CPS HR CONSULTING

FINAL REPORT

CA Department of Consumer Affairs

Administrative Cost Distribution Study

June 19, 2015

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Your Path to Performance

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Executive Summary

The mission of the California Department of Consumer Affairs (DCA) is to protect and serve the interests of California consumers. There are 39 boards, bureaus, committee and a commission under DCA that license and regulate businesses and individuals in a wide range of professions and occupations. DCA provides a variety of support services to these entities. Annually, DCA prorates and distributes all costs for the support services provided to these organizations.

In December 2014, DCA engaged CPS HR Consulting (CPS) to review DCA's current system for prorating and distributing administrative expenses across the boards, bureaus, commissions, and agencies that comprise the department. The study objectives were to:

- Determine if the system is the most efficient, equitable, transparent and cost-effective way to allocate and distribute charges for its myriad services.
- Determine whether some of the administrative services offered by DCA should be outsourced to other state service providers.
- Determine whether the agencies currently served should be permitted to elect not to receive and be charged for certain administrative services; and
- Identify opportunities and alternatives to sustain or improve the current system for all parties concerned.

CPS found the following:

- DCA is doing the best it can with the resources it has and the lack of past client usage/ workload data and systems to capture it.
- The CPS historical data analysis is inconclusive and does not overtly support or refute the current cost distribution methodology. Consequently, CPS put more emphasis on the following that support considering more fair and equitable methods involving quantitative and qualitative measures of workload or in combination with a position-based methodology:
  - DCA service provider management reports position-based distribution is transparent and efficient, but workload-based distribution based on actual staff time and outputs is viewed as more fair and equitable.
  - The stakeholder survey revealed: a) There is widespread awareness and transparency of the DCA pro rata process; b) overall satisfaction (with a few exceptions) with DCA services is high; and c) a small number of clients considered opting out of services they don't use.
  - Department of Finance (DOF) allocates statewide services to all state departments based on a workload-based pro rata allocation method. Department of General Services (DGS) also provides a number of statewide services to all state departments

(i.e., purchasing, contracting, etc.) as well as specific contractual services upon request. DGS uses a staff time/workload-based cost-recovery methodology.

While CPS recognizes DCA is constrained in capturing workload data, we recommend DCA explore the following alternative approaches:

1. Consider charging all clients their share ($1/39^{th}$) for: a) the Consumer Information Center (CIC) handling of non-jurisdictional telephone calls, and b) the Correspondence Unit's handling of non-jurisdictional emails. This change would fairly spread the costs to all DCA clients and reduce the burden of those clients that currently support all costs related to the CIC and Correspondence Unit.
2. Where appropriate, consider moving toward a workload distribution approach that incorporates the two-year roll forward methodology to level out/mitigate the effects of high costs in a particular fiscal year. Using the two-year methodology should encourage service usage and reduce the desire to opt out of a particular service. This change would not apply to certain services that are best charged on an authorized position (AP) basis.
3. Use an approach that considers weighting AP count and workload, then allocate costs on a proportional basis. Another version of this approach would be to examine historical trends and prorate the APs and workload units over time.
4. Implement an activity-based costing (ABC) methodology. ABC is a form of cost accounting that is designed to accurately reflect the cause-and-effect relationships between products or services, activities and costs. To compile and report this information would require DCA to invest in the development of an economic model using a spreadsheet, database or automated system that is commercially available.

Introduction

The mission of the California Department of Consumer Affairs (DCA) is to protect and serve the interests of California consumers. There are 39 boards, bureaus, committee and a commission under DCA that license and regulate businesses and individuals in a wide range of professions and occupations.

DCA provides a variety of client support services to these entities. Annually, DCA prorates and distributes all costs for the support services provided to these organizations. Instead of charging for services on a reimbursement basis in arrears, these DCA units levy their customers in advance annually on a pro rata share basis in compliance with Section 201 of the Business and Professions (B&P) Code. The allocations/distributions are based on key metrics such as authorized position (AP) count and/or historical workload counts. Approximately 99% of the department's $100 million budget is distributed across the clients receiving services. The remaining 1% is reimbursed from other state agencies.

Effective January 1, 2015, Senate Bill 1243 amended B&P Code Section 201[1] to require DCA to prepare a one-time study on the efficacy of its current system to distribute administrative expenses to the entities comprising the department. This report is due to the Legislature by July 1, 2015.

The following presents background information on the major DCA divisions and units that provide support services, and describes the study scope, objectives and methodology.

Background

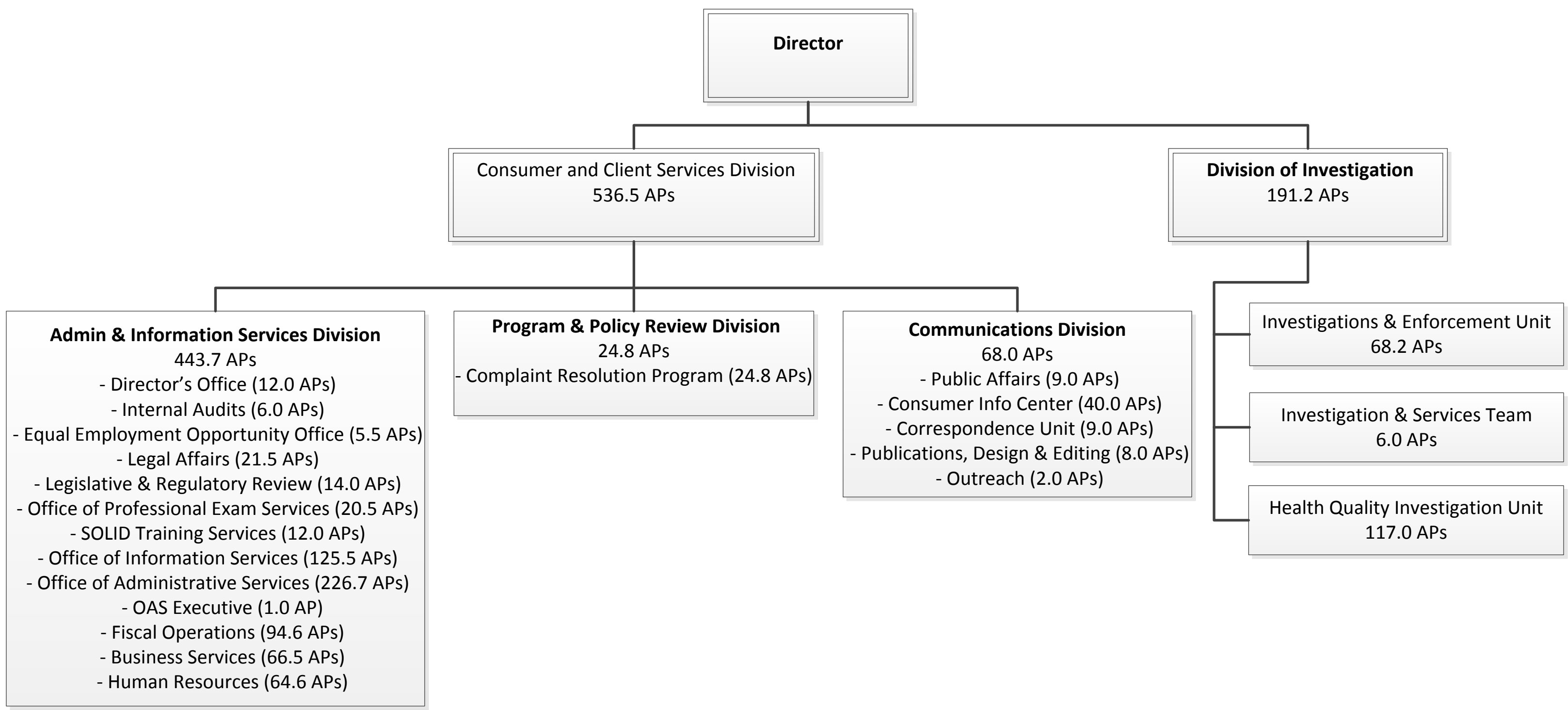
Entities within the DCA Consumer and Client Services Division (CCSD) and the Division of Investigation (DOI) provide a variety of services to internal divisions and 39 boards, bureaus, committee and a commission that comprise the department. Collectively, these two divisions represent a total of 727.7 authorized positions (APs).

- CCSD consists of the following divisions and offices representing a total of 536.5 APs: Administrative & Information Services Division, Communications Division, Program & Policy Review Division, Office of Administrative Services, and Office of Information Services.
- DOI consists of the following units representing a total of 191.2 APs: Investigations & Enforcement Unit, Investigation & Services Team, and the Health Quality Investigations Unit.

Figure 1 displays a high level organization chart of the DCA divisions that are the subject of this report.

[1] See Attachment 1, B&P Code section 201.

Figure 1
DCA Divisions covered by this Report



DCA Service Providers and Cost Distribution Basis

The following briefly describes the services provided by the DCA Consumer and Client Services Division (CCSD) and the Division of Investigation (DOI) to the 39 boards, bureaus, committees and a commission that comprise the department.

Consumer and Client Services Division

CCSD consists of the following five divisions and the organizational units within them.

