Creating an internal service fund designated the "Data Processing Operating Fund," etc.

Ordinance No. 108656

86:B:26

AN ORDINANCE relating to the Executive Department - Office of Management and Budget/Management Information Services (OMB/MIS) Division; creating an internal service fund designated "Data Processing Operating Fund"; providing for the deposit into said fund of any revenues in excess of costs resulting from OMB/MIS operations during 1980; providing for the operation of OMB/MIS out of said fund effective January 1, 1981; authorizing the Budget Director to establish rates, and providing a method of year-end clearance of data processing cost and revenue variances through rebate or surcharge as appropriate; authorizing the Budget Director to encumber departmental funds appropriated for data processing services through OMB/MIS; authorizing the Budget Director to amend the City's Data Processing Plan within the constraints for budget modification provided in Ordinance 100895; and repealing Ordinance 107895.

11-21-79 - Do Pass

COMPTROLLER FILE NUMBER _____

Council Bill No. 100862

INTRODUCED: NOV 19 1979	BY: EXECUTIVE REQUEST
REFERRED: NOV 19 1979	TO: Budget
REFERRED:	
REFERRED:	
REPORTED: NOV 30 1979	SECOND READING: NOV 30 1979
THIRD READING: NOV 30 1979	SIGNED: NOV 30 1979
PRESENTED TO MAYOR: DEC 3 1979	APPROVED: DEC 11 1979
RETD. TO CITY CLERK: DEC 11 1979	PUBLISHED:
VETOED BY MAYOR:	VETO PUBLISHED:
PASSED OVER VETO:	VETO SUSTAINED:

See Back Cover

LAW DEPARTMENT

Res. 26271 -Amends & Adopts the City's 1980-82 Data Processing Plan, establishes desired modifications to the Plan; & Supersedes Res. 26015.

Ord. 109631 -Amends Sec's 2, 3, 4, & 5 to transfer data processing functions & fixed assets from the Executive Dept., OMB/MIS to the Dept of Admin. Services; transferring certain liabilities from the General Fund to Admin. Services Fund; abolishing the Data processing Operating Fund; & repeals Sec 1 of Ord. 108656.

SRS:fmh
11/14/79

ORDINANCE 108656

AN ORDINANCE relating to the Executive Department - Office of Management and Budget/Management Information Services (OMB/MIS) Division; creating an internal service fund designated "Data Processing Operating Fund"; providing for the deposit into said fund of any revenues in excess of costs resulting from OMB/MIS operations during 1980; providing for the operation of OMB/MIS out of said fund effective January 1, 1981; authorizing the Budget Director to establish rates, and providing a method of year-end clearance of data processing cost and revenue variances through rebate or surcharge as appropriate; authorizing the Budget Director to encumber departmental funds appropriated for data processing services through OMB/MIS; authorizing the Budget Director to amend the City's Data Processing Plan within the constraints for budget modification provided in Ordinance 100895; and repealing Ordinance 107~~895~~840.

WHEREAS, it is the policy of the City to provide centralized data processing services to users through OMB/MIS in order to achieve optimum effectiveness and economy in the use of automated data processing equipment, software, techniques and personnel; and

WHEREAS, it is the intent of the City to fully recover the costs of data processing incurred by OMB/MIS through equitable user charges for services; and

WHEREAS, governmental accounting principles dictate that such services shall be carried out in a business-like manner and accounted for in an internal service fund; and

WHEREAS, user charge rates are predicated on estimated levels of usage that are subject to estimation error, to change through the Executive and Legislative budget processes, and to change due to unforeseen circumstances; and

WHEREAS, at the end of any accounting period, a variance between expenditures by OMB/MIS and revenue received through user charges is possible (for reasons explained herein), despite the Executive's efforts to accurately estimate usage and therefore rates and revenue; and

WHEREAS, appropriations to the various City departments for data processing services through OMB/MIS may remain unexpended or underexpended due to project delays, project deferrals, or estimation error; Now, Therefore,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

REPEALED - ORD. 109631

Section 1. As of January 1, 1980, there is hereby created in the City Treasury an internal service fund entitled

CS 19.2

"Data Processing Operating Fund" into which fund shall be deposited any revenues realized by the Office of Management and Budget/Management Information Services (hereafter OMB/MIS) in excess of the costs of providing data processing services for the fiscal year ending December 31, 1980. Such revenue shall be used for continuing operation of the Data Processing Operating Fund commencing January 1, 1981 and thereafter. The amount of such revenue, if any, to be deposited in the Data Processing Operating Fund shall be determined at such time as OMB/MIS issues the final billings to user departments for data processing services provided during 1980.

