP. They should request M&B to review the three month study in order to make a determination if this cost is allowable under OMB Circular A-87 guidelines. This effort could result in reducing the general fund burden by approximately $468,213.

Recommendation 2010-06

A. We recommend M&B make a determination that all allowable indirect costs are allocated to county programs and services to more accurately reflect the true costs of operating those programs and services.

B. We recommend that Commission Policy Research and Analysis department prepare a three month time study, along with a narrative description of the work being performed on contract processing and submit the summarized results to M&B requesting them to determine if they may qualify to be included in the ICAP computation in the near future.

Review Grant Preparation for Inclusion of Allowable Indirect Costs

Observation

- Personnel within the various county departments/business units are responsible for writing their respective grant proposals and filing the periodic financial status reports with the grantor agencies to obtain funding or reimbursement for program expenditures.

Conclusion

- Because the grant application and reporting requirements are decentralized throughout county departments, we could not readily determine whether county personnel assigned responsibility for administering program services are pursuing the maximum amount of indirect cost reimbursement from granting agencies.

Recommendation 2010-07

A. We recommend senior management in M&B establish a centralized function to assess, monitor, and report on whether the county's grant recipient departments are capturing and recovering the maximum indirect costs allowable.

B. In addition, the commission should periodically request an analysis of all federal and state grants, which at a minimum, states the purpose and type of grant, granting period, total dollar amount, county's cost to service the grant, and the amount of recovered indirect cost.

Recoverable Indirect Costs

Observations

- We asked whether the county has a method of determining the amount of recovered or reimbursed indirect costs received from granting agencies for FY 2008 and 2009. We were informed because the grant writing and reimbursement function is not centralized, total recoverable or reimbursement information is not captured.
- We did note that some departments, like Department of Environment, appear to be recovering a reasonable amount of indirect costs from federal grants.
- Based on the ICAP there was allowable indirect costs of $9 million for FY 2009. However, based on information obtained from M&B officials the recovery of indirect costs was only $14,000; while, there were $85 million in federal grants.

Conclusions

- For FY 2008 and 2009, the county received over $90 million and $85 million respectively, in federal grants. We received a schedule from M&B which listed $2,200 and $14,000 as recovered indirect costs for FY 2008 and 2009, respectively.
- We also spoke to an official from the federal Department of Health and Human Services (HHS), Wayne County Cognizant Agency, who stated a grantee should be reviewing historical costs for administering a program and negotiating with the granting agency an indirect cost rate to recover allowable costs.

Recommendation 2010-08

A. We recommend senior management in M&B establish training sessions and perform periodic site visits, to provide guidance to county personnel responsible for grant management and administration to clarify and improve their understanding of the ability to recover indirect and other administrative costs.

B. We recommend M&B review all grants at the department level prior to their being submitted to the grantor to ensure the inclusion of all allowable indirect cost.

C. We recommend, for monitoring purposes, that M&B submit a schedule semi-annually of all grants to the Committee on Ways and Means which identifies the amount of indirect costs charged to each federal and state grant.

Objective 3 - Alternative Methodologies

Observations

- We attempted to review the charge back methodologies of the city of Detroit, Macomb and Oakland Counties; however, we were unsuccessful in receiving information regarding their processes or methodologies.

- Even though we were not able to make comparisons to other organizations, we noted Wayne County uses the direct and step-down methods to allocate charge back costs which is generally perceived as best practice.

Conclusion

- ❖ We believe the county's method of allocating charge back costs utilizing the direct and step-down methods allows for an equitable and uniform methodology of allocating costs and is consistent with best business practices currently being used.
- ❖ There were no recommendations based on our review of the alternate methodologies being used in the industry.

Objective 4 - Communication of Charge backs

More Training on Charge backs
Observation

- Management provides the charge back information on the county's intranet with instructions on how to read the statements and who to contact if the reader has any questions. However, management has not provided any formal training that would explain their methodologies or how to read the quarterly charge back statements.

Conclusion

- ❖ While management has increased transparency of the charge back information to county officials, some have indicated that they are unsure as to how the charge backs are calculated.

Recommendation 2010-09

- ➢ We recommend M&B provide training to department financial representatives for elected officials and department heads on the county's methodologies and sources of the charge backs in order to promote a better understanding of the quarterly chargeback statements.

Subsequent Events

The 2010-2011 Enrolled Appropriation Ordinance is expected to include language requiring the OAG to review the allocation of charge back costs included in FY 2009-2010 and submit a written report to the Ways and Means Committee on or before June 1, 2011.

More Transparency over Guardian Building Transactions

Observations

- Charge backs for the Guardian Building and related properties debt service costs for FY 2009 – 2010 are $3.4 million; $5.1 million is budgeted for FY 2010 – 2011. M&B uses square feet to allocate cost to departments that occupy the Guardian Building. Although the totals are correct, the amounts individually being allocated to the commission and the OAG for budget year 2010 – 2011 should be changed to $743,823 and $212,512, respectively.
- The county is currently accounting for activities related to the Guardian Building properties in a separate public corporation referred to as the Economic Development Corporation (EDC), which is a component unit of the county.
- Our review of commission approved county Ordinance 2007-815B, states in Section 23 that the county appoints the EDC as the manager for the Guardian Building and related properties and as an agent for the county. It further states that the EDC shall manage; through contracts with private entities, the Guardian Building and related properties in a manner commensurate with real property of comparable size, character and quality.

Conclusions

- ❖ Based on our review of the amortization of the amounts being charged for debt services for the Guardian Building and its related properties for FY 2010 – 2011, the amounts appear to be correct; however, the amounts being allocated to the commission and OAG should be changed to $743,823 and $212,512, respectively.
- ❖ Based on a review of the articles of incorporation and the stated opinion of commission counsel "the law does not authorize the EDC to perform accounting for and manage projects like the Guardian Building initiative." Therefore, we believe accounting for these properties in the internal service funds would be more appropriate and consistent with its purpose, as well as strengthen internal controls and allow for greater transparency.
- ❖ Conversely, an attorney from Corporation Counsel provided a different opinion and indicated that based on the Articles of Incorporation for the EDC and Sec. 23 in Resolution 2007-815b, the EDC was authorized to operate as manager of the Guardian Building. Based on our review of the EDC's articles of incorporation and Public Act 338 of Michigan Public Act 1974, we were not able to identify where these documents granted the authority for the EDC to serve as managing agent for the Guardian Building properties.

Recommendation 2010-10

A. We recommend the amount budgeted for Guardian Building debt service costs for FY 2010 – 2011 be corrected to reflect a budget amount of $743,823 for the commission and $212,521 for the OAG based on square feet occupied.

B. The Commission should, in an effort to provide a higher level of transparency and accountability, consider having the Economic Development Corporation, a county component unit, incur an annual audit of its financial operations.

C. In addition, we recommend that the accounting and reporting for the Guardian Building be accounted for in an internal service fund since it primarily exists for the service and benefit of other county departments and the parking structure in an enterprise fund to account for services provided for public use.

Proposed Change in Accounting Policy - Internal Service Fund Costs
Observation

- The administration is proposing a change in its accounting method for its treatment of internal service fund costs for M&B, Personnel, and Corporation Counsel. Management stated the proposed change would decrease Central Services expenditures by $15.5 million and make it a direct charge to the general fund. This will result in a one-time equity increase of $4.1 million and an annual long-term impact of approximately $1 million associated with the change from the full to the modified accrual basis of accounting.
- Recently M&B stated that they would develop a policy when it is appropriate to use an internal service fund and the policy will be completed before the end of the 2009 -2010 fiscal year.

Conclusion

- The proposed change in accounting policy will mean that depreciation, Other Post Employee Benefits (OPEB) and compensated absences expenses, which originated from the departments of M&B, Personnel and Corporation Counsel, will no longer be charged out to county departments that are benefitting from the services being provided by the departments. Consequently, approximately $2.0 million (OPEB not allowable until paid) in full cost is not being recovered on a county-wide basis from non-general fund revenue sources, such as federal and state grant programs, and funds with designated (special) revenue.
- Based on OMB Circular A-87, Section 8(d)(4), the county will be able to recover accrued compensated absences which is estimated by M&B to approximate $2.0 million in FY 2010 -2011 by not adopting this proposed accounting principle change.
- We agree with the proposed action by M&B to establish a policy as to the criteria to be used when determining if an activity should be accounted for in an internal service fund.

Recommendation 2010-11

A. We recommend M&B continue their efforts to develop a policy and procedure statement to address the appropriate use of internal service funds by the 2009-2010 fiscal year end. Management indicated the policy will use industry best practices to set-forth criteria to be used when determining if an activity should be accounted for in an internal service fund.

B. In the future, in an effort to enhance transparency, M&B should provide to the commission an analysis of any proposed changes in accounting principles that will have a budgetary impact on county operations.

Views of Responsible Officials

- Management's responses to the recommendations can be found in Appendix A

Noteworthy Accomplishments

Management has improved on the matching of charge back revenue to the expense and is no longer generating excessive operating income/(losses) in the ISF for providing these county services. These funds are now being managed and controlled in a manner as prescribed by GAAP whereas, they are near breaking even at the end of each year.

In addition, M&B has formalized their policies and procedures as to the methodologies being used to allocate charge backs within the last two years. These policies illustrate how they allocate costs and have helped the budget division to more accurately estimate future budget amounts for charge backs. Additionally, starting in FY 2007, management began to place the charge back statements on the county's intranet that explains how the costs are allocated and the totals for each quarter.

M&B has completely computerized a very complex charge back system program and made it user friendly. As a result of working with the charge back program, we found it to be quite descriptive, easy to follow instructions; and we were able to clearly identify and track how costs were being accumulated and the methodologies used to distribute costs to an applicable business unit.

We believe the utilization of ISF to accumulate cost for distributing costs to other county departments that receive centralized service is the most practical and preferred method of indentifying and controlling costs; allowing for the recovery of overhead cost, and enhancing the availability and conformity of service to county managers, elected officials and the stakeholders. ■

REPORT DETAILS

PURPOSE AND OBJECTIVES

In accordance with Enrolled Ordinance 2006-692**,** the Office of Legislative Auditor General (OAG) performed a review of the cost allocation/charge back system utilized by the Department of Management & Budget (M&B).

Our objectives for this engagement were to: (1) determine the amounts actually charged during FYs 2008 and 2009; (2) obtain an understanding of the methodology used by the county to chargeback internal service costs to county departments and assess the uniformity, reasonableness and equity of chargeback costs to county departments during FYs 2008 and 2009; (3) to the extent possible, identify alternative methodologies to improve the equity and reasonableness of the chargeback methodology currently being used; and (4) assess the county's communication to departments about charge back rates, amounts, and methodology.

SCOPE

This engagement is not an audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

This is a consulting engagement that was performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). Those standards require us to perform the consulting engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our recommendations and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our recommendations and conclusions based on our objectives.

The IIA standards define consulting engagements as advisory and related services activities, the nature and scope of which are agreed with management and which are intended to add value and improve the county's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Our review was limited to assessing information provided by county management officials and reviewing available documentation of financial transactions and schedules related to the charge back system. A consulting engagement is limited in scope and does not require the performance of in-depth auditing procedures.