Administrative & Information Services Division

- Director's Office: provides organizational leadership, liaisons directly with board members and executive officers, oversees performance measure reporting, guides the consistent resolution of DCA-wide issues, establishes departmental policies, and ensures compliance of Governor's Executive Orders (i.e., in-state and out-of-state travel).
- Internal Audits: conducts internal reviews of DCA divisions and constituent agencies, and has an annual work plan/schedule. Also works on special projects and whistleblower complaints.
- Equal Employment Opportunity (EEO) Office: serves all DCA employees and applicants by promoting affirmative action for persons with disabilities, equal employment opportunity, and preventing discriminatory practices through training and education. The EEO office also is responsible for the bilingual services program, upward mobility program and Whistleblower Protection Act.
- Legal Affairs: serves as in-house counsel for the Director, and the DCA's constituent agencies, and regularly attends and provides legal advice at meetings and hearings held by the DCA's constituent agencies, and legal analysis and opinions on laws and issues to the same parties. The unit also provides advice on government contracts, equal employment opportunity issues and employee disciplinary matters, the Open Meetings Act, the Public Records Act, and the Information Practices Act. Finally, the unit serves as litigation liaison for the Department with the Office of the Attorney General.
- Legislative & Regulatory Review: provides legislative and regulatory assistance and training to DCA's constituent agencies. This unit also coordinates notification and review of DCA-wide legislative issues to ensure proper implementation and compliance.
- Office of Professional Examination Services: provides a full array of services including subject matter expert consultants, occupational analysis, examination development, test scoring and item analysis, and examination security and translation.
- SOLID Training & Planning Solutions: provides strategic planning services for the boards, training for the development of board staff; meeting and event facilitation; and business process improvement to reduce cycle times, errors and costs within the boards.

Office of Information Services (OIS)

OIS provides centralized IT services to DCA entities and clients that include IT Administration; Infrastructure Services (LAN, WAN, Telecommunications); Enterprise Technical Services (internet/intranet, reports, email, databases, IT Help/Service Desk); Enterprise Project Management Services (PMO, BreEZe); and Application Support Services (support of production applications, reports, tools, and services).

OIS also provides IT oversight for those entities that have some or all of their IT functions decentralized these entities support their respective IT functions): these entities are the Board of Accountancy, Bureau of Real Estate, Bureau of Real Estate Appraisers, Contractors' State Licensing Board and the Medical Board of California.

Office of Administrative Services (OAS)

- OAS – Executive: provides executive level support overseeing OAS
- Fiscal Operations: comprised of the Accounting Office that provides the following services: accounts payable, accounts receivable/revenue, CALSTARS, cashiering, general ledger posting, and travel; and the Budget Office, which develops, implements and monitors budgets; performs legislative bill analysis and regulation development; and provides varied consulting services.
- Business Services Office (BSO): comprised of the units responsible for critical business functions such as, facilities and space planning, purchasing/procurement, non-IT contracts, IT acquisitions, records management, recycling, property and asset management, small business/disabled business enterprise (SB/DVBE) program, digital print services, mailroom services, records imaging, and subpoena acceptance and processing.
- Office of Human Resources (OHR): provides services in the areas of selection, equal employment opportunity, classification and pay, labor relations, personnel transactions, health & safety, and operational methods and networking innovations.

Communications Division

- Public Affairs: sets up and runs education, public outreach and media campaigns for Boards/Bureaus, and answers the media calls. This unit also maintains the DCA website content and has videographers that webcast board and committee meetings and develop other video content for stakeholders. In addition, staff will setup and maintain social media presence for clients.
- Consumer Information Center (CIC): receives 40-45,000 calls per month from the public, and also takes all external technical support calls for the BreEZe system from licensees. Calls that are non-jurisdictional, i.e. do not relate to one of the boards, are typically referred to external entities such as the DMV, DOJ and the Better Business Bureau.
- Correspondence Unit: responds to and tracks DCA emails, and drafts letters to the Executive Office and Board staff for complaints received by the Governor Office.

- Outreach: activities provided by this unit are being assumed by the Office of Public Affairs with assistance from the Publications, Design and Editing Office.
- Publications, Design & Editing: designs hardcopy and web publications specific for each client. This unit also provides the digital print services for DCA clients.

Program and Policy Review Division

Complaint Resolution Program: performs the initial complaint processing over the phone, online or through written hardcopy. Staff contacts both the complainant and respondent and try to mediate a solution. Positive resolutions are closed or advised of other paths to follow. More egregious actions are referred to the client for further investigation and normal complaint processing.

Division of Investigation (DOI)

DOI consists of the following three organizational units which are staffed with certified sworn peace officer investigators and non-sworn investigators:

- Investigations & Enforcement Unit: provides centralized investigative services for the various boards and bureaus. This unit obtains information and intelligence through a variety of off and online methods for use in headquarters or field offices. Also leads the outreach effort for client enforcement programs, provides staff training and assistance with client case backlogs, and produces DOI statistical reports
- Investigations & Services Team: provides specialized investigative services, training and program management; conducts internal affairs, background and workplace violence investigations; serves legal documents to employees; provides law enforcement training for DOI; and oversees the DOI computer forensics team.
- Health Quality Investigation Unit: moved to DOI from the Medical Board of California in July 2014 and performs investigations for Medical Board. This unit also provides investigative services to the Board of Psychology, Board of Podiatric Medicine and the Physician Assistant Board.

Table 1 lists each DCA operational unit that provides client support services, including the number of authorized positions (APs), and the method used to distribute costs.

Table 1
DCA Services Providers and Cost Distribution Basis

DCA Organizational Unit	APs	Cost Distribution Basis
Consumer and Client Services Division (Total)	***536.5***	
Administrative & Information Services Division (Subtotal)	**91.5**	
Director's Office	12.0	AP count
Internal Audits	6.0	AP count
Equal Employment Opportunity Office	5.5	AP count
Legal Affairs	21.5	AP count
Legislative & Regulatory Review	14.0	AP count
Office of Professional Examination Services	20.5	AP count + usage
SOLID Planning Solutions	12.0	AP count
Office of Information Services (Subtotal)	**125.5**	AP count + Service center usage
Office of Administrative Services (Subtotal)	**226.7**	
OAS Executive	1.0	AP count
Fiscal Operations	94.6	AP count
Business Services	66.5	AP count
Human Resources	64.6	AP count
Communications Division (Subtotal)	**68.0**	
Public Affairs	9.0	AP count
Consumer Information Center	40.0	Past client usage
Correspondence Unit	9.0	Past client usage
Outreach	2.0	Past client usage
Publications, Design & Editing	8.0	AP count
Program and Policy Review Division (Subtotal)	**24.8**	
Complaint Resolution Program	24.8	Past client usage
Division of Investigation (Total)	***191.2***	
Investigations & Enforcement Unit	68.2	Past client usage
Investigation & Services Team	6.0	AP count
Health Quality Investigation Unit	117.0	Past client usage + Med Board reimbursement
Total Support Staffing from Both Divisions	**727.7**	

Source: DCA Budget Office

The table shows that within CCSD approximately 62.5% (335.2 APs) of the division's total 535.6 APs distribute costs based on position count. Within CCSD, OIS costs are based on a combination of licenses and renewal counts, similar to position-based costing, plus transaction-based service center usage.

Within DOI, 97% (185.0 APs) of the division's total 191.2 APs distribute costs based on past client workload. Two of the three DOI units are reimbursed by pro rata distribution based on a two-year roll forward methodology. During budget development, each client's future budget (e.g., FY 15-16) is based on their last full fiscal year (e.g., FY 13-14) of DOI usage. This amount is adjusted for each client to account for the difference between their estimated budget and their actual costs two years in arrears. Clients would either receive a credit and be budgeted less, or owe a debit and be budgeted more. It also allows clients to use DOI services even if they do not have an existing budget for the services. The advantages to this method are that services don't stop if the client runs out of funding, and DOI is assured of funding through the billing for actual services rendered. Costs for the third and smallest DOI unit are distributed on an AP count basis.

In July 2014, the HQIU was transferred from the California Medical Board to DOI to perform medical-related investigations.

Client Category Groups

DCA provides services to two client category groups – 1110 and 1111. The category number is for budgeting purposes. The difference between the two categories is the 29 clients in the 1110 category are semi-autonomous Boards, Committees and Commissions, while the 10 clients in the 1111 category are Bureaus only. Except for a couple of large clients in each category, the average client size by AP count is similar (25.3 APs for bureau category 1110 vs. 22.1 APs for non-bureau category 1111).

The following Table 2 is a matrix displaying the clients (service beneficiaries) and their CCSD and DOI service providers for FY 2015-16. AISD, OIS, Public Affairs and DOI-IST provide services to all 39 clients, followed by DOI (18). DOI services are available to all non-HQIU clients, but some clients may not use DOI services each year. DOI sub-unit HQIU (4) provides investigative services to the Medical Board, Board of Psychology, Board of Podiatry and the Physician Assistant Board. AISD-OIS refers to AISD excluding OIS. (Note: the number of lines in the table exceeds 39 as some clients represent multiple lines as displayed in column one #.)

Table 2
DCA Client-Service Matrix for FY 2015-16

			DCA Service Providers							
			CCSD				DOI			
#	Cat	Board/Bureau/Committee/Program	AISD-OIS	OIS	Pub Affairs	PCSD	DOI	DOI-IST	HQIU	MBS Shared
1	1111	Arbitration Certification Program	Y	Y	Y	Y	N	Y	N	N
2	1111	Bureau for Security & Investigative Services - Private Security Services	Y	Y	Y	Y	N	Y	N	N
2	1111	Private Investigator's Program	Y	Y	Y	Y	Y	Y	N	N
3	1111	Bureau for Private Post-Secondary Education	Y	Y	Y	Y	Y	Y	N	N
4	1111	Bureau of Electronic & Appliance Repair	Y	Y	Y	Y	N	Y	N	N
4	1111	Home Furnishings	Y	Y	Y	Y	N	Y	N	N
5	1111	Automotive Repair (VIRF)	Y	Y	Y	Y	N	Y	N	N
5	1111	Bureau of Automotive Repair (HPRRA)	Y	Y	Y	Y	N	Y	N	N
5	1111	Bureau of Automotive Repair (EFM)	Y	Y	Y	Y	N	Y	N	N
6	1111	Telephone Medical Advice Services Bureau	Y	Y	Y	Y	N	Y	N	N
7	1111	Cemetery and Funeral Bureau	Y	Y	Y	Y	N	Y	N	N
7	1111	Funeral Directors & Embalmers	Y	Y	Y	Y	N	Y	N	N