AMENDED - ORD. 109631

Section 2. As of January 1, 1981, the salaries and other expenses of OMB/MIS shall be paid out of the Data Processing Operating Fund. All assets and liabilities of OMB/MIS as of January 1, 1981 shall be transferred from the General Fund to the Data Processing Operating Fund; and into which fund shall be deposited all payments from City officers and departments for services performed or provided by OMB/MIS, and such other sums as may by ordinance be appropriated to or designated as revenue of such fund, commencing January 1, 1981.

AMENDED - ORD. 109631

Section 3. The Budget Director is authorized to establish rates for data processing services and to afford a rebate or to impose a surcharge on users of data processing services at the end of each fiscal year for the purpose of clearing an overrecovery or underrecovery of the costs of providing data processing services to users. For purposes of calculating the amount of overrecovery or underrecovery, revenues shall be the sum of all billings issued to users by OMB/MIS for that fiscal year and costs shall be the sum of all expenses

incurred by OMB/MIS for that fiscal year including prudent reserves to ensure the continuing operation of the Data Processing Operating Fund. Any rebate thus afforded or surcharge thus imposed shall be calculated as a proportion of the amounts billed by OMB/MIS to each City department in that fiscal year. As of December 31, 1981 the authority granted in this section shall expire and, at such time, this section is repealed.

AMENDED - ORD. 109631

Section 4. In order to insure that appropriations made to City departments for data processing services performed or provided by OMB/MIS will be available for such purpose, the Budget Director is authorized to encumber and the City Comptroller is authorized to recognize the encumbrance of all appropriations in City departments for data processing services through OMB/MIS; and the release of any such encumbrance shall be at the discretion of the Budget Director. The reference document for determining the amount of appropriations for such purpose shall be the City's Data Processing Plan, as approved by City Council resolution concurrent with adoption of the annual budget and as may be amended from time to time throughout the year. As of December 31, 1981 the authority granted in this section shall expire and, at such time, this section is repealed.

AMENDED - ORD. 109631

Section 5. The Budget Director is authorized, within the constraints for budget modification provided in Ordinance 100895, to approve or disapprove requests by Department Heads to modify and amend the Data Processing Plan by adding, changing or deleting their departmental projects. The Budget Director shall publish a record of such changes, and shall furnish to the City Council a copy thereof.

Section 6. Ordinance 107840 entitled

(To be used for all Ordinances except Emergency.)

"AN ORDINANCE relating to the Executive Department - Office of Management and Budget/Management Information Services (OMB/MIS) Division; authorizing the Budget Director to establish rates and a method of year-end clearance of data processing cost and revenue variances through rebate or surcharge as appropriate; and, authorizing the Budget Director to encumber departmental funds appropriated for data processing services through OMB/MIS."

is hereby repealed effective January 1, 1980.

Section 7. This ordinance shall take effect and be in force thirty days from and after its passage and approval, if approved by the Mayor; otherwise it shall take effect at the time it shall become a law under the provisions of the city charter.

Passed by the City Council the 30 day of November, 1979

and signed by me in open session in authentication of its passage this 30 day of November, 1979.

John Miller
President of the City Council.

Approved by me this 11 day of December, 1979

Charles Royer
Mayor.

Filed by me this 11 day of December, 1979.

Attest: E. L. Kinney
City Comptroller and City Clerk.

(SEAL)

Published

By Wayne Angevine
Deputy Clerk.