The scope of this engagement focused primarily on the Central Services and Building and Ground Maintenance Funds. Central Service Funds consist of: M&B, Personnel, Corporation Counsel, and Department of Technology.
It is important to note that there are a total of eight internal service funds and the Guardian

properties which generate charge backs; however, due to the complexity of charge backs we chose to perform an in-depth review and analysis on two of the eight funds in this report.

The fieldwork for this engagement was completed on August 11, 2010; we also included subsequent events up to August 11, 2010, which primarily related to certain budgetary matters currently being deliberated by the Wayne County Ways and Means Committee.

METHODOLOGY

We interviewed personnel from the Department of Management & Budget Financial Reporting and Budget Divisions, as well as other county officials to acquire an understanding of the cost allocation/chargeback methodology. We obtained from M&B officials documentation of financial transactions and methodologies related to charge backs. We reviewed FYs 2008 and 2009 charge back amounts recorded in the county's general ledger and reviewed cost allocation schedules, information on the county's intranet, and indirect cost allocation plans (ICAP). We also used trend analysis and analytical procedures to make comparisons between years to form conclusions about charge backs.

We also reviewed the Federal Office of M&B suggested statistics for the allocation of direct and indirect cost based on benefit derived as a benchmark for our assessment. Additionally, we contacted the U.S. Department of Health and Human services, the county's cognizant agency, and discussed methods of maximizing the recovery of indirect cost from federal grant programs.

Since the Office of Legislative Auditor General (OAG) cost is reported as indirect cost in the ICAP we used its costs to assess the reasonableness of the methodology being applied to allocate indirect costs. The primary portion of our fieldwork was performed within M&B's Financial Reporting, Grants/Contract Administration and Budget Divisions, and the OAG.

BACKGROUND

Why Charge backs Exist

The majority of charge back costs are derived from costs being accumulated in the county's internal service funds; the remainder is derived from the general fund as indirect costs. Therefore, internal service funds (ISF) are setup by the county to account for the costs of providing services to other county departments on a cost-reimbursement basis. They are set up to take advantage of the economies of scale and clearly identify costs of specific county services. Salaries, fringes and other operating costs for these support services are generally accumulated in Internal Service Funds and charged back to business units within user departments and agencies. The departments that provide the services receive revenue from the user of services and the departments receiving the service records an expense. The charges for services are based on the principle of reimbursement at cost – accounting principles do not allow internal service funds to charge in excess of cost.

An ISF sets its rates to recover the full cost of providing a particular service; there are no built-in profit incentives. Each county department generally will have ISF costs built into their operating budget and, conversely, each ISF charges departments for services rendered at costs.

Studies indicate some of the advantages of using ISF are: more efficient use of resources; allow more accurate accounting for full cost of providing a particular service; better cost comparisons; and, better able to control costs of services and consistency in service and reporting.

Additionally, studies also state some of the disadvantages are: more complicated to understand; lack of choice and control by users because they are required to use the service; and, some departments believe they could obtain the service at less cost.

In essence, ISF are those funds which exist for the primary purpose of providing centralized services to other county departments at costs. Within Wayne County, these services are provided by Central Services, Department of Environment, Long-term Disability, General Liability, Workers' Compensation Self Insurance, General Health, Equipment Lease Financing, and Buildings and Ground Maintenance.

Executive Authority to Levy Charge backs

The Wayne County Charter delegates the Chief Executive Officer (CEO) the authority to prepare the budget and maintain the books and records of the county. This authority can be found in Section 5.111- Financial Management Principles; Section 5.121 – Budget Preparation and Submittal; and Section 5.143 – Disbursement Procedures.

In essence, these Sections of the Charter delegate the authority to the CEO and the CFO to establish and maintain ledgers of transactions that are uniform and in accordance with Generally Accepted Accounting Principles (GAAP).

Section 5.111 – Financial Management Principles - requires the county to employ GAAP in conducting its financial affairs. Allocating charge backs is an acceptable GAAP practice.

Section 5.121 of the Charter authorizes the CEO to annually establish the budget. Therefore, the development and allocation of charge backs are an integral part of the budget process and the application and allocation methodologies fall within the purview of the executive branch of government.

As indicated in Section 5.126 of the Charter, the budget document shall contain information including, but not limited to, "full costs of conducting county functions and operations." However, the commission as part of their oversight responsibility may request the CEO and his staff to provide detailed explanations of the proposed budgeted expenditures.

Based on Charter language, the executive branch has the inherent authority to develop the methodology used for allocating charge back costs to county departments when benefit is being derived. GAAP requires the allocation methodology to be reasonable, equitable and consistently applied.

It has been discussed by some county officials as to whether a county department can elect out of participating in the charge backs and independently contract for certain services, such as, information technology and corporation counsel.

We believe the answer to that question is no for the following reasons: (1) authority for these centralized services rest solely with the executive branch; (2) each department will still be levied with charge backs, which will result in a duplication of costs; and, (3) separately contracting for these services could lead to deficiencies in internal controls, which could lead to fraud, waste, and abuse.

What Comprises Wayne County Internal Service Funds

At Wayne County there are a total of eight internal service funds and an enterprise fund (parking lot fund). The books and records of these funds, more commonly referred to as proprietary or enterprise funds are maintained on the full accrual basis of accounting. In addition, a debt service fund for the Guardian Building makes up chargeback costs. In our opinion, the proprietary and enterprise funds are the preferred methods because they allow the county to recover full cost for services being provided to other department\divisions\business units. For FYs 2008 and 2009, the amount of costs charged back or allocated to county departments and business units totaled approximately $441 million for the eight internal service funds.

According to the 2009 CAFR the departments that comprise the ISF are:

- Central Service Funds – this fund is used to distribute the operating cost of M&B, DOT, Personnel, and Corporation Counsel – cumulative equity surplus of $2.9 million.
- Department of Environment – this fund is used to distribute costs to various sewage districts, drains and other Department of Environment activities – cumulative equity surplus of $410 thousand.
- Long-term Disability – this fund is used to accumulate and disburse monies related to long-term disability claims – cumulative equity surplus of $255 thousand.
- General Health – this fund is used to accumulate monies related to employee health benefits – cumulative equity surplus of $236 thousand.
- Workers' Compensation Self Insurance – this fund is used to accumulate and disburse monies related to workers' compensation claims – cumulative equity surplus of $172 thousand.
- General Liability – this fund is used to accumulate and disburse monies related to property insurance costs – cumulative equity surplus of $116 thousand.
- Equipment Lease Financing – this fund is used to account for costs of financing acquisitions of real property, machinery and equipment. The fund recovers costs by billing user departments – cumulative deficit of $3.0 million.
- Building and Ground Maintenance – this fund is used to account for the

maintenance of all county general fund buildings – cumulative deficit of $4.8 million.

- Parking Lot – this is reported as a non-major enterprise fund and is used to account for activities related to county employee subsidized parking – cumulative surplus of $1.5 million.

The scope of this engagement focused primarily on the Central Services (M&B, Personnel, Corporation Counsel, and Department of Technology) and Buildings and Ground Maintenance Funds.

Recording of Chargeback Costs

Chargeback costs are recorded in Internal Service Funds (ISF) 635 – Central Services and 631 – Buildings and Ground Maintenance. The following departments are recorded within Fund 635: Information Technology (DOT), Corporation Counsel (CC), Management & Budget (M&B), and Personnel and Human Resources; while indirect chargeback costs are recorded in the General Fund.

An ISF is structured to be reimbursed by non-charge back business units at cost. Additionally, these funds along with other county funds are audited annually and included in the county's Comprehensive Annual Financial Report (CAFR). Therefore, annual costs being accumulated in the ISF and the reimbursements for these costs are expected to offset each other on a monthly/quarterly/annual basis. As a result, surpluses or deficits are not expected to exist in ISF.

Types of Charge Back Costs

Central Services

The Department of M&B is responsible for preparing the charge back/cost allocations for the following services: Information Technology (IT services, telecommunications, and voicemail), Buildings and Ground Maintenance (administration, buildings operation and maintenance, and architectural and engineering), Personnel, Parking, M&B-Administration, Accounting, Payroll, Grants, Accounts Payable, Accounts Receivable, Budget Division, Purchasing, Mailroom, Risk Management, and Corporation Counsel. Also, M&B prepares the charge back/cost allocations for M&B satellite offices: Roads, Mental Health, Children & Family Services, and Economic Development Growth Engine (EDGE).

The total expenditures for these service business units are multiplied by statistics determined by M&B and are used as the basis for allocating charge back costs to county business units.

Who are Levied Charge backs

All Wayne County departments, including ISF, are levied charge backs and indirect costs based on benefit derived. In principal, if a department/division/business unit receives a benefit directly or indirectly they will receive a charge back. In this report, charge backs primarily consist of the distribution of accumulated costs from the following funds: central service, building and maintenance funds and the Guardian building operating and debt service costs; as well as six other ISF which are not specifically addressed in this report.

A review of the percentage of charge backs to total department expenditures for the County

Executive and Commission calculated to be 24 percent and 19 percent, respectively for FY 2009-2010.

Some county departments receive a larger percentage of charge backs as compared to their annual budget; however, because charge backs are not allocated based on expenditures, but various other methodologies, we do not believe a meaningful correlation can be drawn from such a comparison.

Additionally, it is to be noted that ISF are also allocated charge back costs based on benefit derived. This concept is referred to as the "step-down method" and is consistent with managerial accounting cost allocation principles and is one of the most preferred methods of distributing costs.

Indirect Costs

OMB Circular A-87 defines indirect cost as: "those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved." More specifically, whereas the ISF have direct and shared charges, indirect cost is being generated from general fund activities that are not directly identifiable to a specific cost objective.

In addition to the central service charge backs, the county allocates costs from certain county departments/business units that provide services deemed to indirectly benefit all county operations. The departments/business units that make up the indirect cost pool are: County Executive, Auditor General, County Clerk, Clerk-Court Services, Treasurer and non-departmental costs, such as litigations, claims, and settlements. The above mentioned department\business units are all accounted for in the general fund.

It is the practice at Wayne County to record indirect cost in the general fund because, unlike expenses recorded in the ISF, no direct benefit is associated with these costs. Indirectly, county departments/business units receive benefits from the services being provided by these departments; thus, the term indirect cost. Therefore, the county follows the practice of allocating all allowable indirect costs from the general fund to other departments/business units where benefits are indirectly being derived.

For our two-year period of review, the county contracted with external auditors and consultants to prepare an indirect cost allocation plan (ICAP) for FY 2006 and 2007. Both were prepared in accordance with the Office of M&B (OMB) Circular A-87 cost principles which are necessary in order to allocate indirect costs to federal grants.

To prepare the ICAP, the county uses financial information from the last audited period available. For example, audited financial statements for FY 2006 and issued in FY 2007 were used as a basis to allocate indirect costs for FY 2008.

Based on Circular A-87 cost principles, certain costs within the indirect cost pool departments are considered general costs of government and are unallowable for allocating to other county business units. The unallowable costs include, but are not limited to, salaries and other expenses of the county executive, lobbying activities, and certain other administrative expenses for the

Treasurer's Office and County Clerk. All unallowable costs are subtracted from the total costs of these general fund activities to makeup the indirect cost pool of expenditures eligible for allocation to other county departments/agencies as indirect costs. These costs are allocated based on an ICAP.