8	1111	Bureau of Real Estate Appraisers	Y	Y	Y	Y	N	Y	N	N
9	1111	Bureau of Real Estate	Y	Y	Y	Y	Y	Y	N	N
10	1111	Professional Fiduciaries Bureau	Y	Y	Y	Y	N	Y	N	N
11	1110	Board of Accountancy	Y	Y	Y	Y	N	Y	N	N
12	1110	Architects Board	Y	Y	Y	Y	Y	Y	N	N
12	1110	Landscape Architects Tech Committee	Y	Y	Y	Y	Y	Y	N	N
13	1110	State Athletic Commission	Y	Y	Y	Y	N	Y	N	N
13	1110	Boxer's Neurological	N	Y	N	N	N	N	N	N
13	1110	Boxer's Pension	Y	Y	N	N	N	N	N	N
14	1110	Board of Barbering & Cosmetology	Y	Y	Y	Y	Y	Y	N	N
15	1110	Board of Behavioral Sciences	Y	Y	Y	Y	Y	Y	N	N
16	1110	Board of Chiropractic Examiners	Y	Y	Y	Y	Y	Y	N	N
17	1110	Contractors State License Board	Y	Y	Y	Y	Y	Y	N	N
18	1110	Dental Board of CA	Y	Y	Y	Y	N	Y	N	N
18	1110	Dental Assistants Program	Y	Y	Y	Y	N	Y	N	N
19	1110	Dental Hygiene Committee	Y	Y	Y	Y	N	Y	N	N
20	1110	Board of Guide Dogs for the Blind	Y	Y	Y	Y	N	Y	N	N
21	1110	Medical Board of California	Y	Y	Y	Y	N	Y	Y	N
21	1110	Registered Dispensing Opticians	Y	Y	Y	Y	N	Y	Y	Y
22	1110	Acupuncture Board	Y	Y	Y	Y	Y	Y	N	N
23	1110	Physical Therapy Board	Y	Y	Y	Y	Y	Y	N	N
24	1110	Physician Assistant Board	Y	Y	Y	Y	N	Y	Y	Y
25	1110	Board of Podiatric Medicine	Y	Y	Y	Y	N	Y	Y	Y
26	1110	Board of Psychology	Y	Y	Y	Y	N	Y	Y	N
27	1110	Respiratory Care Board	Y	Y	Y	Y	Y	Y	N	N
28	1110	Speech-Language P.A./ Hearing Aid Board	Y	Y	Y	Y	Y	Y	N	N
29	1110	Board of Occupational Therapy	Y	Y	Y	Y	Y	Y	N	N
30	1110	Board of Optometry	Y	Y	Y	Y	N	Y	N	N
31	1110	Osteopathic Medical Board	Y	Y	Y	Y	N	Y	N	N
32	1110	Naturopathic Medicine Committee	Y	Y	Y	Y	Y	Y	N	N
33	1110	Board of Pharmacy	Y	Y	Y	Y	N	Y	N	N
34	1110	Board for Professional Engineers, Land Surveyors, and Geologists	Y	Y	Y	Y	Y	Y	N	N
34	1110	Geologists and Geophysicists	Y	Y	Y	Y	Y	Y	N	N
35	1110	Board of Registered Nursing	Y	Y	Y	Y	Y	Y	N	N
36	1110	Court Reporters Board	Y	Y	Y	Y	N	Y	N	N
37	1110	Structural Pest Control Board - Support	Y	Y	Y	Y	Y	Y	N	N
38	1110	Veterinary Medical Board	Y	Y	Y	Y	Y	Y	N	N
39	1110	Board of Vocational Nursing & Psychiatric Techs	Y	Y	Y	Y	N	Y	N	N
39	1110	Psychiatric Technician Program	Y	Y	Y	Y	N	Y	N	N
		Total Yes	**39**	**39**	**39**	**39**	**18**	**39**	**4**	**3**
		% Total	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***46.2%***	***100.0%***	***10.3%***	***7.7%***

Source: DCA Budget Office

Scope, Objectives and Methodology

The scope of this engagement focused solely on a review of DCA's current system for prorating and distributing administrative expenses across the department and the entities it supports.

The project objectives were to:

- Determine if the system is the most efficient, equitable, transparent and cost-effective way to allocate and distribute charges for its myriad services.
- Consider whether:
  - Some of the administrative services offered by DCA should be outsourced to other state service providers.
  - The agencies currently served should be permitted to elect not to receive and be charged for certain administrative services.
- Identify opportunities and alternatives to sustain or improve the current system for all parties concerned.
- Prepare a written report of the findings and recommendations to improve the distribution system.
- Respond to potential legislative inquiries regarding this study, including testifying before the Legislature

The CPS methodology included:

- Conduct off-site document reviews of pertinent legislation; DCA policies, procedures, methodology, and rationale.
- Conduct group interviews with DCA management, including staff from DCA's Administrative & Information Services Division (Office of Human Resources, Fiscal Office, Business Services Office, Office of Professional Examination Services), Office of Information Services, Communications Division, Division of Investigation, Complaint Resolution Program, and Legal Affairs to better understand the current process and the desired deliverable.
- Analyze three-years of historic administrative expense distributions made to clients to verify and/or validate the current DCA methodology.
- Identify and engage two other state agencies (Department of Finance and the Department of General Services) that provide outsourced services, and determine the method they use to charge for services. CPS did not review other potential service providers.
- Identify alternative approaches, benefits and constraints.
- Conduct an online survey of 39 DCA stakeholders.
- Examine whether some of the current administrative services should be outsourced and whether some of the DCA clients should be permitted to opt out of some or all current services.

- Prepare monthly status reports, and draft and final reports with recommendations for improvement for management review and comment.

Constraints and Data Limitations

CPS relied on information received from DCA management and staff interviews, Department of Finance and Department of General Services interviews, and reviews of unaudited information.

Acknowledgment

CPS wishes to thank all participants at DCA, especially the Budget Office and Executive Office, and the Department of Finance and Department of General Services for their invaluable and timely contributions.

Study Results

The following presents the study findings and improvement recommendations, including: a discussion of common cost types and allocation methods, preparation of the annual DCA pro rata cost distribution model, and a summary of interviews with DCA service provider units. Also included is a high level comparison of division costs, detailed analysis of results over a three-fiscal year period, and a description and summary of an online survey of DCA stakeholders that consume and pay for the services received. The survey results will be presented under a separate cover. Finally, this section presents the findings of a limited benchmark study of two other state agencies that provide comparable services to other state agency clients, and an alternative cost allocation strategy.

Common Cost Types and Allocation Methods

Types of Costs

Cost allocation can be accomplished in a variety of ways depending on what types of costs need to be tracked, the tools available and convenience in using them. The two most common types of costs tracked and allocated are direct and indirect costs.

- **Direct costs** can be readily identified with a particular cost objective or specific program. Examples include salaries, space, supplies and communications for a specific organization. Direct costs are based on actual program services provided and may vary widely depending on changes from year to year.
- **Indirect costs** are less clear and typically related to administration and overhead. They include, but are not limited to, salaries, space, supplies, and telecommunications costs for support functions like Accounting, Purchasing, Human Resources and Information Technology. These functions are necessary to the overall operation but may also be used by various programs. Indirect costs tend to be fairly stable over time. Since indirect costs are shared, they must be divided and allocated between various supporting activities and program services.

The rule of thumb is costs should be captured and treated in the following manner: direct charge whenever possible, and track and allocate costs of a measured benefit consistently over time. This ensures "apples to apples" comparative reporting and financial statements.

Common Methods for Allocating Costs

Commonly used methods for allocating costs are *staff headcount (authorized positions), labor dollars, square footage* and *workload outputs*. Most organizations will use a mix of these methods, allocating physical plant expenses (rent, utilities, etc.) based on how space is divided, and other costs based on the number of staff hours, labor dollars, and/or specific outputs produced by a particular category or program.

In all organizations large or small, a comprehensive time sheet system using either spreadsheets or a database is best for properly allocating staff hours or labor costs. This is because some staff work in single, clearly defined areas while others perform duties that span multiple programs. This is essential because employee-related expenses often represent the largest percentage of an organization's budget.

Ideally, all costs would be allocated as they are incurred, but this can result in high bookkeeping overhead. For example, the cost of worker's compensation, unemployment insurance and employee benefits should be allocated based on how staff hours or labor costs are divided. However, if those hours or costs vary from payroll to payroll, the related payroll taxes, insurance and benefits allocations might best be done monthly or quarterly.

If an organization has made staffing or programmatic changes, existing cost allocation methods should be reviewed. Under these circumstances a method which worked well in the past may now allocate a disproportionate share of costs to supporting activities or a specific program. Consequently, cost allocation plans should include a process for reconciliation and adjustment, and be periodically validated and updated.

Preparing the Annual DCA Pro Rata Cost Distribution Model

Annually by September, the DCA Budget Office receives staffing and workload information from the DCA service providers in non-standardized formats that have evolved over time. The Budget Office staff manually enter the information into the pro forma cost distribution spreadsheets. The same spreadsheets have been used for many years and are updated annually to reflect the contents of finance letters from the Department of Finance and the Governor's Office that tell each department how to budget for certain line items such as changes in retirement, health benefits, BCP changes, etc.

The DCA spreadsheet model distributes the costs based on either authorized position count, including blanket funding for temporary positions, prior year workload, or service center usage, for the budget 18 months ahead. The workload data used is for the last full year, which is typically a full fiscal year behind the current fiscal year. For example, DCA used FY 12-13 data to develop the FY 14-15 budget projections because final data for FY 13-14 won't be available for another year.

Regarding the use of authorized positions (APs) for distribution purposes, the DCA Budget Office recognizes a client's actual filled position count may be less than the number of authorized budgeted positions resulting in an over allocation. However, depending on an organization's turnover, this would be difficult, costly and impractical for the Budget Office to monitor and adjust cost or reimburse on a real-time basis.