CSC 6.1.6

incurred by OMB/MIS for that fiscal year including prudent reserves to ensure the continuing operation of the Data Processing Operating Fund. Any rebate thus afforded or surcharge thus imposed shall be calculated as a proportion of the amounts billed by OMB/MIS to each City department in that fiscal year.

Section 4. In order to insure that appropriations made to City departments for data processing services performed or provided by OMB/MIS will be available for such purpose, the Budget Director is authorized to encumber and the City Comptroller is authorized to recognize the encumbrance of all appropriations in City departments for data processing services through OMB/MIS; and the release of any such encumbrance shall be at the discretion of the Budget Director. The reference document for determining the amount of appropriations for such purpose shall be the City's Data Processing Plan, as approved by City Council resolution concurrent with adoption of the annual budget and as may be amended from time to time throughout the year.

Section 5. The Budget Director is authorized, within the constraints for budget modification provided in Ordinance 100895, to approve or disapprove requests by Department Heads to modify and amend the Data Processing Plan by adding, changing or deleting their departmental projects. The Budget Director shall publish a record of such changes, and shall furnish to the City Council a copy thereof.

Section 6. Ordinance 107840 entitled

"AN ORDINANCE relating to the Executive Department - Office of Management and Budget/Management Information Services (OMB/MIS) Division; authorizing the Budget Director to establish rates and a method of year-end clearance of data processing cost and revenue variances

(To be used for all Ordinances except Emergency.)

through rebate or surcharge as appropriate; and, authorizing the Budget Director to encumber departmental funds appropriated for data processing services through OMB/MIS."

is hereby repealed effective January 1, 1980.

Section 7. This ordinance shall take effect and be in force thirty days from and after its passage and approval, if approved by the Mayor; otherwise it shall take effect at the time it shall become a law under the provisions of the city charter.

Passed by the City Council the ..... day of ....., 19 ...,

and signed by me in open session in authentication of its passage this ..... day of ....., 19 ....

John Mullen

President ..... of the City Council.

Approved by me this ..... day of ....., 19 ....

.....

Mayor.

Filed by me this ..... day of ....., 19 ....

Attest: .....

City Comptroller and City Clerk.

(SEAL)

Published .....

By .....

Deputy Clerk.

CSS 8.1.6

Seattle City Council
Memorandum

FOR SPECIAL COUNCIL MEETING
FRIDAY, NOVEMBER 30 1:30

Date: November 27, 1979

To: Tim Hill

From: Kirk Robbins

Subject: C.B. 100862, Item 24 creating an internal fund for data processing

Harry Huggins has identified two ways in which C.B. 100862 should be amended.

First, there is a typographic error in the title. As submitted, the repeal of Ordinance 107895 is called for. But this is an error -- that ordinance has nothing to do with data processing, but calls for payment to the federal government pursuant to some audit finding. The actual number of the ordinance to be repealed is 107840. (The reference is the body of the C.B. is correct.)

Second, Harry suggests adding two Sunset Clauses into the ordinance. One would relate to the OMB director's authority to set rates and the standards which would apply to those rates, in Section 3, pages 2-3. The other would relate to the power of the OMB director to encumber, and of the Comptroller to recognize such encumbrances, with reference to the Council's Data Processing Plan. Both Sunset Clauses would take effect on December 31, 1981.

Implementation of the first correction should be by the Council President, who should cross out the incorrect number, write the correct number and initial. Sue Sampson has orally sanctioned this procedure to Harry Huggins. Implementation of the Sunset Clause amendments would be made by the substitution of the two attached pages for the last two pages in the original bill.

cc: Harry Huggins

OMB:GR
11/1/79

DATA PROCESSING OPERATING FUND

Statement of the Problem

The City must comply with governmental accounting principles and the State Auditor's requirement to account for central data processing services within an internal service fund. The City and the State Auditor have agreed that OMB/MIS will begin operating out of such a fund on January 1, 1981. Until now, OMB/MIS has operated out of the General Fund on a cash basis. OMB/MIS therefore has been unable to accumulate any reserves (e.g. cash, equipment/software replacement) to ensure the ongoing operation of the central data processing services program. The transfer of OMB/MIS to an internal service fund will require a substantial grant or loan in order to build up the fund's cash equity. Additionally, because OMB/MIS service rates are predicated upon usage levels that are subject to changes which OMB/MIS cannot control, mechanisms are required to accomodate such change while still ensuring the ongoing operation of the fund.