The allowable indirect costs per department/business unit are also multiplied by statistics determined by M&B and provide the basis for allocating indirect costs to county business units.

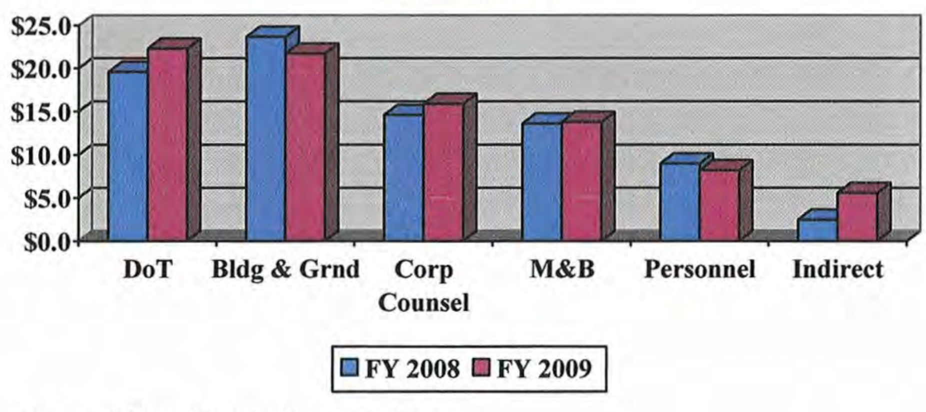
TOTAL CHARGEBACK EXPENDITURES FOR FISCAL YEARS 2008 AND 2009

OBJECTIVE (1)
Determine the amounts actually charged during Fiscal Years 2008 and 2009.

Chargeback expenditures for FYs 2008 and 2009 were $93.8 million and $93.3 million, respectively. This represents a small decrease in charge back costs of $0.5 million. In addition, indirect costs allocated from the general fund were $2.5 million and $5.6 million for FY 2008 and 2009, respectively.

See chart below for FY 2008 and 2009 total charge back expenditures by function.

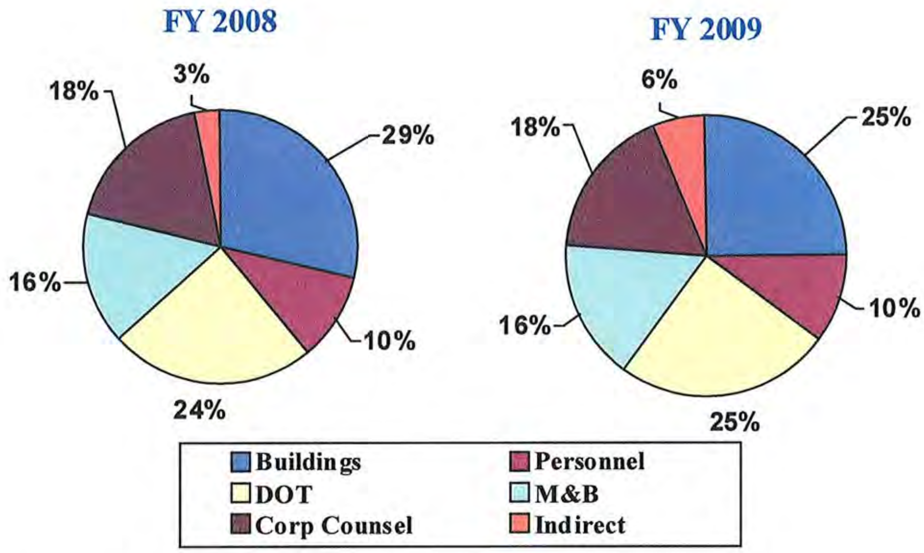
Charge back Expenditures by Function for Fiscal Years 2008 and 2009 (in millions)



Source: Wayne County General Ledger

For FYs 2008 and FY 2009, Buildings and Ground Maintenance and DOT combined represented 50 percent or more of total charge back expenditures allocated by M&B. See chart below.

Charge backs by Function
Percentage of Chargeback Expenditures
for Fiscal Years 2008 and 2009



Source: Wayne County General Ledger

The percentage of shared costs when compared to direct costs was significantly higher for both fiscal years. In FYs 2008, the percentage of shared expenditures was approximately 61 percent and direct expenditures were approximately 39 percent. Likewise, in FY 2009, the percentage of shared expenditures increased to approximately 63 percent and direct expenditures was approximately 37 percent.

Observations

- For FY 2008 and FY 2009, the amount of direct and shared charge back expenditures allocated by M&B approximated $83.0 million and $87.6 million, respectively. The remaining $10.8 million and $5.6 million were due to satellite M&B personnel and other costs being directly charged.
- Chargeback expenditures allocated to county business units for direct services remained fairly constant between FYs 2008 and 2009, increasing by $214,959. However, shared expenditures showed a significant increase between FYs 2008 and 2009 of $4.4 million.
- We inquired of management in M&B about the noted increases. M&B officials agreed total expenditures for DOT and Corporation Counsel increased but we were unable to identify specific causes for the increase.
- In addition, M&B officials indicated that additional expenditures of approximately $953,000 for Buildings and Grounds Maintenance and Corporation Counsel shared costs were posted after the final charge back allocation to county business units.

Conclusions

- The increase in expenditures was primarily attributed to shared costs within the departments of DOT, Corporation Counsel, and indirect costs. Shared costs are the residual costs after deducting direct costs that cannot be directly charged to a benefitting business unit.
- Based on the pie chart depicted on page 23 of 56, Building, DOT, M&B and Corporation Counsel makes up 86 percent of the total charge backs for FY 2009.
- The county's external auditors performed an audit of the reported financial data. In conjunction with that audit the accumulation of charge back expenditures within these business units was also audited. Consequently, we relied on the external auditors' work performed and did not perform in-depth analysis of the accumulated expenditures within the various charge back business units.
- For FY 2008, the eight ISF recorded \$668,000 in operating income (revenues exceeded expenses) at year end. For FY 2009, the ISF recorded a \$1.226 million operating loss at year end. Based on the net operating loss or undercharge of \$558,000 for the two-fiscal years, the allocation of operating costs appears reasonable and the ISF are being substantially reimbursed for services provided to other county business units.
- According to an M&B official, when practical, their policy is to maintain a fund balance in self insurance funds equivalent to 60 days of needs.

CHARGEBACK METHODOLOGIES AND REASONABLENESS FOR FISCAL YEARS 2008 AND 2009

OBJECTIVE (2)

Obtain an understanding of the methodology used by the county to chargeback various costs to county departments for FY 2008 and 2009 and assess the reasonableness and uniformity of chargeback costs to county departments during FY 2008 and 2009.

Information Technology

The Department of Technology provides services and support to county departments/business units. These services include: Customer Relations, Desktop Support Services, Call Center, service request processing and the procurement and maintenance of county hardware and software. There are three business units that make up the total Information Technology costs: Information Technology Services (Direct and Shared), Information Technology – Telecommunications (Direct and Shared), and Information Technology - Voicemail.

DOT Charge backs for Fiscal Years 2008 and 2009			
Chargeback Area	***FY 2008***	***FY 2009***	***Variance Increase/(Decrease)***
IT Services (Direct)	$4,119,054	$4,527,348	$408,294
IT Services (Shared)	$11,685,446	$13,753,061	$2,067,615
Telecom (Direct)	$2,661,526	$2,262,927	($398,599)
Telecom (Shared)	$981,299	$1,566,725	$585,426
IT Voicemail	$162,561	$147,268	($15,293)
Total	**$19,609,886**	**$22,257,329**	**$2,647,443**

Source: Wayne County M&B Cost Allocation Schedule

Information Technology (IT) Services (Direct and Shared)

Direct expenses charged to county business units are for technology related services processed through DOT's work order system and are charged directly to the benefitting business units. All other DOT department costs, those not identifiable by work order, are shared among all county business units. Shared expenses are charged to county business units based on the number of hardware devices (i.e., printers, desktop computers) connected to the network for a particular business unit.

Total Direct Expenses for DOT Services in FY 2008 were $4.1 million compared to FY 2009 which were approximately $4.5 million. This represents an increase of approximately 10 percent. Total Shared DOT expenses in FY 2008 were $11.6 million compared to FY 2009 at $13.7 million representing an increase of approximately 18 percent.

DOT - Services Shared costs for IT for FY 2008 represented approximately 74 percent in chargeback costs compared to only 26 percent for Direct costs. In FY 2009, this continued with DOT Services Shared costs for IT representing 75 percent of charge back costs compared to 25 percent for Direct costs.

We are currently in the process of performing a consulting engagement on DOT and have found instances in which at least nine full time employees (FTE) were assigned to DOT throughout FY 2009 from the CEO's office without clear documentation as to what services they were actually providing to DOT.

Develop Policy to Allocate Costs for All Service Requests

Observations

- Based on a discussion with DOT officials, they indicated that some service requests from county business units may not always be allocated directly to the user business units. According to management, some direct service requests may not be assigned a work order number and could be categorized as an indirect service to the user and charged out as shared costs.

- The ratio of direct charges to total cost for IT services are less than 25 percent and could be a reflection of not properly accounting for direct billable costs benefitting other departments/divisions/business units. Additionally, the Telecom ratio of direct to shared costs for FY 2009 is at 60 percent which could also be problematic.
- We found that while management provided a reconciliation of DOT costs for FY 2009, we were not able to obtain a cause for the increase of $1.9 million in shared costs. However, based on a review of DOT payroll folders, it appears that during FY 2009 there were a total of nine executive appointees whose salaries including fringes totaling approximately $957,506 were paid out of a DOT business unit with no supporting evidence of what DOT projects were worked on.

Conclusions

- ❖ Because DOT management has not establish criterion to determine which IT services should be classified as direct or indirect, this can result in indirect charges being allocated to all county business units and not based on direct benefit received. There are also other plausible explanations for this variance.
- ❖ DOT direct charges for IT technical services are less than 25 percent of shared costs which could mean they need to revise their policies regarding direct billing or are failing to properly identify costs chargeable to other county departments based on direct benefit received.
- ❖ Additionally, we believe the commission should more closely monitor IT technical and Telecom direct charges for services rendered. Studies have shown that failure to require accountability for services rendered serves to promote inefficiencies and waste.
- ❖ While we were not able to obtain a cause for the increase of $1.9 million in shared costs, personnel costs for the executive appointees could have been a contributing factor for the increase in DOT shared costs.

Recommendation 2010-01

- ➢ The commission should consider adopting the concept of "Zero Based Budgeting" (ZBB) for internal service funds. ZBB is a method of budgeting in which all expenses must be justified for each budget year including vacant/unfilled positions in the following charge back departments: M&B, DOT, Buildings and Grounds, and Corporation Counsel since they comprise 86 percent of total charge backs for these two ISF.

Recommendation 2010-02

A. We recommend management within the Departments of Technology and M&B establish a policy, including criteria, for allocating costs to a business unit that directly received the benefit of those services provided. This will establish a fair and equitable method of allocating chargeback costs to ensure other county business units will not share in costs attributed to business units receiving a direct benefit.