The largest DCA service providers that allocate costs on actual service usage or client workload are OIS and DOI. OIS uses a combination of APs and actual service center usage to distribute prior year costs across 21 different types of services ranging from infrastructure, enterprise technology, enterprise projects, client services, to application and specialized services.

The DOI uses a unique two-year roll forward methodology that is based on the client's last full fiscal year usage. This amount is adjusted for each client to account for the differences between their estimated budget and their actual costs two years in arrears. Clients either receive a credit and will be budgeted less or a debit and will be budgeted more. This also allows clients to use DOI services even if they do not have an existing budget for such services and ensures the DOI is fully funded on an annual basis.

Each client is responsible for monitoring its revenue and expenses against budget. However, some clients lack administrative and accounting staff and rely more heavily on DCA Fiscal Services to manage their finances.

At fiscal year-end, DCA reconciles revenue and expenses to the Department of Finance and the State Controller's Office.

DCA Group Interview Results

In January and February 2015, CPS interviewed DCA service provider management to:

- Better understand their resources, capabilities and services they provide to their clients;
- Review the methods (position-based vs. workload-based) used to distribute program costs to their clients;
- Determine if clients should be allowed to opt out of receiving and paying for certain administrative services;
- Determine if the service providers were interested in outsourcing services to other state agencies outside of their DCA clients; and
- Identify prospective state agencies who provide outsourced services to benchmark against.

The following summarizes the interview results.

Services and Cost Distribution Basis

Table 1 on page 10 of this report presents the cost distribution basis each DCA service provider uses. It reveals there are 21 business units that participate in the pro rata cost distribution process. Of the 21 business units, 14 allocate and distribute their costs exclusively on an AP-count basis. These 14 business units represent 341.2 APs (46.9%) of 727.7 APs in the two divisions.

The seven remaining units that participate in the pro rata cost distribution process, representing 386.5 APs (54.1% of APs), allocate and distribute costs based on past client workload or a combination of APs and workload (OIS). Of these business units, only the DOI uses a two-year roll forward methodology.

Based on their cost distribution basis, the following summarizes service provider management comments.

Position-based Distribution	Workload-based Distribution
• The process is transparent and efficient but incorporating qualitative workload is more fair and equitable than just using headcount.	• The process is fair and equitable and clients are positive, but they are examining the hourly rate because it appears to be too high.
• Using headcount is convenient and efficient. Units indicated they lack an efficient way to track staff time against tasks or they have tried in the past but failed due to the lack of technology.	• Several units favored tracking workload outputs, like calls handled, number of publications, IT services because they lack a way to track actual staff time consumed.
	• DOI employs a 2-year roll forward methodology that clients generally agree is fair, equitable and efficient.

Based on the preceding comments, DCA service provider management reports position-based distribution is transparent and efficient, but workload-based distribution based on actual staff time and outputs is viewed as more fair and equitable. The key to improve position-based units is to use technology to capture staff time and workload in a convenient, cost-effective manner. An improvement for the workload-based distribution units may be to expand the use of the two-year roll forward methodology to all of these units.

Reviewing Client Service Options

As part of this study, CPS was requested to review whether DCA clients should be permitted to self-perform services or outsource them to another state agency or private contractor and elect not to receive and be charged for certain DCA services. None of these service options are as simple as they sound because the DCA is statutorily authorized to operate as both an oversight agency and a service provider.

For example, B&P code sections 101 and 110 establish the 39 boards, bureaus, committees and a commission are part of DCA, and that DCA controls all the property, funds and records, not the entities. Further, B&P code sections 23.6 and 154 establish the DCA Director as the appointing power with ultimate control over employee hiring, tenure and discipline.

Like other oversight control agencies, such as the California State Controller's Office, Department of Finance, Department of General Services, and the Department of Human Resources, DCA has a fiduciary responsibility to its clients and the public to establish and monitor departmental policies and procedures to ensure each client complies with its mandates.

However, unlike any other control agency, DCA has a unique relationship with the 39 individual entities that comprise the Department. DCA views the entities as partners that share a common mission of consumer protection.

From a practical and legal standpoint, it would not be in the best interests of either the client or DCA to pursue the other available service options. For example, to provide in-house services, the client's initial startup and recurring expenses would probably exceed what it is now paying DCA and there would be no assurance the client was operating in compliance with required policies and procedures.

In addition, outsourcing services contracts are subject to the Business & Professions Code, Government Code and Public Contract Code, which include approval by the DCA Director and State Personnel Board, and the noticing of any affected employee organization. Consequently, while it may be possible to outsource and opt out of certain, but not all, DCA services, these lengthy and uncertain activities will likely interrupt or delay services and possibly cost more. They may also affect the client's ability to carry out its mandate and expose it to potential liability for failure to provide consumer protection in an effective, efficient and timely manner. In accordance with Government Code section 19130, the DCA Director would only approve a contract that results in overall cost savings to the state.

In our opinion, if a client is totally dissatisfied with DCA service, quality and/or cost, it should work with DCA to solve the problem. If the problem cannot be resolved in a reasonable time frame to the client's satisfaction, then and only then should it attempt to assume the time, cost and risk to either to self-perform or outsource DCA services.

The best example of a service DCA provides that may be considered as discretionary for constituent agencies to elect to use or not is the Complaint Resolution Program (CRP). At present, the CRP processes consumer complaints for bureaus only but could also be used by other DCA clients.

Based on the results of the stakeholder survey, some stakeholders perceive they are paying for services they do not use. As previously indicated, the DCA acts as both a service provider and oversight control agency. In those cases where a client does not consume any direct services from DCA, they will still be allocated a portion of the costs on an authorized position basis to cover the cost of the oversight role DCA performs. There may also be an allocation to cover costs and benefits that are general in nature and cannot be traced to any one particular entity. For example, the Consumer Information Center (CIC) and Correspondence Unit (CU) field non-jurisdictional telephone calls and emails, respectively, which are not related to any client. These additional costs are currently paid for by CIC and CU clients but should also be shared on a pro rata basis across all clients.

Benchmarking Prospects

In general, DCA service provider management supported the selection of the Departments of Finance (DOF) and General Services (DGS) as benchmark agencies. DOF allocates statewide services to all state departments based on a workload-based pro rata allocation method. DGS also provides a number of statewide services to all state departments (i.e., purchasing, contracting, etc.) as well as specific contractual services upon request. DGS uses a staff time/workload-based cost-recovery methodology. The benchmarking results are presented later in this report.

DCA Pro Rata Cost Distribution Analysis Results

The following Table 3 provides a high-level view of the DCA pro rata cost distribution results by major division category for the three-fiscal year period reviewed. The table reveals budgets in FY 2013-14 and FY 2014-15 were stable but declined in FY 2015-16 as a result of BreEZe project funding not being included in the FY 2015-16 budget. The table also shows category 1110 non-bureau clients averaged substantially more APs than category 1111 bureau clients, with 58% of the total APs over the three-fiscal year period. Finally, the table discloses the following for this period: 1) CCSD expenses were significantly greater than DOI expenses; 2) category 1110 clients had the most expenses allocated to them; 3) the number of APs in both divisions increased over time; and 4) in FY 2015-16, CCSD expenses dropped by 3% while DOI expenses increased by 10%.

Table 3
DCA Pro Rata Cost Distribution Results for FYs 13-14 through 15-16

CCSD Expenses	**FY 13-14**	**% Total**	**APs**	**FY 14-15**	**% Total**	**APs**	**FY 15-16**	**% Total**	**APs**
Category 1110	$38,725,873	41.0%	*1,541.4*	$38,726,000	41.0%	*1,648.3*	$35,019,000	39.7%	*1,654.3*
Category 1111	$30,347,127	32.1%	*1,143.3*	$30,347,000	32.1%	*1,155.4*	$26,941,000	30.5%	*1,172.9*
Subtotal	**$69,073,000**	73.1%	*2,684.7*	**$69,073,000**	73.1%	*2,803.7*	**$61,960,000**	70.3%	*2,827.2*
DOI Expenses									
Category 1110	$24,795,572	26.2%	*1,541.4*	$24,794,000	26.2%	*1,648.3*	$25,408,000	28.8%	*1,654.3*
Category 1111	$671,428	0.7%	*1,143.3*	$674,000	0.7%	*1,155.4*	$826,000	0.9%	*1,172.9*
Subtotal	**$25,467,000**	26.9%	*2,684.7*	**$25,468,000**	26.9%	*2,803.7*	**$26,234,000**	29.7%	*2,827.2*
Total	**$94,540,000**			**$94,541,000**			**$88,194,000**		

Source: DCA Budget Office

Table 4 provides a more granular analysis based on allocated costs as a percent of budget and identifies change drivers for the period reviewed. The analysis reveals the range of allocated costs as a percentage of budget is the same for three client levels, which indicates the cost distribution method is consistent. For example, sorting the list by average APs from high to low, the five largest clients had allocated costs as a percent of budget ranging from 6.3% to 30.2%. They experienced either moderate or large AISD increases/decreases due to position count and large OIS increases/decreases based on workload.

The 26 mid-level clients had allocated costs as percent of budget ranging from 6.7% to 39.3%. These clients experienced minimal changes or small, moderate and large AISD increases due to position count, and moderate to large DOI and/or OIS decreases.

At the other end of the spectrum, the 20 smallest clients had allocated costs as percent of budget ranging from 7.8% to 36.6%. For the most part, these clients experienced minimal changes or small to moderate AISD decreases due to position count, and/or DOI and OIS decreases based on workload.