Summary of Proposed Action

Concurrent with the adoption of the 1980 Budget, the Executive proposes to create an internal service fund for data processing entitled the "Data Processing Operating Fund." At the end of fiscal year 1980, any OMB/MIS revenues in excess of costs would be deposited in the Data Processing Operating Fund in partial fulfillment of the equity requirements for ongoing operation of the fund. Effective January 1, 1981, all OMB/MIS assets and liabilities would be transferred from the General Fund to the Data Processing Operating Fund, and OMB/MIS would operate out of the new fund thereafter.

For reasons of clarity and consistency, the ordinance creating a Data Processing Operating Fund will repeal Ordinance 107840 effective January 1, 1980. The provisions of Ordinance 107840 are included in the new draft ordinance. These are: authority of the Budget Director to establish data processing rates; mechanism for clearing OMB/MIS cost overrecovery or underrecovery; authority of the Budget Director to encumber departmental funds appropriated for data processing services through OMB/MIS; and authority of the Budget Director to amend the Data Processing Plan. These provisions are necessary to ensure the ongoing operation of OMB/MIS and the solvency of the Data Processing Operating Fund.

Background Information

Ordinance 103947 established OMB/MIS in the Executive Department effective November 1, 1974 in order to provide for central administration of the City's management information services. Effective January 1, 1975, Ordinance 105296 transferred the responsibility for administration and operation of the City's Data Processing Center from General Services Department to OMB/MIS. Since then, the City has accounted for central data processing services through the General Fund.

Operating OMB/MIS out of the General Fund enabled the Executive and the City Council to have administrative and financial flexibility while the data processing services program was undergoing rapid and radical change. The City recognized that its accounting for OMB/MIS was not in compliance with governmental accounting principles or with the State Auditor's Budgeting, Accounting, Reporting System (BARS). The State Auditor insisted that OMB/MIS must be transferred to an internal

service fund. However, the State Auditor agreed to allow the City to delay the transfer until 1981 so that OMB/MIS could achieve stability for the data processing services program and develop adequate accounting procedures for an internal service fund.

The City's data processing services capabilities have been modernized, expanded, and stabilized. A modern Univac 90/80 computer has been installed and is now operating reliably in the City's computer center. Most of the City's computer systems have been converted for processing on the new computer, although the critical payroll and personnel systems are still operating on the obsolete NCR-251 computer. Additional technical staff have been hired, and an effective training program is in place to ensure that they remain technically current. Effective data processing procedures have been instituted, and are constantly being updated and expanded. Proven new technology such as on-line, data base management and computer graphics is now being introduced to City users. Generally, OMB/MIS is technically up-to-date and capable of sustaining that status.

OMB/MIS has not, however, achieved financial stability. From the beginning of 1975 through 1979, OMB/MIS has been operating in a "catch-up" mode. Large expenditures have been necessary to replace obsolete equipment and software, to upgrade facilities, to convert systems from outside service bureaus to the City computer, and to train technical staff. OMB/MIS has had to forego the accumulation of reserves for continued operation of the data processing program in order to hold costs down to a reasonable level. OMB/MIS estimates that the start up cash requirement for an internal service fund for data processing could be as much as $1,000,000.

OMB/MIS has also encountered a structural problem in setting rates and recovering costs which is typical of data processing programs in both government and private industry. Data processing service rates are predicated upon estimated usage levels which may change for reasons that are uncontrollable by OMB/MIS. The reasons for change include: estimating errors; Data Processing Plan modification during the Executive and Legislative budget processes; and project delays or deferrals during the year for a variety of reasons. As a consequence of change, the OMB/MIS service rates may actually be too high or too low, and a cost-revenue variance may exist at the end of any accounting period.