B. Additionally, we recommend the commission should require a detail quarterly report from DOT of the charge backs ratio of direct charges to shared costs with targeted goals of 75 percent – 80 percent in direct charges for services rendered.

Develop Mechanism to Verify Network Connections Annually

Observations

- Based on our review of M&B shared charge back allocation schedules for IT Services – Shared costs, we found the number of devices connected to the network for all business units did not change between FYs 2008 and 2009. However, the charges for IT Services - Shared costs increased by approximately $2.1 million or 18 percent. DOT management stated the last physical inventory was performed in January of 2009.
- M&B officials indicated that DOT was not able to provide an updated inventory in 2009 and was not aware that an inventory was actually performed. According to an M&B official, an inventory list from FY 2008 was used to allocate DOT shared costs for both FYs 2008 and 2009.
- The scope of our engagement did not require us to obtain an explanation for this increase. Consequently, we were not able to determine what portion of the increase in shared cost was attributed to DOT failing to allocate direct cost when service was being performed.

Conclusion

- ❖ Based on our review of the methodology and statistics used by M&B for FYs 2008 and 2009 for services provided, we determined the process was uniformly applied during both fiscal years.
- ❖ However, because a more accurate inventory list of devices was not used for the FY 2009 IT Services - Shared expenses allocation, we could not determine whether charges for shared costs to various county business units were allocated in a fair and equitable manner based on benefit derived. Consequently, county business units could have been over/under charged for these costs.

Recommendation 2010-03

A. We recommend management within the Departments of Technology and M&B establish policies and procedures to develop a mechanism to identify the number of devices connected to the network on an annual basis and submit the results to M&B prior to the preparation of the cost allocation entries to ensure the proper allocation of IT Services -Shared costs to county business units.

B. We recommend the DOT and M&B establish policies and procedures to conduct a physical inventory of devices connected to the network, at least triennially, to ensure the accuracy of the information captured and reported to M&B.

Information Technology – Telecommunications (Direct and Shared)

The DOT maintains a list of phone numbers per business unit and each business unit receives monthly (direct) charges for their phone costs. In addition, administrative costs for maintaining the telecommunications system are shared costs and charged to county business units based on the number of phone lines per business unit.

Direct telecommunications charges (phone bills) for FY 2008 were $2.6 million compared to $2.2 million in FY 2009. This represents a decrease of approximately 15 percent. However, shared telecommunications costs increased from FY 2008 to FY 2009 by $585,426. This represents an increase of approximately 60 percent.

Information Technology - Voicemail
The DOT maintains the county's voicemail system. The costs of maintaining the system is allocated to each user business unit based on the number of voicemail boxes utilized by each business.

In FY 2008, total DOT Voicemail expenses were $162,561. In FY 2009, these charges totaled $147,268. This represents a decrease of approximately $15,293, or 9 percent.

Buildings and Ground Maintenance
Buildings and Ground Maintenance costs, such as rent, utilities, janitorial services, repairs and maintenance, depreciation and labor costs, are recorded throughout the fiscal year. Direct charges are allocated based on costs charged directly to county business units for specific work incurred by a department or business unit and tracked in a work order system;

- Square footage of the occupied building; and,
- Number of shelves occupied at the Home Quarters (HQ)Building.

Building Shared costs are allocated based on the percentage of each business unit's direct work orders to total work orders. Building Shared costs are mainly administrative salaries and wages of the Building's Division.

There are three business units within the Buildings and Ground Maintenance Fund, Fund No. 631: Buildings Administration-26501, Operation & Maintenance-26505, and Architecture & Engineering-26506 that accumulate the building and maintenance costs.

For fiscal year 2009, there were six county buildings whose costs were compiled to allocate the building charge backs: Below is a table that lists the approximate cost per square foot.

Buildings and Ground Maintenance Schedule of Buildings and Allocated Costs Per Square Foot FY 2009	
NAME	**ALLOCATED COST PER SQUARE FOOT**
Wayne County Building	The cost per square foot is approximately: $49.69.
Neudeck Building	The cost per square foot is approximately: $0.50.
Kay Beard Building	The cost per square footage: approximately $20.25.
Lincoln Hall of Justice	The cost per square footage is approximately $7.52.
Frank Murphy Hall of Justice	The cost per square footage is approximately $16.47.
HQ Storage Facility	Costs are accumulated in work order number 40213. Costs are allocated based on the number of shelves occupied for each department. The cost per shelf is approximately $137.07.

Source: Wayne County M&B Cost Allocation Schedule

Note: Since the transactions related to the Guardian Building are recorded in a separate public corporation, we will review how depreciation and other operating costs will be charged out in our next consulting engagement on charge backs.

Direct Charges

Total Direct Buildings and Ground Maintenance charges for FY 2008 were $18.8 million, compared to $18.9 million in FY 2009. This increase was approximately $115,604 or less than one percent.

Shared Charges

Shared costs for Buildings and Ground Maintenance in FY 2008 were $4.8 million, compared to $2.7 million in FY 2009. This represents a decrease of approximately $2 million or 43 percent.

Buildings and Ground Maintenance direct charge back costs represented approximately 80 percent, compared to 20 percent for Shared costs. In FY 2009, Buildings Direct costs increased representing approximately 87 percent of all Buildings and Ground Maintenance charge back costs, compared to only 13 percent for Shared costs.

Buildings and Ground Maintenance Charge backs For Fiscal Years 2008 and 2009			
Chargeback Area	***FY 2008***	***FY 2009***	***Variance Increase/(Decrease)***
Buildings (Direct)	$18,866,005	$18,981,609	$115,604
Buildings (Shared)	$4,832,200	$2,763,636	($2,068,564)
Total	**$23,698,205**	**$21,745,245**	**($1,952,960)**

Source: Wayne County M&B Cost Allocation Schedule

Observations

- According to M&B officials, the decrease in Buildings and Ground Maintenance total costs were attributed to budget reductions. Because we did not audit the expenditures of Buildings and Ground Maintenance business units, we could not validate management's assertions.
- We were informed by M&B officials that in FY 2009 approximately $650,000 of Building and Ground Maintenance shared costs were posted after the charge back allocation to other county business units; thus, not allocated to other business units based on benefit derived. Management did indicate a reasonableness review was performed of expenditures in each of the chargeback units prior to posting the final chargeback entry.
- We noted M&B changed the allocation of costs related to the HQ Building from number of boxes stored per business unit in FY 2008 to the number of shelves occupied per business unit. We inquired of management in M&B about the change in methodology for calculating HQ costs. They indicated that the change in methodology encompasses departments that are reserving space for future use.
- The county is currently renting the store facility at Frank Murphy Hall of Justice at a fee of $400 per month on a month-to-month basis. The lease expired in Oct. 2007.

Conclusion

- Based on our review of the methodology and statistics used by M&B for FYs 2008 and 2009 for Building and Grounds Maintenance charge backs, we determined the process was uniformly applied during both fiscal years. In addition, the allocation methodology appears reasonable.
- However, because an additional $650,000 was not allocated to other county business units when the final chargeback entry was posted, county business units did not receive their equitable share of costs from Buildings and Ground Maintenance business units.
- We believe rent for the store facility at Frank Murphy Hall of Justice could be increased to a more competitive market rate. DPS Management has indicated that due to high traffic volume at this location, management believes a concession contract could be negotiated which normally requires a percentage of annual gross revenue for this facility.

Recommendation 2010-04

A. We recommend M&B management develop a close-out checklist to provide assurance that all accruals are properly made in each of the internal service fund business units before chargeback costs are allocated on a quarterly basis.

B. We recommend that DPS Building Management, in conjunction with Corporation Counsel, negotiate a concession contract arrangement with the present occupants or bid out the concession store space at Frank Murphy Hall of Justice as a concession contract requiring a percentage of annual gross revenues.

DPS Management Comments

DPS management indicated that Corporation Counsel has advised that the Frank Murphy Hall of Justice (FMHJ) sundry store should be competitively bid out as a concession contract, with the successful bidder contracted to pay the county a percentage of its' annual gross revenue. Because of the high number of people who work in and visit the FMHJ daily, it is reasonable to assume that several vendors will be interested in the opportunity to operate the store, and competition will be vigorous. The county expects to receive concession fees much greater than the current rent of $400 per month.

Corporation Counsel

There are two business units that make up the total chargeback costs for the Department of Corporation Counsel (CC). These are Corporation Counsel – Legal (CC-L) and Corporation Counsel – Human Relations (CC-HR). Direct CC-L charges are billed back to the departments based on actual time worked as reported in the CC-L Prolaw Case Management System (Prolaw). A billing rate is established for each Corporation Counsel position based on salaries and fringes, etc. The rate is used to calculate charges for assigned attorneys to county business units.

After deducting direct costs from total CC-L expenditures, shared costs are allocated based on the number of employees in each department to the percentage of total county employees multiplied by the billing charge.

Corporation Counsel (Legal and Human Relations) Charge backs for Fiscal Years 2008 and 2009			
Chargeback Area	***FY 2008***	***FY 2009***	***Variance Increase/(Decrease)***
CC – Legal (Direct)	$6,589,163	$6,678,823	$89,660
CC – Legal (Shared)	$6,867,026	$8,268,788	$1,401,762
Subtotal Corp Counsel – Legal	**$13,456,189**	**$14,947,611**	**$1,491,422**
CC-HR (Shared)	$1,103,778	$958,291	(145,487)
Total	**$14,559,967**	**$15,905,902**	**$1,345,935**

Source: Wayne County M&B Cost Allocation Schedule

For Fiscal Year 2008, the shared cost charge per county business unit for Corporation Counsel-Legal was $123.76, compared to Fiscal Year 2009 at $159.55. This represents an increase of approximately 22 percent. Total chargeback costs for FY 2008 were $13.4 million compared to FY 2009, which were $14.9 million. This represents an increase of approximately $1.5 million, or 11 percent.

Corporation Counsel - Legal Shared costs for FY 2008 represented approximately 51 percent compared to 49 percent for direct costs. In FY 2009 there was an increase with CC-Legal Shared costs representing 55 percent of all chargeback costs compared to 45 percent for direct costs.

CC-Human Relations

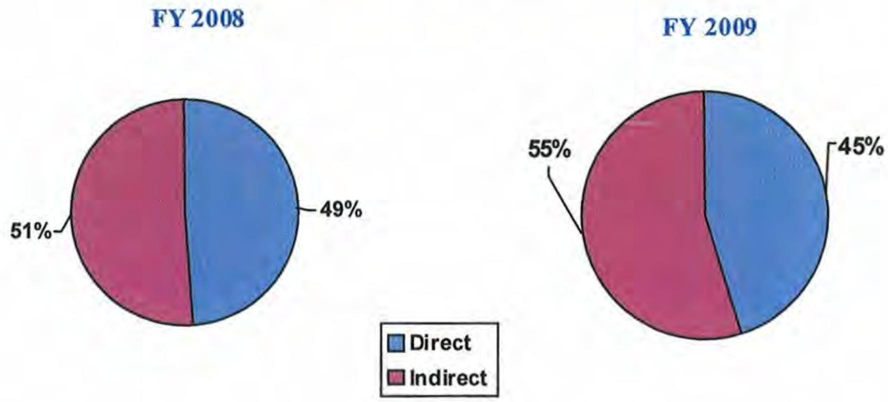
The Corporation Counsel – Human Relations Division (CC-HR) is responsible for administering the Wayne County Procurement Ordinance statutes as it relates to the following:

- Fair Employment Practice (FEP)
- County Based Enterprise Program (CBE)
- Small Business Enterprise Program (SBE)
- Disadvantaged Business Enterprise Program (DBE)
- Minority Owned Business Enterprise Program (MBE)

They are primarily involved in the approval process for the procurement of goods and services and certifying businesses wanting to do business with the county. The statistic used to allocate the costs of the CC – HR Division is the number of Purchase Orders (PO's) greater than $50,000 that are initiated.