Table 4
Allocated Costs as a Percent of Budget with Change Drivers
FYs 2013-14 through FY 2015-16

Cat	Client Name	FY 2013-14 APs	FY 2013-14 % Budget	FY 2014-15 APs	FY 2014-15 % Budget	FY 2015-16 APs	FY 2015-16 % Budget	Avg. APs	Avg. % Budget	Change Drivers
1111	Arbitration Certification Program	8.0	*14.0%*	8.0	*14.0%*	8.0	*11.5%*	8.0	*13.2%*	Moderate AISD decrease
1111	Private Security Services	46.9	*45.2%*	46.9	*39.8%*	48.4	*32.9%*	47.4	*39.3%*	Large OIS decrease
1111	Private Postsecondary	57.0	*18.4%*	76.0	*21.5%*	91.0	*17.5%*	74.7	*19.1%*	Moderate PCSD decrease
1111	Electronic/ Appliance Repair	14.0	*37.0%*	15.5	*37.8%*	15.5	*35.0%*	15.0	*36.6%*	Minor OIS decrease
1111	Home Furnishings	27.9	*18.8%*	27.9	*21.4%*	27.9	*18.2%*	27.9	*19.5%*	Minor AISD and OIS decreases
1111	Telephone Medical Advice	1.0	*11.4%*	1.0	*11.5%*	1.0	*8.0%*	1.0	*10.3%*	Minimal change
1111	Automotive Repair (VIRF)	521.8	*13.5%*	521.8	*13.8%*	521.8	*11.4%*	521.8	*12.9%*	Large AISD, OIS and PCSD decreases
1111	Automotive Repair (HPRRA)	61.6	*16.1%*	59.6	*12.8%*	59.6	*9.6%*	60.3	*12.8%*	Minor AISD decrease
1111	Automotive Repair (EFM)	11.4	*12.3%*	9.0	*37.1%*	9.0	*18.2%*	9.8	*22.5%*	Minimal change
1111	Cemetery and Funeral Bureau	13.9	*19.6%*	13.9	*16.8%*	13.9	*14.5%*	13.9	*17.0%*	Minimal change
1111	Funeral Directors & Embalmers	7.6	*18.0%*	7.6	*18.1%*	7.6	*16.1%*	7.6	*17.4%*	Minimal change
1111	Bureau of Real Estate Appraisers	32.8	*5.6%*	32.8	*6.4%*	33.8	*8.1%*	33.1	*6.7%*	Moderate AISD increase
1111	Bureau of Real Estate	334.7	*3.9%*	329.7	*5.5%*	329.7	*9.5%*	331.4	*6.3%*	Large AISD, PCSD and DOI increases
1111	Bureau of Private Investigators	3.0	*20.4%*	3.0	*20.3%*	3.0	*20.9%*	3.0	*20.5%*	Small DOI increase

1111	Professional Fiduciaries Bureau	1.7	*44.3%*	2.7	*34.8%*	2.7	*30.7%*	2.4	*36.6%*	Minimal change
	Total and Average %, 1111	**1,143.3**	*19.9%*	**1,155.4**	*20.8%*	**1,172.9**	*17.5%*	**1,157.2**	*19.4%*	
1110	Board of Accountancy	81.8	*12.3%*	98.8	*10.2%*	98.8	*10.8%*	93.1	*11.1%*	Moderate AISD increase
1110	Board of Architectural Examiners	24.9	*16.0%*	24.9	*16.7%*	24.9	*15.3%*	24.9	*16.0%*	Moderate OIS and DOI decreases
1110	Landscape Arch Committee	5.5	*9.5%*	5.5	*9.9%*	5.5	*11.8%*	5.5	*10.4%*	Small DOI increase
1110	Athletic Commission	12.3	*18.5%*	10.2	*12.0%*	10.2	*13.0%*	10.9	*14.5%*	Small AISD increase
1110	Boxer's Neurological	0.9	*11.3%*	0.0	*11.8%*	0.0	*4.7%*	0.3	*9.3%*	Minimal change
1110	Boxer's Pension	0.5	*7.6%*	0.5	*10.0%*	0.5	*7.5%*	0.5	*8.4%*	Minimal change
1110	Barbering & Cosmetology	96.2	*37.3%*	92.2	*34.8%*	92.2	*28.7%*	93.5	*33.6%*	Large OIS and DOI decreases
1110	Board of Behavioral Sciences	42.5	*17.2%*	50.0	*17.6%*	53.0	*15.1%*	48.5	*16.6%*	Moderate AISD increase and DOI decrease
1110	Chiropractic Examiners	19.4	*10.7%*	19.4	*10.9%*	19.4	*10.3%*	19.4	*10.6%*	Moderate AISD increase and DOI decrease
1110	Contractors State License Board	401.6	*10.2%*	405.6	*10.4%*	405.6	*9.7%*	404.3	*10.1%*	Moderate AISD increase, large OIS decrease, moderate DOI increase
1110	Dental Board of CA	65.0	*11.3%*	65.5	*12.0%*	65.5	*11.3%*	65.3	*11.5%*	Moderate OIS decrease
1110	Dental Assistants Program	9.1	*19.4%*	9.1	*21.0%*	11.1	*14.4%*	9.8	*18.3%*	Moderate OIS decrease
1110	Dental Hygiene Committee	7.2	*14.1%*	8.2	*15.9%*	9.2	*13.1%*	8.2	*14.3%*	Moderate OIS decrease
1110	Guide Dogs for the Blind	1.5	*13.6%*	1.5	*14.9%*	1.5	*12.3%*	1.5	*13.6%*	Minimal change
1110	Medical Board of California	281.4	*8.7%*	287.4	*35.0%*	287.4	*35.6%*	285.4	*26.4%*	Moderate AISD increase and large OIS increase
1110	Registered Dispensing Opticians	0.9	*14.2%*	0.9	*15.0%*	0.9	*7.6%*	0.9	*12.3%*	Moderate OIS decrease
1110	Acupuncture Board	8.0	*18.7%*	11.0	*22.8%*	11.0	*25.8%*	10.0	*22.4%*	Moderate AISD increase, moderate OIS decrease, large DOI increase
1110	Physical Therapy Board	13.4	*26.9%*	19.4	*28.9%*	19.4	*28.3%*	17.4	*28.1%*	Moderate AISD increase, moderate OIS decrease, small DOI increase
1110	Physician Assistant Committee	4.5	*9.0%*	4.5	*8.9%*	4.5	*7.9%*	4.5	*8.6%*	Moderate OIS decrease
1110	Board of Podiatric Medicine	5.2	*7.7%*	5.2	*8.2%*	5.2	*7.6%*	5.2	*7.8%*	Small OIS decrease
1110	Board of Psychology	17.3	*11.7%*	20.3	*12.0%*	20.3	*11.7%*	19.3	*11.8%*	Moderate AISD increase and moderate OIS decrease
1110	Respiratory Care Board	16.4	*13.1%*	17.4	*13.4%*	17.4	*13.9%*	17.1	*13.5%*	Small AISD increase, moderate OIS decrease, large DOI increase
1110	Speech-Language P.A./ Hearing Aid	8.6	*27.6%*	8.6	*29.3%*	8.6	*27.2%*	8.6	*28.0%*	Large OIS decrease and moderate DOI increase
1110	Occupational Therapy	7.7	*31.3%*	7.7	*23.7%*	7.7	*18.2%*	7.7	*24.4%*	Moderate OIS decrease and moderate DOI decrease
1110	Board of Optometry	10.4	*25.8%*	10.4	*23.5%*	10.4	*14.8%*	10.4	*21.4%*	Moderate OIS decrease and large DOI decrease
1110	Osteopathic Medical Board	8.4	*10.3%*	11.4	*10.7%*	11.4	*12.3%*	10.4	*11.1%*	Moderate AISD increase

1110	Naturopathic Medicine	1.0	*16.8%*	2.0	*16.7%*	2.0	*31.2%*	1.7	*21.5%*	Moderate AISD and DOI increases
1110	Board of Pharmacy	80.2	*12.2%*	101.1	*10.8%*	101.1	*10.5%*	94.1	*11.1%*	Large AISD increase and large OIS decrease
1110	Board for Professional Engineers	58.7	*16.4%*	58.7	*15.9%*	58.7	*13.7%*	58.7	*15.3%*	Moderate AISD increase, large OIS decrease, small DOI increase
1110	Geologists and Geophysicists	5.0	*7.5%*	6.0	*7.6%*	6.0	*8.3%*	5.7	*7.8%*	Small DOI increase
1110	Board of Registered Nursing	130.8	*33.2%*	158.8	*29.2%*	158.8	*28.3%*	149.5	*30.2%*	Moderate AISD increase, large OIS decrease, moderate DOI increase
1110	Court Reporters Board	4.5	*16.0%*	4.5	*15.0%*	4.5	*10.0%*	4.5	*13.7%*	Moderate OIS decrease
1110	Structural Pest- Support	29.9	*11.6%*	29.9	*12.6%*	29.9	*15.0%*	29.9	*13.1%*	Large AISD increase, moderate OIS decrease, large DOI increase
1110	Veterinary Medical Board	12.8	*23.4%*	23.8	*24.2%*	23.8	*25.4%*	20.1	*24.3%*	Large AISD increase and large OIS decrease
1110	Vocational Nursing Program	57.5	*24.3%*	57.5	*18.1%*	57.5	*14.3%*	57.5	*18.9%*	Moderate AISD increase, large OIS and DOI decreases
1110	Psychiatric Technician Program	10.4	*10.0%*	10.4	*10.9%*	10.4	*9.4%*	10.4	*10.1%*	Small AISD increase and large OIS decrease
	Total and Average %, 1110	**1,541.4**	*16.3%*	**1,648.3**	*16.7%*	**1,654.3**	*15.4%*	**1,614.7**	*16.1%*	

Source: DCA Budget Office

A review of the change drivers suggests the biggest cost allocation changes are the result of a combination of both moderate and large AISD position increases and large OIS and/or DOI workload increases with the largest clients. Using authorized positions to distribute costs has a leveling affect that impacts small more than large clients. Consequently, distributing costs in this manner may result in large clients subsidizing small clients.