Ordinance 107840, which was enacted concurrent with the 1979 Budget, includes provisions that should resolve the OMB/MIS cost recovery problems. One provision provides an accounting mechanism for clearing an overrecovery or underrecovery at the end of the fiscal year by affording a rebate or imposing a surcharge as appropriate. A second provision authorizes the Budget Director to encumber departmental appropriations for data processing services through OMB/MIS, using the adopted Data Processing Plan as the reference document for purposes of encumbering. This provision is necessary in order to ensure that funds appropriated for OMB/MIS services (i.e. the dollar value of the usage estimates that provided the basis for OMB/MIS rate calculations) will be available for that purpose throughout the year. It ensures that departments will have funds available to pay OMB/MIS service charges or to pay a surcharge at the end of the fiscal year in the event that this is necessary.

OMB/MIS has experienced difficulty in setting up the encumbrances for 1979, the first year that the provision was in effect. Some delays resulted because limited OMB/MIS staff resources had to be assigned to higher priority tasks such as CFMS

implementation and 1980 budget preparation. The major problem, however, was difficulty in balancing the approved Data Processing Plan with the CFMS accounts. (The Comptroller set up new intragovernmental service accounts when the CFMS was implemented, after adoption of the 1979 Budget. The 1979 Budget and the Data Processing Plan were adopted with the old account structure, and balancing problems resulted.) OMB/MIS has been working closely with the Comptroller's Office, and has now balanced the CFMS and Data Processing Plan amounts. OMB/MIS will request that the Comptroller's Office process the data processing service encumbrances shortly. OMB, OMB/MIS and the Comptroller's Office are making every effort to ensure that no such disparities exist in the 1980 Budget.

Alternatives and Recommendation

There are no alternatives to transferring OMB/MIS into an internal service fund. The City is not presently in compliance with generally accepted governmental accounting principles, which prescribe that such services shall be accounted for in internal service funds. The State Auditor insists upon the transfer, to be effective no later than January 1, 1981.

During 1980, OMB/MIS will thoroughly investigate the details involved in transferring to the new Data Processing Operating Fund effective Janaury 1, 1981. OMB/MIS intends to work with OMB, the State Auditor's Office, the Comptroller's Office, and the financial officers of other departments that are currently using operating funds in order to identify potential problems and avoid difficulties. Key tasks for 1980 are: ensuring compliance with State law and the State Auditor's BARS; calculating the initial cash needed to ensure ongoing operation of the fund; and establishing the internal accounting procedures that are necessary to accurately record and report fund activity.

The move to a Data Processing Operating Fund will entail high start-up costs; as much as $1,000,000 initial cash will be needed. The Executive proposes to allow any excess of OMB/MIS revenues over expenditures to be deposited in the operating fund in 1980 in order to defray some of the 1981 cash requirement. That is, if the General Fund realizes a surplus from OMB/MIS operations in 1980, it will be granted to the new Data Processing Operating Fund rather than being rebated to users. This method is fair to data processing users because the surplus, if any, will be generated through the application of equitable service rates and it will be used to ensure continuing operation of the data processing services program.

Additionally, the Executive proposes to continue the provisions of Ordinance 107840 into 1980, and thereafter. These provisions are necessry to moderate the financial impact of changes in the City's data processing program/plan which can neither be anticipated nor controlled by OMB/MIS. These provisions are included in the proposed new ordinance, and Ordinance 107840 will be repealed when it goes into effect.

The Executive recommends that the ordinance creating an internal services fund entitled the "Data Procesesing Operating Fund" be passed by the City Council concurrent with the 1980 Budget.

GR/ka

ROBERT V. GRAHAM
STATE AUDITOR

WILLIAM L. LAVAGNINO
ASSISTANT STATE AUDITOR

The State of Washington
OFFICE OF STATE AUDITOR
LEGISLATIVE BUILDING AS-21
OLYMPIA, WASHINGTON 98504
(206) 753-5277

RECEIVED
NOV 7 1979
OFFICE OF MANAGEMENT & BUDGET

November 7, 1979

George Roberts
City of Seattle - Executive Department
Office of Management and Budget
402 Municipal Building
Seattle, Washington 98104

Dear George:

I have reviewed the final issue paper and the proposed ordinance to create the Data Processing Operating Fund. This proposal is a step toward full compliance with the State Auditor's recommendation, and should result in increased accountability of the OMB/MIS for the centra data processing operations. I believe that carrying out these operations in a business-like manner and accounting for them in an internal service fund will promote efficiency and economy of the central data processing program.