For Fiscal Year 2008, the Corporation Counsel-Human Relations charge to county business units per purchase orders processed was $1,682 compared to FY 2009 at $1,346. This represents a decrease of approximately 20 percent. Total charge back costs for FY 2008 were $1.1 million compared to FY 2009, which were $0.9 million. This represents a decrease of approximately $0.2 million, or 13 percent.

Corporation Counsel - Legal and Human Relations
Percentage of Direct vs. Shared Expenditures
for Fiscal Years 2008 and 2009



Source: Wayne County M&B Cost Allocation Schedule

Observations

- Corporation Counsel – Legal Shared costs increased by nearly $1.4 million from FY 2008 to FY 2009. According to M&B officials, total expenditures increased by $538,000.
- An M&B official informed us an additional $302,770 was posted after the final chargeback allocation entry was made. However, they did indicate a reasonableness review was performed of expenditures in each of the chargeback units prior to running the final chargeback entry.
- For FY 2009, shared cost is 55 percent of total costs for Corporation Counsel - Legal. As previously stated, shared costs are those costs that are general in nature and not connected to a direct or professional legal service being provided.
- According to management, they review budget to actual expenditures on a monthly basis. However, we found no periodic monitoring by management or the commission on the ratio of direct charges to shared costs.

Conclusions

- ❖ Based on our understanding of the methodologies and statistics applied, it appears that the charge backs allocated for Corporation Counsel – Legal and Human Relations were consistently applied for both years, and the allocation methodology appears reasonable.
- ❖ However, because additional expenditures were posted after the final chargeback allocation entry was recorded, county business units did not receive $302,770 of equitable shared costs from Corporation Counsel's Legal division.
- ❖ Because shared or administrative costs for CC – Legal Division are 55 percent of chargeback costs, it appears CC – Legal management may not be assigning or billing costs for department attorneys that work on legal issues for particular county business units. Additionally, they should explore methods to increase direct billable hours, revise their policies regarding direct billing, or reduce the number of attorneys on staff so as to achieve a 75 – 80 percent billing rate based on direct services being rendered.

Recommendation 2010-05

A. We recommend Corporation Counsel review the direct billable hour ratio for legal services to other county departments to achieve a 75 – 80 percent billable ratio of direct costs to total costs, revise their policies regarding billing direct costs, or reduce the number of staff because the shared cost ratio to billable hours are not congruent with the type of services provided.

B. Additionally, for monitoring purposes, we recommend the commission require a detailed quarterly report from Corporation Counsel of the charge backs ratio of direct charges to total costs for legal services with targeted goals of 75 – 80 percent in direct charges for legal services rendered.

Department of M&B

M&B is responsible for budgeting, financial reporting, cost accounting, purchasing, grants management, and certain risk management functions of the county. Costs for each of the different functions are accumulated in a separate business unit and are allocated by a selected statistic for that function. M&B allocates charge back costs for the divisions within the department.

Below is a description of the FY 2009 methodology and statistics used to allocate costs for each function to other county business units. The accumulated charge back costs for the various functions are reported as Central Service charge backs.

Allocation of the Accounting Division

The General Accounting function is primarily responsible for the accounting of all of the county's financial transactions as well as the preparation of financial reports. The expenditures of the general accounting division are allocated based on the number of generated accounting journal entries posted to each business unit.

In FY 2008, the cost per journal entry was approximately $159.00. For FY 2009, the unit cost per journal entry charged to county business units was $174.85. This represents an increase in cost per journal entry of $15.85, or approximately 10 percent.

Allocation of the Payroll Division

The Payroll function is responsible for preparing direct deposits and checks for the county. The expenditures of the payroll division are allocated on the statistic of the number of payroll checks issued plus direct deposits per business unit.

In FY 2008, the cost per unit charged to county business units was $4.30. For FY 2009, the cost per unit charged to county business units was $5.59. This represents an increase of $1.29 per unit, or 23 percent.

Allocation of the Grants Division

The Grants Division is responsible for the review of federal grant compliance, the preparation of reconciliations of federal grant expenditures from the general ledger to financial statement reviews, and the coordinating of the county's annual Single Audit (A-133).

For FY 2008, the expenditures of the Grants Division were allocated based on the statistic of dollars of federal grant revenues per business unit. For FY 2009, the expenditures of the Grants Division were allocated based on the time spent by Grant Division personnel working on federal grants, special projects and other non federal grant related items.

From FY 2008 to FY 2009 department expenditures increased $69,684, or approximately 8 percent. The statistical basis used for both fiscal years was the unit cost per one dollar of federal revenue.

Allocation of the Accounts Payable Division
The Accounts Payable Division is primarily responsible for the matching of receivers to invoices and the payment for goods and services received. The expenditures for the Accounts Payable division are allocated based on the number of Purchase Vouchers (PV's) and Receivers (OV's) generated for each business unit.

In FY 2008, the unit cost per Purchase Vouchers or Receivers generated and charged to county business units for Accounts Payable was $19.60. For FY 2009, the unit's cost was $19.41. This represents a 1 percent decrease in costs.

Allocation of the Accounts Receivable Division
The Accounts Receivable Division is primarily responsible for the billing of certain revenue and the recording of cash receipts to the proper revenue accounts. The expenditures of the Accounts Receivable division are allocated based on the number of journal entries created by the division that are posted to each business unit.

In FY 2008, the unit cost per journal entry for Accounts Receivable was $161. For FY 2009, the unit cost per journal entry generated was nearly $158. This represents a decrease of approximately 1 percent.

Allocation of the Budget Division
The Budget Division is responsible for the development and monitoring of the county budget, which also includes the quarterly status reports to the commission. The expenditures of this business unit are allocated based on total actual expenditures per business unit.

In FY 2008, the unit cost per one dollar of expense, or allocable statistic, for budget was $.0015114. For FY 2009, the unit's cost per one dollar of expense, or allocable statistic, was $.0013694. This represents a decrease of approximately 9 percent.

Allocation of the Purchasing Division
The Purchasing Division is responsible for the procurement of the county's goods and services, which includes issuing RFP's and RFQ's, obtaining responses, monitoring the contract award process, developing purchase orders, submitting contracts to the commission for approval, and monitoring contractor compliance with county regulations. The expenses of this business unit are allocated based on the number of purchase orders per business unit. Purchase orders greater

than $50,000 processed for county business units are charged slightly higher due to the processing time required.

In FY 2008, the unit cost per purchase order processed was $359.75. For FY 2009, the unit cost per purchase order processed was $313.72. This represents a decrease of approximately 13 percent.

Allocation of the Mailroom

The Mailroom is responsible for collecting and distributing the county's internal and external mail. The expenditures for the mailroom are allocated based on the accumulated monthly postage charges generated per business unit. There is a report generated from the postage meter used to calculate the costs per business unit.

In FY 2008, the unit cost per postage charge was $1.74. For FY 2009, the unit cost per postage charge generated per business unit was $2.25. This represents an increase of approximately 23 percent.

Allocation of the Risk Management Division

The Risk Management Division is responsible for procuring the county's long-term disability, auto, and general liability insurance policies. The expenditures for this business unit are allocated based on the number of employees per business unit.

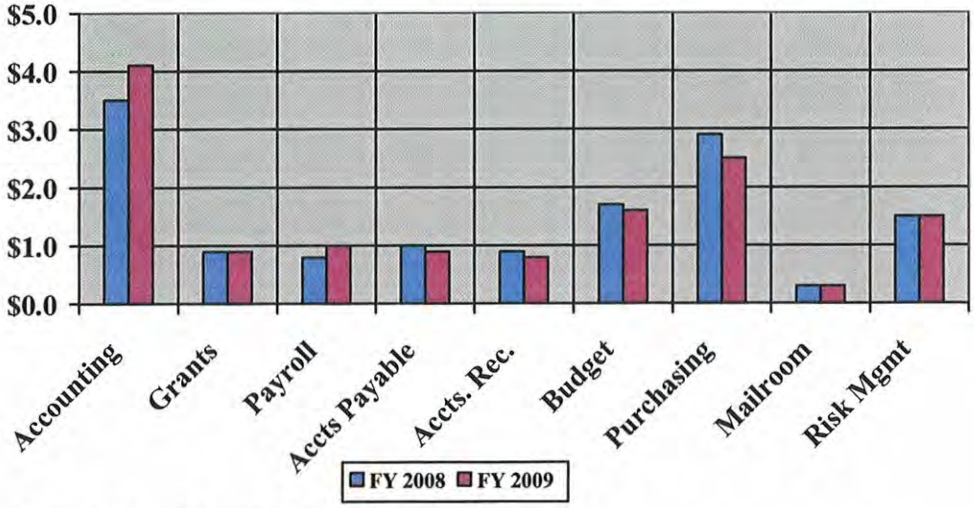
In FY 2008, the monthly unit cost per employee was $23.27. For FY 2009, the unit monthly chargeback cost per employee over the fiscal year was $25.21. This represents an increase of approximately 8 percent.

Allocation of M&B Satellite Costs

The allocation of M&B satellite offices total expenditures is charged to each of the appropriate operating business units within the respective department the satellite office services.

Below is a comparison chart of actual cost for the M&B divisions (excluding satellite offices) that make up M&B services for FYs 2008 and 2009. Total M&B service charge backs were $13.6 million in FY 2008, and $13.8 million in FY 2009, a $0.2 million increase over the prior fiscal year.

Chargeback Totals - Dept. of Management & Budget
Schedule of Actual Costs
for Fiscal Years 2008 and 2009
(in millions)



Source: Wayne County General Ledger

Observations

- M&B and Personnel use various methods to allocate costs to other county departments receiving benefit. However, it is noted that management changed the method of allocating accumulated costs in the Grants Division from FY 2008 to 2009, from time spent on federal grants to time spent on all functions including federal grants. We concur with the change and believe it is a more equitable statistic for recovering costs.
- For FY 2008, M&B central service costs were $13.6 million compared to FY 2009 chargeback costs of $13.8 million. This represents an increase of approximately 1 percent.

Conclusion

- ❖ Based on our understanding of the methodologies and statistics applied, it appears that the charge back costs allocated for M&B functions were consistently applied for both years and the allocation methodology appears reasonable.
- ❖ There were no recommendations based on our review of M&B's methodology and allocation of costs to departments receiving benefit.

