

PALM BEACH COUNTY
BOARD OF COUNTY COMMISSIONERS

AGENDA ITEM SUMMARY

Meeting Date: July 20, 2010

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☐ []

Consent

Public Hearing

☒ [X]

Regular

Department: Administration

Submitted By: Administration

Submitted For: Administration

I. EXECUTIVE BRIEF

Motion and Title: Staff recommends motion to approve: a change in the manner of assessing the .25% fee on County contracting/purchasing activity to fund the Office of the Inspector General (IG) from a charge on each bill payable to a single charge on gross contract/purchasing amounts.

Summary: This change is recommended due to the approximately \$500,000 estimated cost to upgrade County computer systems to bill and track collection of the fee as well as operational issues associated with collecting on each billed payable. This will result in no net change in collection amount, but will simplify and speed collection and allocation of funds to the IG. If approved, the change will be proposed in the enabling ordinance which will be coming back to the Board for other changes recommended by the Commission on Ethics. Staff will estimate the fee for budgetary purposes, calculate the fee for each contract/purchase as it is awarded, and transfer the funds. Each fund source: general fund, Water Utilities, Airports, Roads, etc. will be assessed as appropriate. Countywide (LB)

Background and Policy Issues: Funding of the IG through the .25% fee was a critical policy factor. This proposed change does not reduce the flow of funds in any way and will speed collection and transfer. To the extent that any contractor/vendor currently chooses and continues to absorb the .25% fee instead of adding it to his competitive pricing, costs would increase to the County. We think this potential additional cost is small compared to the additional cost for collection by the current method.

Attachments:

1. Funding
- 2.

Recommended by: _____

Department Director

Date

Approved By: _____

County Administration

Date

II. FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

Fiscal Years	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Capital Expenditures	_____	_____	_____	_____	_____
Operating Costs	_____	_____	_____	_____	_____
External Revenues	_____	_____	_____	_____	_____
Program Income (County)	_____	_____	_____	_____	_____
In-Kind Match (County)	_____	_____	_____	_____	_____
NET FISCAL IMPACT *	_____	_____	_____	_____	_____
No. ADDITIONAL FTE	_____	_____	_____	_____	_____
POSITIONS (Cumulative)	_____	_____	_____	_____	_____

Is Item Included In Current Budget? Yes _____ No _____
 Budget Account No.: Fund _____ Department _____ Unit _____
 Object _____ Reporting Category _____

B. Recommended Sources of Funds/Summary of Fiscal Impact:

C. Departmental Fiscal Review:

III. REVIEW COMMENTS

A. OFMB Fiscal and/or Contract Dev. and Control Comments:

* Revenue from the Inspector General fee is estimated to be \$745,000 regardless of the chosen method. Under the current method, cost to implement is estimated to be \$500,000 and timeline expected to exceed 12 months. Under proposed method, county wouldn't have to expend \$500,000 and implementation time is immediate.

OFMB
mels
7/14/10
7/15/10

Contract Dev. and Control

B. Legal Sufficiency:


 Assistant County Attorney

C. Other Department Review:

 Department Director

REVISED 9/03
 ADM FORM 01

(THIS SUMMARY IS NOT TO BE USED AS A BASIS FOR PAYMENT.)

Palm Beach County Office of Inspector General

Funding Alternatives

CURRENT METHOD - Withholding IG Fee from Vendor Payments

This process requires all County staff involved in the procurement of goods and services to identify applicable contracts and make the necessary entries into Advantage to ensure collection of the IG Fee. Advantage will automatically collect the IG Fee from designated vendor payments and post it to the IG's fund.

Pros

- Gives the appearance that vendors are bearing the cost of the IG Office; assuming vendors have not and will not adjust their prices to reflect their additional cost.

Cons

- County resources required to implement, operate and monitor – staff time, cost of re-bidding for goods/services, Advantage upgrade (\$500,000).
- Loss of discounts offered by vendors.
- Vendors' additional administrative challenges in maintaining accurate records when County sends full payment that subsequently gets reduced by the IG Fee – vendor only receives 99.75% of invoice. Vendors accounting systems will indicate that they are still owed money from the County, and if not corrected it could affect the County's subsequent business activity with vendor.
- Implementation and fee adjustment timeline: the startup time and any adjustment to the IG Fee rate will exceed 12 months. Only when contracts are new, amended or renewed will the IG Fee rate changes be made. All other existing contracts will expire without being affected by a change in the IG Fee rate. Should the IG Fee rate need to be increased or decreased, based on the needs of the IG Office, it will take more than a year to realize the impact of the change. This will result in a difficult budgeting process if the IG Office is to be funded by only what is collected from vendors.
- Could create a situation where multiple fee rates could be in effect simultaneously.
- Projecting the IG Fee rate based on contract activity that is subject to a 12 month window to affect change, is difficult for budgeting purposes.
- Referendum language is written to allow municipalities the option to pay the fee from their General Fund. The fee would be based on contract activity and NOT collected directly from vendors. If municipalities exercise the more streamlined and efficient method, there will be two different methods used to fund the IG Office.

PROPOSED METHOD – Funding the IG Office; budgeted and paid on Gross Contract Amounts

Under this Option, staff would still be required to identify applicable contracts that would be used to calculate the IG Fee rate (currently 0.25%). However, determining the IG Fee rate for a given period (fiscal year) could be easily done by reviewing the applicable contract activity. For budget development, all affected entities (County, Municipalities, etc.) could review the immediate preceding fiscal year to determine the total contract activity. That total amount would be divided into the IG Office's budget to determine the IG Fee rate necessary to generate enough revenue to adequately fund her budget for that year. Each entity would then pay that amount from their General Fund. Annual IG Fee rate adjustments could be based on annual contract activity and the IG Office budget. Also, at year end staff could do an analysis to determine what, if any, true-ups needed to occur to ensure accuracy and fairness among all participating entities. Adjustments could be realized in the subsequent year.

Pros

- A timely, streamlined, efficient, effective and accurate determination of the IG Fee rate could be achieved.
- Affords the flexibility to adjust the rate as needed, based on the IG Office budget, and not have to wait a year for contracts to expire, renew or amend to change IG Fee rates included in existing contracts.
- All entities could use the same method to determine their share of the IG Office costs.
- Provides a more stable basis on which entities could develop their annual budgets for their IG Fee contribution.
- All entities would be paying the same IG Fee rate, at the same time, for the same period throughout Palm Beach County.
- Eliminates the potential of having multiple IG Fee rates in effect simultaneously.
- The County would NOT have to expend \$500,000 to alter its accounting system.
- Staff time to monitor and reconcile IG Fee collection and remittance would be significantly reduced to only the determination of applicable contract activity and year end analysis.
- Vendors will not experience the administrative hassles of having to amend their accounting systems and records to reconcile payments that were reduced by the IG Fee.

Cons

- If you believe that under the currently proposed system vendors will **NOT** include the IG Fee in their price for goods/services then this method passes the cost of the IG Office onto the taxpayers and not the vendors.