Using workload to allocate costs appears to be more equitable because other clients do not have to bear an unfair burden. However, a substantial prior year workload-based increase or decrease tends to have a greater effect on allocated costs as a percent of budget than a change in the number of authorized positions. CPS found the use of the DOI two-year roll forward methodology tends to mitigate/level out the effect of prior year costs.

Results of the In-Depth Analysis of CCSD and DOI Data

The analysis reveals across the three-fiscal years, the CCSD data sets, which are 62.5% position-based, are more consistent than the 100% workload-based DOI data sets. This is primarily because authorized position count from year to year has been more consistent than workload differences. Overall, the findings indicate:

- The percent change between fiscal years shows the costs allocated to CCSD clients on an AP basis – regardless of category - consistently rose from FY 13-14 to FY 14-15 then decreased from FY 14-15 and FY 15-16. The DOI clients, which are largely charged on a workload basis, experienced an opposite pattern. Allocated costs for DOI category 1110 bureau clients increased between each set of fiscal years, while costs for category 1111 non-bureau clients decreased between FY 13-14 to FY 14-15, then increased from FY 14-15 to FY 15-16.
- The percentage of costs allocated to CCSD clients are more evenly split than DOI clients with approximately 56% of hours allocated to category 1110 bureau clients and 44% to category 1111 non-bureau clients. For DOI clients, approximately 90-95% of the costs were allocated to category 1110 clients and only 5-10% were allocated to category 1111 clients.
- The percentage and direction of change in allocated costs between FY 13-15 and FY 15-16 discloses the following:
    - The CCSD had 6 clients with allocation cost changes greater than 50% and the DOI had 25, again, because the AP count has been more consistent than workload.
    - This is further evidenced by an average increase/decrease of allocated costs of 27.2% / -18.71% for CCSD, and 962.6% / -54.6% for DOI (due largely to Medical Board services). The change between the increase and decrease is much greater for DOI than CCSD.

In summary, the CPS historical data analysis is consistently inconsistent and inconclusive. As such, the analysis does not overtly support or refute the current DCA cost distribution methodology. The following presents an in-depth analysis of each division data set.

Consumer Client Services Division Analysis

For CCSD, Table 5 and Figure 1 below display minor positive increase differences between the category groups for FYs 2013-14 to 2014-15, and minor negative decrease differences between the two groups from FYs 2014-15 to 2015-16.

Table 5: Percent Difference in Allocated Costs

Fiscal Year Covered	Category 1110	Category 1111	OVERALL
FY 13-14 to FY 14-15	5.10%	3.90%	**4.50%**
FY 14-15 to FY 15-16	-9.6%	-11.2%	**-10.3%**

Figure 1: Comparison of Allocated Costs Compared to FY 13-14

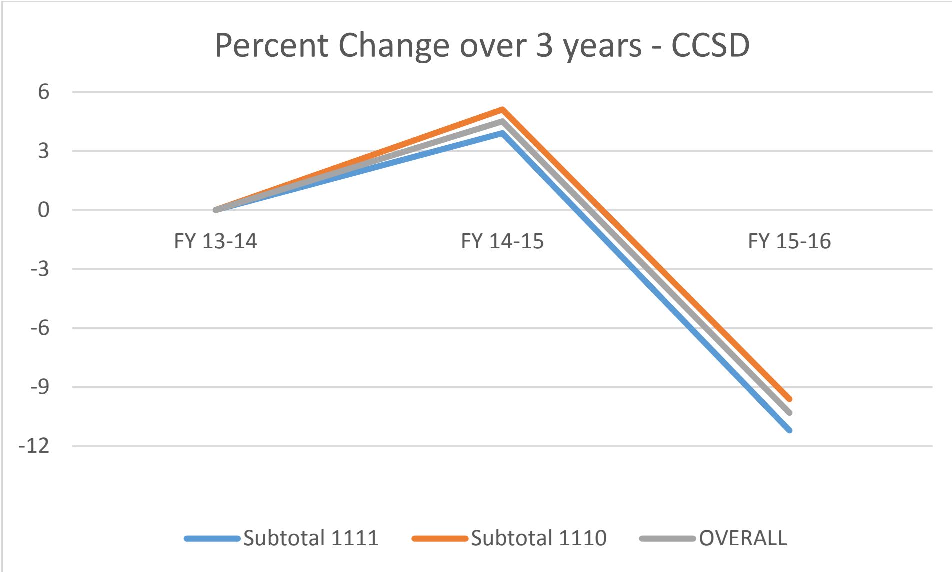


Table 6 reveals the ratio of costs attributed to 1110 and 1111 categories remained fairly consistent across the fiscal years. However, the 1110 non-bureau category received a majority of the costs each fiscal year because there are more of them (29 vs. 10).

Table 6: Costs Allocated by Category

Fiscal Year	1110	1111	TOTAL	Ratio of 1110 to 1111
FY 13-14	$ 36,858,577	$ 29,213,423	**$ 66,072,000**	55.8% to 44.2%
FY 14-15	$ 38,725,873	$ 30,347,127	**$ 69,073,000**	56.1% to 43.9%
FY 15-16	$ 35,019,000	$ 26,941,000	**$ 61,960,000**	56.2% to 43.8%
TOTAL for 3 Years	$110,603,450	$ 86,501,550	**$ 197,105,000**	56.1% to 43.9%
AVERAGE for 3 Years	$ 36,867,817	$ 28,833,850	**$ 65,701,667**	56.1% to 43.9%

From an individual client perspective, Table 7 shows a list of percentage allocation changes between FY 13-14 and FY 15-16 with the yearly increments provided. This table displays the following:

- Between FY 13-14 and FY 15-16, 6 clients experienced changes of more than 50%, with one at almost 100% and another over 100%. The Bureau of Real Estate (category 1111) experienced the largest positive change of 174% and Boxer's Neurological Program (category 1110) the largest negative change of -78%.
- Between FY 13-14 and FY 15-16, 21 clients (17 category 1110 and 4 category 1111) showed an increase while 30 (18 category 1110 and 12 category 1111) showed an overall decrease. Three category 1110 clients did not experience any fluctuation between these years.

Table 7: Summary of Percentage Changes to Allocated Costs

Group	Client	Percent Difference between Years FY 13-14 and FY 14-15	FY 14-15 and FY15-16	FY 13-15 and FY15-16
1111	Bureau of Real Estate[2]	47.55%	85.92%	174.32%
1110	Naturopathic Medicine Committee[3]	22.88%	62.72%	99.95%
1110	Acupuncture Board	55.05%	14.81%	78.02%
1110	Boxer's Neurological	14.21%	-80.53%	-77.76%
1110	Registered Dispensing Opticians	-8.00%	-53.07%	-56.82%
1111	Bureau of Real Estate Appraisers	17.30%	32.95%	55.95%
1110	Veterinary Medical Board	23.19%	10.15%	35.69%
1110	Speech-Language P.A./ Hearing Aid	-11.54%	-24.03%	-32.80%
1111	Private Security Services	-8.22%	-26.54%	-32.58%
1110	Vocational Nursing Program	-33.50%	-23.70%	-49.30%
1110	Board of Optometry	-11.00%	-43.00%	-49.30%
1110	Structural Pest- Support	6.70%	33.10%	42.00%
1110	Geologists and Geophysicists	17.90%	13.30%	33.60%
1111	Private Security Services	-9.30%	-26.50%	-33.30%
1111	Private Post - Support	37.90%	-3.50%	33.10%
1111	Telephone Medical Advice	1.70%	-30.40%	-29.20%
1110	Osteopathic Medical Board	11.10%	14.60%	27.30%
1110	Court Reporters Board	1.50%	-28.20%	-27.10%
1111	Cemetery	-13.10%	-15.50%	-26.50%
1110	Physical Therapy Board	28.30%	-1.50%	26.30%
1111	Automotive Repair (HPRRA)	-2.70%	-22.40%	-24.50%
1111	Private Investigators	19.00%	4.20%	23.90%
1110	Barbering & Cosmetology	1.40%	-24.00%	-22.90%
1111	Automotive Repair (VIRF)	-1.30%	-21.20%	-22.20%
1111	Automotive Repair (EFM)	54.70%	-49.40%	-21.70%
1110	Dental Assistants Program	5.00%	-23.50%	-19.70%
1110	Respiratory Care Board	14.10%	4.70%	19.50%
1110	Board for Professional Engineers	-5.10%	-13.80%	-18.20%
1111	Arbitration Certification	3.50%	-19.00%	-16.10%
1110	Athletic Commission	-22.80%	12.60%	-13.10%
1111	Home Furnishings	5.80%	-17.90%	-13.10%
1110	Board of Architectural Examiners	6.40%	-15.20%	-9.80%
1110	Board of Registered Nursing	13.90%	-3.70%	9.70%
1110	Board of Behavioral Sciences	27.10%	-14.60%	8.50%
1110	Board of Psychology	11.20%	-2.50%	8.40%
1110	Guide Dogs for the Blind	9.50%	-15.40%	-7.40%
1110	Psychiatric Technician Program	7.60%	-13.40%	-6.90%
1110	Chiropractic	-2.90%	-3.90%	-6.70%

[2] The Bureau of Real Estate increase is due to the transition to DCA as a Bureau during the 2013 Governor's Reorganization Plan. DCA phase the program in over two years to take into account some administrative services already contracted with outside entities through the first year, thereby avoiding payment for potential duplicative services. This represents the full pro rata share for the Bureau.

[3] The significant Naturopathic Medicine increase is due to the increase from one to two positions.