Personnel

There are three functions that make up total personnel costs: Personnel/Human Resources (H/R) – Administration (Admin); Human Resources – Benefits Administration/Risk Management; and the Division of Organizational Effectiveness, commonly known as Managing for Results (MFR).

Personnel costs for the three business units are combined and allocated based on the number of employees per business unit.

Observations

- Personnel costs charged back to county business units in FY 2008 and 2009 were $9.05 million and $8.22 million respectively, a decrease of over $825,964 or 9 percent. This decrease brought the total cost per employee down from $158.37 in FY 2008 to $153.69 in FY 2009.

Conclusion

- ❖ Based on our review of the methodology and statistics used by M&B for FY 2008 and FY 2009 for Personnel charge backs, we determined the allocation process was uniformly allocated during both fiscal years and the allocation methodology appears reasonable.
- ❖ There were no recommendations based on our review of Personnel's methodology and allocation of costs to departments receiving benefit.

Indirect Cost

Allocation of Allowable Indirect Costs

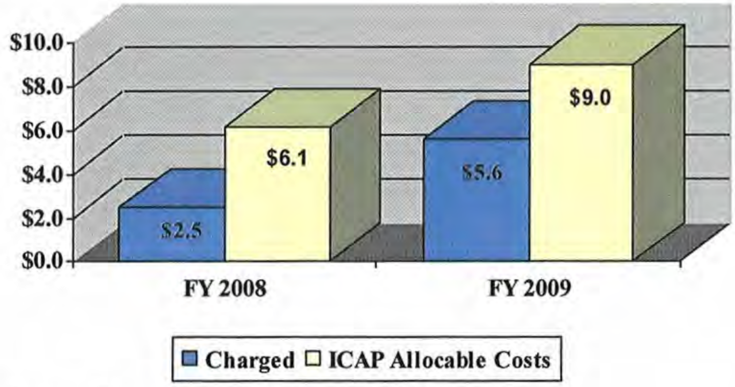
The OMB Circular A-87 defines indirect costs as those: "(a) incurred for a common or joint purpose benefitting more than one cost objective, and (b) are not readily assignable to the cost objectives specifically benefitted…."

For FY 2008, to allocate indirect costs, M&B used a method of recording by business unit, the lower of two amounts: FY budgeted expenditures or the allocable amount computed from the FY 2006 ICAP prepared by the county's external auditors. The county charged $2.5 million to county business units from allowable indirect costs, identified in the FY 2006 ICAP, of $6.1 million.

For FY 2009, a consultant prepared the FY 2007 ICAP with FY 2007 financial statement information. According to M&B officials, this allowed M&B to use the ICAP allocable amount of indirect costs to both budget expenditures and allocate indirect costs to county business units. The county charged $5.6 million in indirect costs to county business units from allowable indirect costs, identified in the FY 2007 ICAP, of $9.0 million.

For both fiscal years, M&B allocated the general fund business units' allowable costs by a statistic determined by M&B.

General Fund Activities - Indirect Costs
Charge to County Business Units
for Fiscal Years 2008 and 2009
(in millions)



Source: Wayne County Indirect Cost Allocation Plan

The difference in the amount of allocable indirect costs and the amount charged to county business units for FY 2008 and 2009 was $3.6 million and $3.4 million, respectively. For the two fiscal years combined, applicable indirect costs of $7.0 million were not allocated.

Observations

- According to M&B officials, allocating the $7.0 million difference between the amount charged to county business units and the allowable costs determined by the ICAP plans would have caused hardship to the budgets of the other county business units for the respective fiscal years. However, based on our understanding, OMB Circular A-87 requires all costs to be allocated on an equitable basis regardless of ability to pay.
- M&B Budget Division officials stated the FY 2003 ICAP was used to budget for the FY 2008 indirect costs because this was the only reasonable basis of budgeting for these costs due to the county's financial dilemma during FY 2004, 2005 and 2006. By using the FY 2003 ICAP, FY 2008 budgeted indirect costs may not have reflected actual operating cost for the departments/business units that made up the indirect cost pool.
- According to the county's external auditors, M&B decided to use the lowest budget or ICAP methodology for FY 2008, which could have contributed to the difference of $3.6 million not being allocated.
- For FY 2009, M&B changed its methodology and used the most recent audited financial information (i.e., FY 2007) available to budget and allocate indirect costs. This allowed M&B to allocate approximately 93 percent, or $5.6 million of budgeted expenditures of $6 million.
- Sound OMB Circular A-87 cost accounting principles require costs to be allocated to business units based on the benefit derived from the providing departments.
- Using this concept, we noted that the commission's Policy Research and Analysis department processes contracts submitted by county departments to the commission for their approval. However, this cost is not included in the ICAP for years 2008 and 2009.

- By not charging out total ICAP allowable costs to county business units based on benefit derived, for FYs 2008 and 2009, the difference of $7.0 million in unallocated indirect costs remained within the county's general fund. In addition, because the county business units were not allocated their full equitable share of indirect costs, we believe the true cost of administering and operating county services and programs is not visible and cannot be easily determined.

Conclusion

- ❖ M&B changed its methodology from FY 2008 to FY 2009 which brought indirect cost budgeted expenditures more in line with the actual chargeback cost incurred.
- ❖ Based on our understanding of the methodology and statistics used by M&B for FY 2008 and FY 2009 for indirect costs, we determined the allocation process was uniformly allocated during both fiscal years and the allocation methodology appears reasonable.
- ❖ The Commission's Policy Research and Analysis department stated they spend approximately 75 percent (or $468,213) of their time reviewing and analyzing contracts submitted by county departments for approval. However, M&B will need to make a determination if this cost is allowable under OMB Circular A-87 guidelines.

Recommendation 2010-06

A. We recommend M&B make a determination that all allowable indirect costs are allocated to county programs to more accurately reflect the true costs of operating those programs and services regardless of the ability to pay.

B. We recommend that Commission Policy Research and Analysis department prepare a three month time study, along with a narrative description of the work being performed on contract processing and submit the summarized results to M&B requesting them to determine if they may qualify to be included in the ICAP computation in the near future.

Other Matters

Review Grant Preparation for Inclusion of Allowable Indirect Costs

Observations

- For FYs 2008 and 2009, the county received over $90 million and $85 million respectively, in federal grants. We discussed with an M&B official the county's process for obtaining reimbursement of indirect or overhead costs from granting agencies.
- We determined personnel within the various county departments/business units are responsible for writing their respective grant proposals and filing the periodic financial status reports with the grantor agencies to obtain funding or reimbursement for program expenditures.
- Grant awards for county programs and services are primarily divided into two expenditure categories: direct and indirect. Direct costs are for administering program services, and generally include staff personnel costs, supplies and materials, travel and contractual expenditures. Indirect costs are the other support or overhead costs that are required to administer the program services, such as accounting, payroll, information technology services, rent and utilities.

Conclusion

- ❖ Because the grant application and reporting requirements are decentralized throughout county departments, we could not readily determine whether county personnel assigned responsibility for administering program services are pursuing the maximum amount of indirect cost reimbursement from granting agencies.
- ❖ Also, in view of the fact that the grant writing and reporting functions are assigned to various county personnel responsible solely for their respective department, program, or agency, there could be inconsistencies in the interpretation of indirect costs and its classification on the Financial Status Report (FSR), which could make it difficult to determine those activities eligible for indirect cost reimbursement.

Recommendation 2010-07

A. We recommend senior management in M&B establish a centralized function to assess, monitor, and report on whether the county's grant recipient departments are capturing and recovering the maximum indirect costs allowable.

B. In addition, the commission should periodically request an analysis of all federal and state grants which, at a minimum, states the purpose and type of grant, granting period, total dollar amount, county's cost to service the grant, and the amount of recovered indirect cost.

Recoverable Indirect Costs

Observations

- For FYs 2008 and 2009, the county received over $90 million and $85 million respectively, in federal grants. We received a schedule from M&B officials which listed $2,200 and $14,000 as recovered indirect costs for FYs 2008 and 2009, respectively.
- According to the M&B official, the majority of a grant award is for funding direct expenditures with a minor portion designated for indirect costs. The official also indicated some grant awards do not allow for reimbursement of indirect costs. In effect, this leaves the department/business unit administering the program responsible for the indirect cost expenditures.
- We did note that some departments, like Department of Environment, appear to be recovering a reasonable amount of indirect costs from federal grants.
- We asked whether the county has a method of determining the amount of recovered or reimbursed indirect costs received from granting agencies for FYs 2008 and 2009. We were informed because the grant writing and reimbursement function is not centralized, total recoverable or reimbursement information is not tracked. We received a schedule from M&B which listed $2,200 and $14,000 as recovered indirect costs for FYs 2008 and 2009, respectively.

Conclusions

- ❖ We also spoke with an official from the Federal Department of Health and Human Services (HHS) who stated a grantee should be reviewing historical costs for administering a program and negotiating with the granting agency an indirect cost rate to recover those costs that are not reimbursed. Further, the HHS official stated a grantee cannot go back to a previous year to recover indirect costs, but going forward they may be able to negotiate with the granting agency to recover indirect costs being incurred.

- Because the grant application and reporting requirements are decentralized throughout county departments, we could not readily determine whether county personnel assigned responsibility for administering programs/services are pursuing the maximum amount of indirect cost reimbursement from granting agencies.
- Also, in view of the fact that the grant writing and reporting functions are assigned to various county personnel responsible solely for their respective department, program or agency, there could be inconsistencies in the interpretation of indirect costs and its classification on the FSR, which could make it difficult to determine those activities eligible for indirect cost reimbursement.

Recommendation 2010-08

A. We recommend senior management in M&B establish ways, such as training sessions and periodic site visits, to provide guidance to county personnel responsible for grant management and administration to clarify and improve their understanding of the ability to recover indirect and other administrative costs.

B. We recommend M&B review all grants at the department level prior to their being submitted to the grantor to ensure the inclusion of all allowable indirect costs.

C. We recommend, for monitoring purposes, that M&B submit a schedule semi-annually of all grants to the Committee on Ways and Means which identifies the amount of indirect costs charged to each federal and state grant.

ALTERNATIVE METHODOLOGIES

Objective (3)

To the extent possible, identify alternative methodologies to improve the equity and reasonableness of the chargeback methodology currently being used.

Observations

- We attempted to review the methodologies of the City of Detroit, Macomb and Oakland Counties; however, we were unsuccessful in receiving information regarding their processes or methodologies. Oakland County uses an outside company to perform its allocation.
- Even though we were not able to make comparisons to other organizations, we noted Wayne County uses the direct and step-down methods to allocate charge back costs which is generally perceived as best practice.

Conclusion

- We believe the county's method of allocating chargeback costs utilizing the step-down method allows for an equitable and uniform methodology of allocating costs and is consistent with best business practices currently being used.
- There were no recommendations based on our review of the alternative methodologies being used in the industry.

COMMUNICATION OF CHARGE BACKS

Objective (4)

Assess the county's communication to departments about chargeback rates, amounts, and methodology.