The results of our meetings and my review of the issue paper and the proposed ordinance are discussed below.

1. Section 1 of the proposed ordinance authorizes the creation of the Data Processing Operating Fund, into which shall be deposited any revenues in excess of costs of providing data processing services for the year ending December 31, 1980, provided that such revenues shall be used for continuing operations of the Data Processing Operating Fund.

The proposed method for initial funding of the Data Processing Operating Fund does not conform to the methods suggested by the State Auditor and the National Committee on Governmental Accounting (NCGA). As a General Fund department, the OMB/MIS cannot legally derive any revenues in excess of its costs, except for the necessary accumulation of a reserve for replacement of capital items. The OMB/MIS proposes to use the excess revenues to fund "continuing operations", which include acquisition or replacement of capital items. The proposed method is probably acceptable. As I mentioned during our meetings, you should obtain a legal opinion from the Law Department concerning the proposed transfer. Our final determination as to allowability of this method will depend on the actual realization, transfer, and use of any revenues in excess of costs of providing data processing services during 1980.

2. Section 3 of the proposed ordinance authorizes a rebate or surcharge at the end of each fiscal year on users of data processing services.

   Section 3 complies with recommendations made by the NCGA concerning internal service funds.

3. Section 4 authorizes the Budget Director to encumber funds for data processing services.

   This authorization provides the Budget Director intermediate control over data processing appropriations. User departments retain final control over funds when processing payments for services.

4. Section 5 authorizes the Budget Director to approve or disapprove requests by department heads to modify and amend the Data Processing Plan.

   The proposed section does not provide any arbitration process for controversy over the Budget Director's decision. I believe that an arbitration clause should be included to resolve such controversy.

If I can be of further assistance, you can reach me at 625-2854.

Sincerely,

Leticia P. Macapinlac

Leticia P. Macapinlac
State Examiner

Your City, Seattle

Executive Department-Office of Management and Budget

Casey Jones, Director
Charles Royer, Mayor

NOV 13 1979

The Honorable Tim Hill, Chairman
Finance and Budget Committees
Seattle City Council
City of Seattle

Dear Mr. Hill:

We have previously sent the Council an issue paper explaining the Executive proposal to create a Data Processing Operating Fund concurrent with adoption of the 1980 Budget.

The attached draft legislation to create the fund is intended to replace Council Bill 100757, which was submitted previously. A copy of the draft legislation has been provided to the Law Department.

Sincerely,

for John Sawyer

Casey Jones
Budget Director

CJ/gr/vc

Attachment

cc: Shirley Kolm
Sue Sampson

CSS 20.14

The City of Seattle--Legislative Department

MR. PRESIDENT:

Date Reported and Adopted
NOV 30 1979

Your Committee on BUDGET

to which was referred C.B. 100862

Creating an internal service fund designated the "Data Processing Operating Fund," etc.

Relating to the Executive Department - Office of Management and Budget/Management Information Services (OMB/MIS) Division; creating an internal service fund designated "Data Processing Operating Fund"; providing for the deposit into said fund of any revenues in excess of costs resulting from OMB/MIS operations during 1980; providing for the operation of OMB/MIS out of said fund effective January 1, 1981; authorizing the Budget Director to establish rates, and providing a method of year-end clearance of data processing cost and revenue variances through rebate or surcharge as appropriate; authorizing the Budget Director to encumber departmental funds appropriated for data processing services through OMB/MIS; authorizing the Budget Director to amend the City's Data Processing Plan within the constraints for budget modification provided in Ordinance 100895; and repealing Ordinance 107895.

Chairman

Chairman

RECOMMENDS THAT THE SAME DO PASS, as amended

Chairman

Committee

Committee