

W. 9. a.

AGENDA COVER MEMO

DATE: January 20, 2004

TO: LANE COUNTY BOARD OF COMMISSIONERS

PRESENTED BY: Tony Black, Information Services Director
Department of Information Services

AGENDA ITEM TITLE: **IN THE MATTER OF ESTABLISHING AN
INFORMATION SERVICES DEPARTMENT INTERNAL
SERVICE FUND**

**I. PROPOSED MOTION: APPROVE THE ESTABLISHMENT OF AN
INFORMATION SERVICES DEPARTMENT INTERNAL SERVICE FUND.**

II. ISSUE OR PROBLEM

The Information Services (IS) Department operating budget is not currently established as a self-balancing account since it is combined with all other operations in the General Fund. If the Information Services Department operating budget were to be in a separate Internal Service Fund, similar to its PC Replacement Fund, the finances of the operation become more transparent, thus making the determination of a break-even point more visible. Additionally, a separate fund will facilitate the accumulation of resources for IS-related capital investments, which span multiple years.

III. DISCUSSION

A. BACKGROUND

The Information Services Department currently reports revenue and expenditures in the General Fund for services provided to other programs and departments in the General Fund. The effect of this practice overstates General Fund revenues and expenditures for IS operations. This overstatement inflates the revenue base used by bond rating agencies to determine the adequacy of fund reserves.

B. ANALYSIS

An internal service fund (defined as, "...an account for operations that provide services primarily to the other departments or agencies of the County, or to the other governments, on a cost-reimbursement basis.") will allow the Information Services Department to recover all operating costs. Charges are set at a rate that will not earn profit, except when it is necessary to build and maintain prudent operating and capital reserves. Established internal service funds should operate at a break-even point.

To keep internal service funds within the confines of cost-reimbursement, rates charged must be closely monitored. Rate justification involves comparing expenses incurred with the revenue generated. Each rate must be clearly documented, reviewed periodically, and adjusted accordingly.

Operating as an internal services fund will give departments more control over costs by having an approved rate structure and costing model. Department charges will be based on actual expenditures on a real-time basis versus two-year history reconciliation.

Departments can plan strategically with the ability to generate reserves for longer term Information Technology (IT) related capital expenditures. Additionally, Departments will have more flexibility to redistribute funds within their budgets to adjust for the difference between budget and actual expenses.

The Information Services Department presented this proposal and received support and a positive recommendation from the following groups/committees: Management Team, Information Services Steering Committee (ISSC), Technology Management Team (TMT), Finance & Audit (F&A), and the Finance division of the Management Services Department.

C. ALTERNATIVES/OPTIONS

- 1) The Lane County Board of Commissioners may approve the Order, allowing the Information Services Department to manage their financial transactions as an Internal Service Fund.
- 2) The Lane County Board of Commissioners may deny the Order and keep the Information Services Department within the General Fund.

D. RECOMMENDATION

It is recommended that the Lane County Board of Commissioners select option 1, and approve the proposal to move forward with managing financial information under the guidelines of an Internal Service Fund.

IV. IMPLEMENTATION

Upon approval of this Order by the Board of Commissioners, the Information Services Department will build its FY 04-05 Budget to comply with the guidelines of administering an Internal Service Fund, effective July 1, 2004.

V. ATTACHMENTS

Board Order

IN THE BOARD OF COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO. _____

IN THE MATTER OF ESTABLISHING AN
INFORMATION SERVICES DEPARTMENT
INTERNAL SERVICE FUND

WHEREAS, having the Information Services (IS) Department in the General Fund results in an overstatement of revenues and expenditures related to IS operations and compromises the department's ability to make their entire operation eligible for federal grant reimbursement; and

WHEREAS, the use of an internal service fund is consistent with the IS Department's mission of providing services primarily to other departments on a cost reimbursement basis; now, therefore,

IT IS HEREBY ORDERED, that pursuant to ORS 294.470, the Board of County Commissioners approve the establishment of the Information Services Fund (Fund 654), an internal service fund effective July 1, 2004 to be used by the Information Services Department to manage the department's services and finances in order to provide information services to County departments; and it is further

ORDERED, that the initial financing for the fund will come from the unexpended portion of the IS Department's FY 03-04 General Fund budget; that future funds will come from charges to departments as reimbursement for services rendered; that the department will regularly budget and report on expenditures in accordance with Local Budget Law; that the charges for services shall be computed to cover all costs for such services and the charges shall be periodically revised to eliminate any element of profit or loss; and the Fund is allowed to periodically establish reserves for longer term technology projects and to maintain a prudent person reserve as directed by Lane County Financial Policy No. 18.

DATED this _____ day of _____, 2004

Chair, Board of County Commissioners

IN THE MATTER OF ESTABLISHING AN INFORMATION SERVICES DEPARTMENT
INTERNAL SERVICE FUND

APPROVED AS TO FORM

Date 2/9/04 Lane County

Teresa White
OFFICE OF LEGAL COUNSEL