The Department of M&B communicates information regarding charge backs periodically. Starting in June 2007, management compiles quarterly the chargeback statements and communicate the statements in two ways. First, the summaries are emailed to each department head that utilizes Corporation Counsel Legal Division for direct services provided. Second, the quarterly chargeback statistics are placed on the county's intranet under the M&B section.

These statements are completed quarterly and communicate important information regarding the allocation of the quarter's costs. The statements contain multiple computerized tabs for each type of charge back, but also have a transmittal letter and an introductory tab that explains the statements, how to use them, and who to contact if you have any questions regarding the statements. Each tab in the statements begins with an explanation of the methodology used to allocate the costs in that particular area.

After the methodology section the statements contain a summary section that shows the total costs and per unit costs where applicable. The last part of each charge back section is the detailed allocation of the costs. The user has the ability to filter through the allocation by department, fund, or business unit.

Observation

- While management has increased transparency of the charge back information to county officials, management has not provided any training or documentation that would help explain their methodologies or how to read the quarterly charge back statements.

Recommendations 2010-09

- We recommend M&B provide training to department financial representatives for elected officials and department heads on the county's methodologies and sources of the charge backs in order to promote a better understanding of the quarterly chargeback statements.

SUBSEQUENT EVENTS

The 2010-2011 Enrolled Appropriation Ordinance is expected to include language requiring the OAG to review the allocation of chargeback costs included in FY 2009-2010 and submit a written report to the Ways and Means Committee on or before June 1, 2011.

More Transparency over Guardian Building Transactions

Observations

- Subsequent to our period of review, we became aware of the county charge backs associated with the purchase of the Guardian Building. Starting in FY 2009-2010, these charge backs are the result of both the debt service payments for the bonds that were issued and also the charge back expenses based on occupied square footage in the building.
- These costs are being recorded under the Wayne County Economic Development Corporation (EDC), a component unit of Wayne County, and therefore, are not subject to commission oversight and approval for any contract amounts $50,000 or above. As such, costs associated with the Guardian Building renovation and technology upgrades are not accounted for on the county's books of records; but, in the EDC.
- Our review of commission approved Enrolled Ordinance 2007-815B, states in Section 23 that the county appoints the EDC as the manager for the Guardian Building and related properties and as an agent for the county. It further states that the EDC shall manage, or through contracts with private entities, the Guardian Building and related properties in a manner commensurate with real property of comparable size, character and quality.
- Charge backs for the Guardian Building and related properties debt service costs for FY 2009 – 2010 is $3.4 million and $5.1 million is budgeted for FY 2010 – 2011. M&B uses square footage to allocate cost to departments that occupy the Guardian Building. Although the totals are correct, the amounts individually being allocated for the FY 2010 – 2011 to the commission and the OAG should be corrected to $743,823 and $212,512, respectively.
- In addition, M&B will need to correct its detail to reflect the OAG is occupying one-half of the 8th floor (8,000 Square Feet), not the seventh floor.

Conclusions

- ❖ Based on our review of the amortization of the amounts being charged for debt services for the Guardian Building and its related properties for FY 2010 – 2011, the amounts appear to be correct; however, the amounts being allocated to the commission and OAG should be corrected to $743,823 and $212,512, respectively. Also, M&B will need to reflect that the OAG is occupying one-half of the 8th floor, not the 7th floor.
- ❖ Based on our review of the articles of incorporation and the stated opinion of commission counsel "the law does not authorize the EDC to perform accounting for and manage projects like the Guardian Building initiative." Therefore, we believe accounting for these properties in the internal service funds would be more appropriate and consistent with its purpose, as well as strengthen internal controls and allow for greater transparency.

- ❖ Conversely, an attorney from Corporation Counsel provided a different opinion and indicated that based on his interpretation of the Articles of Incorporation for the EDC and Section 23 in Resolution 2007-815b, the EDC was authorized to operate as manager of the Guardian Building.
- ❖ While we acknowledge the county resolution did appoint the EDC as manager for the Guardian Building, our opinion is that both Public Act 338 of 1974 and the articles of incorporation state the establishment of an economic development corporation is primarily to strengthen, revitalize, encourage and assist industrial and commercial enterprises in an effort to revitalize the local economy and not to act as a property manager of a commercial building.

Recommendation 2010-10

A. We recommend the amount budgeted for Guardian Building debt service costs for FY 2010 – 2011 be corrected to reflect a budget amount of $743,823 for the commission and $212,521 for the OAG based on square footage occupied.

B. The Commission should, in an effort to provide a higher level of transparency and accountability, consider having the Economic Development Corporation, a county component unit, incur an annual audit of its financial operations.

C. In addition, we recommend that the accounting and reporting for the Guardian Building be accounted for in an internal service fund since they primarily exist for the service and benefit of other county departments and the parking structure in an enterprise fund to account for services provided for public use.

Proposed Change in Accounting Policy – Internal Service Fund Costs

Observations

- The administration is proposing a change in its accounting method for its treatment of internal service fund costs for M&B, Personnel, and Corporation Counsel for FY 2010-2011. Management stated the proposal would decrease the central service fund expenditures by more than $15.5 million and make it a direct charge to the general fund. This will result in a one-time equity increase of $4.1 million and an annual long-term impact of approximately $1 million associated with the change from the full to the modified accrual basis of accounting.
- According to the administration , this change in accounting treatment would allow for an expenditure savings of about $5.2 million (i.e., depreciation expense, OPEB and compensated absences expenses not being accrued), of which roughly half, according to the budget director's statement, would benefit the general fund.
- Although the departments in the county will receive lower chargeback amounts, since depreciation, OPEB expenses, and compensated absences will not be included, county departments would also be using these lower chargeback rates or amounts when seeking reimbursement from federal and state grant funded programs for depreciation and accrued compensating absences of $2 million for FY 2010 - 2011 (OPEB not allowable until actually paid) and services, as well as not reflecting true cost when managerial decisions are being made to continue or discontinue a program or grant. This means the departments and grants programs would not be charged the full costs for services they receive in FY 2010 - 2011.

- However, according to M&B officials, the impact to county departments in fiscal years after 2010 - 2011 will vary (i.e., increase or decrease expenditures) depending upon the change in depreciation, OPEB, and compensating absences based on the difference between actual cash payments versus the full accrual of these transactions.
- In addition, we believe decisions of this magnitude should not be left to the CEO and CFO alone. As the policy making body of the county, the commission should be advised and give its consent to changes in accounting policy or principles before they are implemented. At the very least, the administration should be required to provide the commission with a full and detailed analysis of the impact of this proposed change in accounting policy.
- Recently M&B stated that they would develop a policy when it is appropriate to use an internal service fund and the policy will be completed before the end of the 2009 -2010 fiscal year.

Conclusions

- ❖ The proposed change in accounting policy will mean that depreciation, OPEB and compensated absences expenses, which originated from the departments of M&B, Personnel and Corporation Counsel, will no longer be charged out to county departments that are benefitting from the services being provided by the departments. Consequently, approximately $2.1 million (OPEB not allowable until paid) in full cost is not being recovered on a county-wide basis from non-general fund revenue sources, such as federal and state grant programs, and funds with designated (special) revenue.
- ❖ Based on OMB Circular A-87, Section 8(d)(4), the county will be able to recover accrued compensated absences, which is estimated by M&B to approximate $2.0 million in FY 2010 -2011 by not adopting this proposed accounting principle change.
- ❖ The setting of accounting policies is within the scope of authority granted to the CEO and CFO by the Charter.
- ❖ We agree with the proposed action by M&B to establish a policy as to the criteria to be used when determining if an activity should be accounted for in an internal service fund.

Recommendation 2010-11

A. We recommend M&B continue their efforts to develope a policy and procedure statement to address the appropriate use of internal service funds by the 2009-2010 fiscal year end. Management indicated the policy will use industry best practices to set forth criteria to be used when determining if an activity should be accounted for in an internal service fund.

B. In the future, in an effort to enhance transparency, M&B should provide to the commission an analysis of any proposed changes in accounting principles that will have a budgetary impact on county operations.

VIEWS OF RESPONSIBLE OFFICIALS

- Management's responses to the recommendations can be found in Appendix A

NOTEWORTHY ACCOMPLISHMENTS

Management has improved the matching of charge back revenue to expense and is no longer generating excessive operating income/(losses) in the ISF for providing these county services. For the most part, these funds are now being managed and controlled in a manner as prescribed by GAAP whereas, they are near breaking even at the end of each year.

In addition, M&B has formalized their policies and procedures as to the methodologies being used to allocate charge backs within the last two years. These policies illustrate how they allocate costs and have helped the budget division to more accurately estimate future budget amounts for charge backs. Additionally, starting in FY 2007, management began to place the charge back statements on the county's intranet that explains how the costs are allocated and the totals for each quarter.

M&B has completely computerized a very complex chargeback system program and made it user friendly. As a result of working with the charge back program, we found it be quite descriptive, instructions easy to follow, and we were able to clearly identify and track how costs were being accumulated and the methodologies used to distribute costs to an applicable business unit.

We believe the utilization of ISF to accumulate cost for distributing costs to other county departments that receive centralized service is the most practical and preferred method of identifying and controlling costs; allowing for the recovery of overhead cost; and enhancing the availability and conformity of service to county managers, elected officials and the stakeholders.

CONCLUSION

The Office of Legislative Auditor General has evaluated both the written methodologies as well as the application of these methodologies. We reviewed copies of the schedules used to calculate the charge back allocations, and the charge back statements on the intranet each quarter to determine if the allocations were in compliance with the methodologies and to determine if the allocations were reasonable and equitable.

By following the allocation process in the charge back spreadsheet and reviewing the formulas used to calculate the charge back entries, we were able to test the compliance of the allocation as well as the fairness of the allocation. In all cases, the OAG determined the allocations were in compliance with the written methodologies and the allocations were being consistently applied. With the allocation being in compliance with the written methodologies and being consistently applied, we conclude that the allocation methodologies are reasonable and equitable.

Our review of the cost allocation/charge back system maintained and performed by M&B concluded that management has made significant improvements to their systems in the past two fiscal years. However, we found improvements need to be made in the chargeback allocation process in the following areas: (1) recording all financial transactions prior to posting the chargeback allocation entries; and, (2) ensuring departments are charged appropriately for direct services based on benefit derived. We also believe greater effort should be placed on controlling costs in the Internal Service Fund (ISF) by the executive and legislative leadership, in addition to M&B recovering a greater portion of indirect costs from federal grants.

While management has made significant improvements, the OAG believes it would be beneficial for management to provide training to finance officials within the offices of elected officials, department heads, and county commissioners on their allocation methodologies and how to read the quarterly charge back statements.

In addition, we have reservations as to how cost is being recorded and accumulated in some internal service funds and without a control of these costs the amount of charge backs will continue to increase and result in a greater burden to county-wide operations. We strongly urge the commission to work with the executive branch to adopt a policy that requires zero based budgeting for all internal service funds.