1110	Physician Assistant Committee	9.90%	-15.00%	-6.60%
1111	Funeral Directors & Embalmers	7.30%	-12.90%	-6.50%
1110	Accountancy	-3.50%	9.50%	5.70%
1110	Landscape Arch Committee	2.90%	1.50%	4.50%
1110	Speech-Language P.A./ Hearing Aid	6.60%	-3.10%	3.30%
1110	Boxer's Pension	45.00%	-28.90%	3.10%
1110	Dental Hygiene Committee	13.90%	-14.40%	-2.50%
1110	Board of Podiatric Medicine	11.00%	-7.90%	2.20%
1110	Contractors State License Board	2.70%	-4.30%	-1.70%
1110	Board of Pharmacy	4.50%	-2.90%	1.50%
1111	Electronic/ Appliance Repair	9.70%	-9.90%	-1.20%
1111	Fiduciaries	6.80%	-7.30%	-1.00%
1110	Dental Board of CA	7.60%	-7.80%	-0.80%
1110	CSLB - Const Mgmt Account	0.00%	0.00%	0.00%
1110	Structural Pest EduEnf	0.00%	0.00%	0.00%
1110	Structural Pest – Research*	0.00%	0.00%	0.00%

*Only listed on the FY 13-14 list of clients, no hours allocated

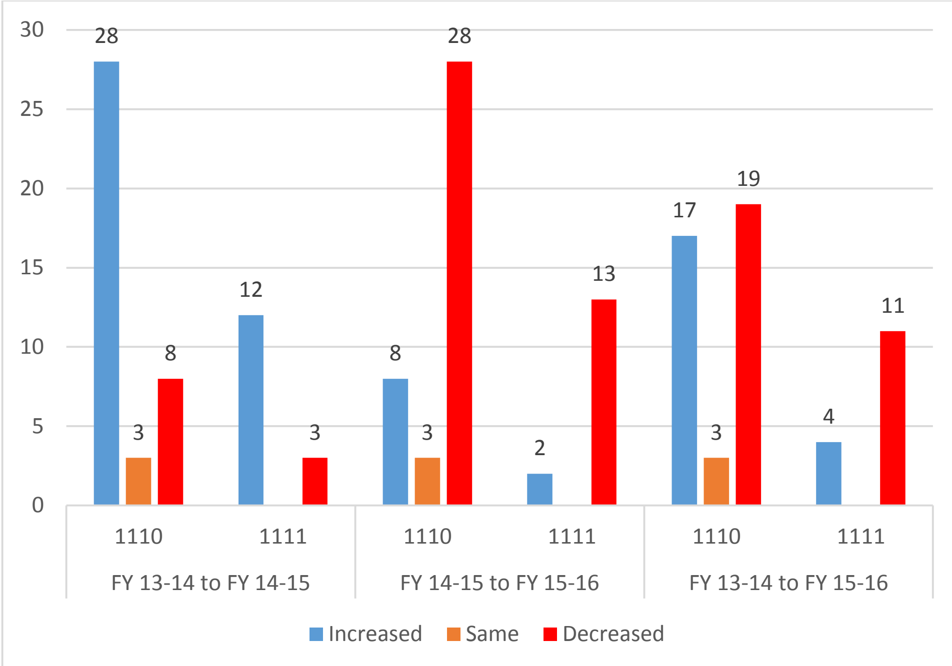
Table 8 summarizes the overall changes between and across the three fiscal years. Most clients experienced a positive change between FY 13-14 and FY 14-15. From FY 13-14 to FY 15-16, the highest average increase was 27.2%. In FY 14-15 and FY 15-16 most clients experienced a negative change, with the highest average decrease of -18.7%.

Table 8: Summary of Increased/Decreased in Allocated Costs

	Differences between Fiscal-Year Periods		
Client Experience	**FY 13-14 and FY 14-15**	**FY 14-15 and FY 15-16**	**FY 13-14 and FY 15-16**
Number clients with more than 50% change	2	5	6
Number of clients with an increase	40	10	21
Average % increase	Avg: 14.5%	Avg: 25.1%	Avg: 27.2%
Number of clients with no change	3	3	3
Number of clients with a decrease	11	41	30
Average % decrease	Avg: -7.0%	Avg: -18.2%	Avg: -18.7%

Figure 2 shows the number of clients with a positive/negative change by category and fiscal year. Clients in the 1110 category mostly experienced an increase between FY 13-14 and FY 14-15. However, between FY 14-15 and FY 15-16, most suffered a decrease in allocated costs. Consequently, about half of the clients in this group experienced increases while half realized decreases over the two fiscal-year period resulting in almost a balance. Clients in the 1111 category followed a similar pattern, but overall more realized a decrease in allocated costs over the two fiscal-year period.

Figure 2: Number of Clients with an Increase/Decrease in Allocated Costs by Fiscal Year



In-Depth Division of Investigation Analysis

For DOI, Table 9 shows a significant difference in allocated costs between categories 1111 and 1110 for each consecutive two fiscal-year periods. However, the huge difference the 1110 category experienced between FY 13-14 and FY 14-15 is largely due to the influence of the allocated costs for the Medical Board of California. As a result of implementation of SB 304, the Medical Board investigation unit [Health Quality Investigations Unit (HQIU)] was moved under DOI on July 1, 2014.

Table 9 includes the Medical Board and shows the 1110 category significantly increased from FY 13-14 to FY 14-15 and then experienced a minor increase from FY 14-15 to FY 15-16. Initially, the 1111 category realized a significant decrease in FY 13-14 to FY 14-15, then experienced a substantial increase from FY 14-15 to FY 15-16.

Table 9: Percent Difference in Allocated Costs

Fiscal Years Covered	Subtotal 1110	Subtotal 1111	OVERALL
FY 13-14 to FY 14-15	190.1%	-12.4%	**173.5%**
FY 14-15 to FY 15-16	2.5%	23.0%	**3.0%**

In Table 10, CPS removed the Medical Board values to reduce the skewing effect, resulting in more modest changes during the fiscal-year periods. Without the Medical Board, the 1110 non-bureau category increased nominally from FY 13-14 to FY 14-15, and then barely increased again from FY 14-15 to FY 15-16. In contrast, the 1111 bureau category decreased from FY 13-14 to FY 14-15 but then increased substantially from FY 14-15 to FY15-16.

Table 10: Percent Difference in Allocated Costs without the Medical Board

Fiscal Years Covered	Subtotal 1110	Subtotal 1111	OVERALL
FY 13-14 to FY 14-15	5.2%	-12.4%	**3.7%**
FY 14-15 to FY 15-16	0.9%	23.0%	**2.4%**

Table 11 shows the ratio of costs (including the Medical Board) attributed to the 1110 and 1111 categories remained fairly consistent across the three fiscal years. However, the 1110 non-bureau category was allocated substantially more costs each year primarily because there are three times more entities within the category.

Table 11: Costs Allocated by Category

Fiscal Year	1110	1111	TOTAL	Ratio of 1110 to 1111
FY 13-14	$ 8,546,789	$ 766,211	**$ 9,313,000**	91.8% to 8.2%
FY 14-15	$ 24,795,572	$ 671,428	**$ 25,467,000**	97.4% to 2.6%
FY 15-16	$ 25,408,000	$ 826,000	**$ 26,234,000**	96.9% to 3.1%
COMBINED 3 Years	$ 58,750,361	$ 2,263,639	**$ 61,014,000**	96.3% to 3.7%
AVERAGE 3 Years	$ 19,583,454	$ 754,546	**$ 20,338,000**	96.3% to 3.7%

Table 12 shows the effect of removing the Medical Board hours for this analysis. It indicates that while the percentage for the 1110 non-bureau category clients dropped and increased for the 1111 bureau category nominally, most of the costs over these fiscal years were still allocated to category 1110 clients. Since there are three times as many clients in the 1110 category, it is expected there would be more costs allocated to this category. However, the percentages are much more than 300% of those allocated to 1111 bureau clients.

Table 12: Percentage of Allocated Costs without the Medical Board

Fiscal Years Covered	1110	1111
FY 13-14	91.7%	8.3%
FY 14-15	93.0%	7.0%
FY 15-16	91.6%	8.4%
AVERAGE 3 Years	92.1%	7.9%

From an individual client perspective, Table 13 shows a list of percentage allocation changes between FY 13-14 and FY 15-16 with the yearly increments provided. This table reveals the following:

- Between FY 13-14 and FY 15-16, 25 clients experienced changes more than 50%, of which 15 were 100% change or higher – including 4 over 1,000% change. The Medical Board (non-bureau category 1110) experienced the greatest positive change at 17,983% while 5 clients (4 category 1110 and 1 bureau category 1111) realized the largest negative change of -100%.

- Between FY 13-14 and FY 15-16, 27 clients (20 non-bureau category 1110 and 7 bureau category 1111) showed an increase while 24 (16 non-bureau category 1110 and 8 bureau category 1111) showed a decrease. Three clients (category 1110) did not experience any fluctuation between the years.
- This analysis demonstrates the DCA cost distribution methodology generally treats both client categories equally.