A corrective action plan will be requested approximately 30 days after the Commission formally receives and files the report. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of the Department of Management & Budget and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Willie Mayo, CPA, CIA, CICA
Auditor General

APPENDIX A

VIEWS OF RESPONSIBLE OFFICIALS

DEPARTMENT OF MANAGEMENT & BUDGET

Robert A. Ficano
County Executive

September 1, 2010

Willie Mayo
Legislative Auditor General
Charter County of Wayne, Michigan
500 Griswold, Suite 848
Detroit, MI 48226

Dear Willie,

Attached you will find the "Views of Responsible Officials" for inclusion in your "Cost Allocation/Charge Backs Fiscal Years 2008 2009 Consulting Report". All responses were prepared by the Department of Management and Budget in conjunction with other central service departments, where necessary.

Response to Recommendation 2010-01
The budget methodology is under the purview of the Chief Financial Officer, pursuant to the Charter. M&B will review your recommendation, although final decision rests with the CFO and CEO. The County should have a consistent budget methodology thus management does not feel that recommending a separate methodology for certain functions is ideal. There are advantages and disadvantages to zero-based budgeting. Disadvantages include: 1) it is relatively complicated, thus managers would need significant training, 2) it is very time consuming and 3) the information provided may be too voluminous to allow for thorough review. While there certainly are advantages to zero-based budgeting, it is important that decisions regarding budget methodology be made by those with a thorough understanding of the available options and the cost/benefit of each option.

Response to Recommendation 2010-02

A. The Department of Management and Budget and the Department of Technology are working together to develop a *reasonable* policy/methodology for tracking and billing direct charges. The cost/benefit of tracking certain items will be weighed and direct billings will occur only where significant time is required by DoT staff. Charge per "PC", (the basis for the shared allocation) will cover network administration, basic computer and software installation as well as general call center inquiries. As a significant amount of DoT resources are spent on general network administration, it is unlikely that the direct billings will exceed 75% of total DoT billings.
B. Commission staff should easily be able to prepare direct v. indirect ratio analysis based on information populated in JD Edwards.

Response to Recommendation 2010-03
The Department of Technology is currently working on a new asset management system that will use "auto-discovery" to inventory all technology devices that are connected to the County's network. Upon completion of this project, a physical inventory will be unnecessary.

DEPARTMENT OF MANAGEMENT AND BUDGET
500 GRISWOLD • DETROIT, MICHIGAN 48226 • (313) 224-7766 • www.waynecounty.com

Response to Recommendation 2010-04
M&B uses a year-end closing checklist that provides timelines for the posting of accruals. Internal Service activities are required to post accruals prior the posting of final chargebacks. Prior to chargebacks being posted, the Accounting Division reviews the expenditures in Internal Service activities in relation to prior year and budget to determine if the numbers appear complete and follows up, as necessary. The County posts hundreds of accruals at year-end (nearly 500 invoices were accrued at FYE 9/30/09) and some *will* miss that deadline and be accrued later in the closing process. Management and Budget has developed a reasonable method to handle any of these items that are posted after year-end and this method is consistently employed.

Response to Recommendation 2010-05
Management is currently reviewing and updating the billing rate structure for Corporation Counsel. In addition, more attorneys have started to "keep time" in the Prolaw system, allowing for more direct billings. There should be a decrease in shared charges in FY 2011. Commission staff should easily be able to prepare direct v. indirect ratio analysis based on information populated in JD Edwards.

Response to Recommendation 2010-06
M&B will consider the OAG's recommendations and will make adjustments if appropriate.

Response to Recommendation 2010-07 and 2010-08
Establishing a centralized function to report on whether the departments have captured all costs would not be productive nor cost effective. A more proactive approach would be to review grant applications, prior to submission, for inclusion of all allowable costs. The Grants Division of the Department of Management and Budget has been performing this function for all federal grant applications.

Administrative costs for most grants are subject to a cap and are not negotiable. The cap generally is a percentage of the direct costs charged to the grant. For example the Head Start Grant (which approximates $20 million annually) has administrative costs capped at 15%. The cap is the amount allowable per the U.S. Department of Health and Human Services Code of Federal Regulations.

The recommendation for training would be an effective tool to assist in understanding the relationship between the Central Service Chargebacks and the application of the OMB Circular A-87 Central Services Cost allocation Plan. We will implement through the Grants Division.

The Grants Division of the Department of Management and Budget reviews federal grants for compliance. As such we have collected data on all federal grant awards. The data is complete at year end and we would be willing to share that data with the Commission.

Response to Recommendation 2010-09
When Management and Budget first developed the quarterly chargeback reports in June 2007, training was conducted for finance personnel county-wide. As the original training took place more than three years ago, M&B is more than willing to hold an additional live tutorial, if there is interest. M&B has not received any inquiries regarding the use of these statements in quite some time. This could be due to the detailed instructions included with the monthly statements.

Response to Recommendation 2010-10

A. The excess in the Auditor General's budget for the Guardian Building will be reclassified to the Commission's business unit. Note that this adjustment will not result in an overall savings to the Legislative Branch.

B. The EDC Guardian Building transactions are subject to audit both by the County's external auditors and the OAG. All requested documentation has been provided either to Commissioner Boike or the OAG.

C. Management and Budget disagrees with the OAG's recommendation for reporting the Guardian Building as an internal service fund. There are no charges from the operations of the buildings that are charged back to County departments.

The operations of the Guardian Building and the Parking Garage are managed by a third party, who specialized in real estate. The accounting for the operations is performed by this third party. Any transactions related to the operations are "book entry only" on the County's financial statements. Any net revenues from the operations of these facilities are general purpose revenues and are recorded in the General Fund. The accounting treatment for the buildings was discussed with the County's external auditors prior to implementation and the current treatment is appropriate and in accordance with generally accepted accounting principles.

Response to Recommendation 2010-11

As in the past Management and Budget will communicate any upcoming accounting changes that are *significant* to County operations with the Commission, prior to their implementation.

I can be reached at cmclella@co.wayne.mi.us or 313-967-3780, if you have any questions.

Sincerely,

CJMcLellan

Christa J. McLellan, CPA
Director of Financial Reporting

APPENDIX B
CHARGEBACK COMPARISON
FOR FISCAL YEARS 2008 AND 2009

Wayne County Chargeback Totals by Type – Actual Fiscal Years 2008 and 2009				
Expenditures by Type		**FY 2008 Actual**	**FY 2009 Actual**	**Increase/ (Decrease)**
Building	Direct	$18,866,005	$18,981,609	$115,604
Building	Shared	4,832,200	2,763,636	(2,068,564)
Personnel	Shared	9,048,225	8,222,261	(825,964)
DOT	Shared	11,685,446	13,753,061	2,067,615
DOT	Direct	4,119,054	4,527,348	408,294
DOT	Telecommunications	3,642,824	3,829,651	186,827
DOT	Voicemail	162,561	147,268	(15,293)
Parking	Direct	55,269	64,852	9,583
Central Services	Shared	13,576,579	13,850,124	273,545
Corporation Counsel – Legal	Direct	6,589,163	6,678,823	89,660
Corporation Counsel – Legal	Shared	6,867,026	8,268,788	1,401,762
Corporation Counsel – HR	Shared	1,103,778	958,291	(145,487)
Indirect Charges	Indirect	2,472,999	5,597,806	3,124,807
Subtotals		**$83,021,129**	**$87,643,518**	**$4,622,389**
M&B Satellite Offices/Other Costs	Direct	10,809,000	5,636,000	(5,173,000)
Totals		**$93,830,129**	**$93,279,518**	**$(550,611)**

Source: Wayne County M&B Cost Allocation Schedules

- The county uses the direct and step-down methods to allocate internal service fund costs to user departments.

APPENDIX C

EXAMPLES: CALCULATION OF SHARED COSTS BY FUNCTION

Source Data: Wayne County Intranet, Dept. of M&B, 4th Quarter Chargeback Statement Fiscal Year 2008/2009

Information Technology (IT) – Shared Costs Chargeback Calculation

Department of Technology FY 2009 Expenditure Summary

Total DOT expense:	$	18,280,409
DOT Direct expenses:		4,527,348
Total Shared DOT expense:	**$**	**13,753,061**

Basis of Allocation - Shared Costs: Number of devices connected to network

Monthly Charge per device: $399.06 (A)

Note: (A) equals Total numbers of devices, 34,488 / Total Shared DOT Expense

		(B) = (Cx12)	C	(D) = (A x B)
Department	**Bus. Unit**	**Cumulative No. of devices connected to network**	**Avg. No. of devices connected to network**	**Year to Date Chargeback**
County Commission	**10100**	**840**	**70**	**$335,212**

Department of Technology (DOT) services include design, development, deployment and maintenance of applications, software, hardware, data and voice communication infrastructure. Additionally, DOT is responsible for providing services and support to its customers to meet their business and technical needs, objectives and goals. Services and support include: Customer Relationship Management, Desktop Services, Call Center, Service Request Processing, and Procurement and Maintenance of County hardware and software. The costs of these services are accumulated in business unit 25805. The costs of certain technology related services, such as external application support, are accumulated in the DOT's work order system and are charged directly to the benefitting business unit based on the total work order. All other costs (those not identifiable by work order) are shared among all County departments. These shared costs are allocated based on the number of devices connected to the network for each business unit. This list of devices includes PCs, printers and scanners and is maintained by the Department of Technology. Questions concerning the number of devices per department should be directed to DOT.

Buildings and Ground Maintenance – Shared Costs Chargeback Calculation

Buildings FY 2009 Expenditure Summary

Total Buildings expense:	$	21,745,245
Less Building Direct expenses:		18,981,609
Total Shared Building expense:	**$**	**2,763,636**

Basis of Allocation: Buildings shared costs are allocated based on the percentage of each business unit's direct work orders to total work orders.

Auditor Note: We were unable to obtain detailed information on the total number of work orders processed and the number of work orders per business unit.

Buildings Shared Costs are the remaining costs in the Buildings Fund after direct charges have been posted. These charges relate to the administration of the Building's Division. These costs are allocated based on the percentage of each business unit's direct work orders to total work orders and are captured in line item 815110 in the appropriate business units. All tenants in the Temple Building are charged an agreed upon monthly rental in lieu of the building chargeback.

Corporation Counsel – Shared Costs Chargeback Calculation

Corporation Counsel FY 2009 Expenditure Summary

Direct Corp Counsel expenses:	$ 6,676,581
Shared Corp Counsel expenses:	$ 8,268,788

Basis of Allocation – shared cost: Number of Employees - Charge per unit: $159.55 (A)

		(B)		(C) = (A x B)
Department	**Bus. Unit**	**Cumulative No. of Employees YTD**	**Avg. No. of Employees per Month**	**Year to Date Chargeback**
County Commission	**10100**	**710**	**78.89**	**$113,282**

The Corporation Counsel Legal Division (the Division) represents the legal interest of County departments in all civil proceedings in state and federal courts. The Division also handles appeals of decisions that are adverse to the County. In addition to litigation services, the Division provides legal advice and opinions to County clients on numerous issues. All departments county-wide benefit either directly or indirectly from the services provided by Corporation Counsel. Departments that receive a direct benefit are charged for services received based on attorney hours worked, multiplied by a predetermined rate-per-hour for each level of attorney. Those departments that are not receiving a direct benefit are allocated a charge for the indirect benefit. This charge is based on the number of employees in each of the Department's business units. Departments received a statement of their direct Corporation Counsel charges, separately from this document.