Table 13: Summary of Percentage in Changes to Allocated Costs

Group	Client	Percent Difference between years FY 13-14 and FY 14-15	Percent Difference between years FY 14-15 and FY 15-16	Percent Difference between years FY 13-15 and FY 15-16
1110	Medical Board of California[4]	17,394.6%	3.4%	17,983.2%
1110	Structural Pest- Support	9.6%	1,394.3%	1,537.9%
1110	Respiratory Care Board	6.5%	1,369.8%	1,465.7%
1110	Landscape Arch Committee	6.5%	1,167.2%	1,249.8%
1110	Geologists and Geophysicists	29.9%	627.1%	844.6%
1111	Private Investigators	49.2%	485.5%	773.5%
1111	Private Post - Support	555.3%	27.6%	736.3%
1110	Naturopathic Medicine	198.0%	156.8%	665.4%
1110	Chiropractic	9.5%	79.7%	96.7%
1111	Bureau of Real Estate	9.6%	59.5%	74.8%
1110	Veterinary Medical Board	75.2%	-1.5%	72.5%
1110	Acupuncture Board	28.5%	26.4%	62.4%
1110	Contractors State License Board	90.8%	-16.4%	59.6%
1110	Speech-Language P.A./ Hearing Aid	33.6%	17.5%	57.0%
1110	Physical Therapy Board	38.5%	7.2%	48.5%
1110	Osteopathic Medical Board	6.6%	38.3%	47.5%
1110	Dental Assistants Program	6.7%	27.7%	36.2%
1110	Board of Behavioral Sciences	214.0%	-57.9%	32.2%
1110	Board of Pharmacy	7.9%	18.0%	27.4%
1110	Board of Psychology	6.5%	17.5%	25.2%
1110	Accountancy	5.2%	14.9%	20.9%
1110	Board of Podiatric Medicine	6.7%	11.7%	19.1%
1110	Board of Registered Nursing	7.9%	8.5%	17.0%
1111	Arbitration Certification	6.5%	8.9%	15.9%
1111	Cemetery	6.6%	4.5%	11.4%
1111	Automotive Repair (EFM)	6.5%	2.7%	9.5%
1111	Automotive Repair (HPRRA)	6.7%	-5.8%	0.5%
1110	Structural Pest EduEnf	0.0%	0.0%	0.0%
1110	CSLB - Const Mgmt Account	0.0%	0.0%	0.0%
1110	Structural Pest – Research*	0.0%	0.0%	0.0%
1111	Bureau of Real Estate Appraisers	9.6%	-11.5%	-3.0%
1110	Psychiatric Technician Program	6.4%	-16.2%	-10.8%
1111	Home Furnishings	6.6%	-16.8%	-11.3%
1111	Electronic/ Appliance Repair	6.6%	-17.0%	-11.5%

[4] The significant Medical Board change is due to the transfer of over 100 staff from the Medical Board of California to the Division of Investigation – Health Quality Investigations Unit.

1110	Dental Hygiene Committee	-20.3%	6.3%	-15.2%
1110	Board for Professional Engineers	-25.4%	9.3%	-18.4%
1111	Funeral Directors & Embalmers	6.4%	-23.6%	-18.7%
1110	Athletic Commission	-33.2%	12.9%	-24.6%
1110	Court Reporters Board	18.4%	-41.9%	-31.2%
1110	Physician Assistant Committee	6.5%	-35.4%	-31.2%
1110	Barbering & Cosmetology	107.9%	-70.1%	-37.9%
1110	Dental Board of CA	-37.4%	-1.8%	-38.6%
1110	Board of Architectural Examiners	41.7%	-60.1%	-43.5%
1111	Automotive Repair (VIRF)	-56.9%	-9.1%	-60.8%
1111	Private Security Services	-80.8%	-1.0%	-81.0%
1110	Occupational Therapy	-64.2%	-47.0%	-81.0%
1111	Fiduciaries	-97.3%	70.6%	-95.4%
1110	Vocational Nursing Program	-84.0%	-87.7%	-98.0%
1110	Board of Optometry	-30.0%	-98.0%	-98.6%
1111	Telephone Medical Advice	7.1%	-100.0%	-100.0%
1110	Boxer's Neurological	6.5%	-100.0%	-100.0%
1110	Boxer's Pension	6.2%	-100.0%	-100.0%
1110	Guide Dogs for the Blind	6.4%	-100.0%	-100.0%
1110	Registered Dispensing Opticians	6.5%	-100.0%	-100.0%

*Only listed on the FY13-14 list of clients, no hours allocated

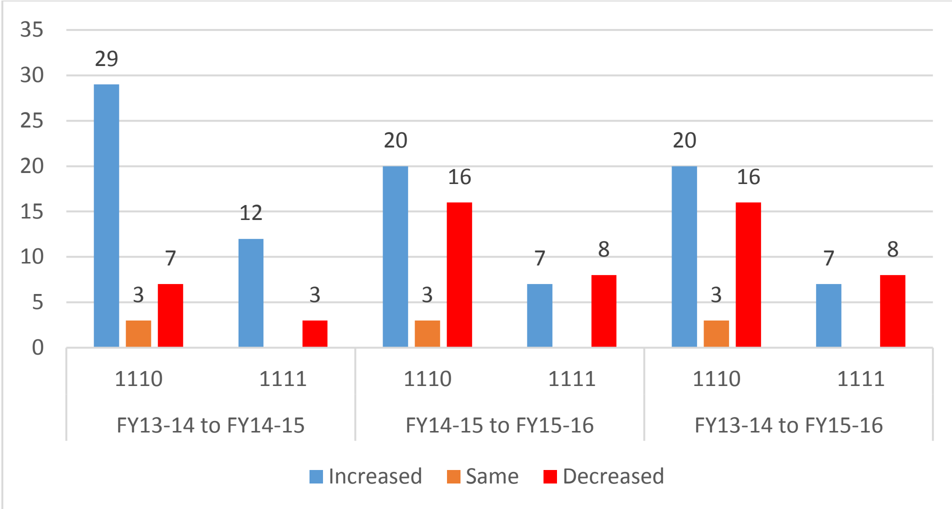
Table 14 summarizes the overall changes between and across the three fiscal years. Most clients experienced a positive change between FY 13-14 and FY 14-15. From FY 13-14 to FY 15-16, the highest average increase was 962.62%. Most clients experienced a negative change between FY 14-15 and FY 15-16, and FY 13-14 to FY 15-16, with the highest average decrease of -54.6%.

Table 14: Summary of Increased/Decreased in Allocated Costs

Client Information	Percent Difference between Fiscal Years		
	FY 13-14 and FY 14-15	**FY 14-15 and FY 15-16**	**FY 13-14 and FY 15-16**
Number clients with more than 50% change	12	19	25
Number of clients with an increase	41	27	27
Average % increase	Avg: 465.0%	Avg: 129.7%	Avg: 962.6%
Number of clients with no change	3	3	3
Number of clients with a decrease	10	24	24
Average % decrease	Avg: -52.9%	Avg: -46.6%	Avg: -54.6%

Figure 3 shows the number of clients with a positive/negative change by category and fiscal year. Between FY 13-14 and FY 14-15, most category 1110 non-bureau clients experienced increased allocated costs. However, from FY 14-15 to FY 15-16 and from FY 13-14 to FY 15-16, the number of clients with increasing costs leveled out with those with decreasing costs. Category 1111 clients experienced a similar pattern of allocated costs over the fiscal years.

Figure 3: Number of Clients with an Increase/Decrease in Allocated Costs by Fiscal Year



DCA Client Survey Results

As part of the evaluation of the DCA pro rata cost distribution methodology, CPS conducted an online survey of DCA clients. Invitations were emailed to participants with a request for a single representative at the Executive Officer or Assistant Executive Officer/Chief or Deputy Chief to complete the survey. The survey ran for 19 days to ensure full client representation. There were 39 clients invited and 37 responded.

The survey was intended to measure the understanding and awareness of the pro rata process, gauge the level of satisfaction with Department of Consumer Affairs (DCA or Department) services, and explore preferences around opting out of DCA services.

The results of the full report are presented under separate cover and include the following:

- Feedback about the DCA pro rata process;
- How DCA units are ranked in terms of their importance to carrying out Board/Bureau missions;
- Satisfaction and feedback specific to each DCA unit; and
- Preferences and feedback about opting out of DCA services.

The following summarizes the quantitative responses and individual comments, and provides a robust overview of client perceptions about DCA Administration practices.

Awareness/Unit Ranking

- There is widespread awareness of the DCA pro rata process. Of 37 respondents, 34 were aware of the process and services provided by the Department.
- There has been significant opportunity for individual Boards and Bureaus to ask DCA staff questions about the process. Of 37 respondents, 32 affirmed they had this opportunity.

Respondents also ranked the individual DCA units most vital to their operations. The highest ranked units were:

- Legal Division
- Office of Administrative Services (OAS)
- Office of Information Services (OIS)

These units were selected by a large majority of respondents because almost all respondents worked with on a regular basis.

The lowest ranked units were:

- Office of Professional Examination Services
- Consumer Information Center
- Complaint Resolution Program

The primary driver of the low ranking for these units is that many respondents did not actually work with them on a regular basis. For those units that did use DCA, other DCA units were ranked higher.

Satisfaction

Generally, most client respondents felt the various DCA units work with them as a team to achieve business objectives. A notable exception was OAS where the response was more mixed. When looking at individual components of satisfaction, Assistance and Customer Service ranked higher while accuracy and particularly, timeliness ranked lower. Echoing the results around teamwork, respondents were less than 50% in agreement that OAS provide timely and accurate assistance. A concern about timeliness was also noted for Legal Affairs, Office of Information Services, and Division of Investigation. Individual written comments provide examples of these concerns.

Opting Out

More than half the respondents had not considered opting out of DCA services. However, eleven respondents had either considered it in the past or are considering it now. When considering how they would secure services if they opted out of DCA, most respondents overwhelmingly stated they would use their own resources, while a smaller portion would seek services from other state agencies. Individual comments also reflected some consideration of private sector solutions for some services.

In some cases, individual comments reflected a desire to opt out of the costs associated with a service they do not use. In other words, some units feel they do not use a service and therefore should not have to pay a portion of the cost. Individual comments also reflected a concern with the actual value proposition of DCA services. While overall satisfaction with services is high (with some exceptions), some comments expressed these services could be provided more cost effectively in other ways.

For further, more detailed information, please see the formal survey results and supporting data provided under a separate cover.

Benchmarking Study Results

CPS benchmarked the DCA cost distribution process against the Department of Finance Pro Rata cost allocation plan and the Department of General Services cost reimbursable services with the following results.

Department of Finance Pro Rata Cost Allocation Plan

Beginning in June each year, the DOF Fiscal Systems and Consulting Unit prepares and oversees the annual Pro Rata cost allocation plan for the next fiscal year. The plan is used to recover prior year costs expended by central service departments and the Legislature for overall administration of state government and for providing centralized services to state departments. Government Code sections 11010, 11270 through 11277, 22883 and the State Administrative Manual section 8752 authorize the annual recovery of statewide general administrative costs on a Pro Rata basis from each state department that receives services. Costs are recovered from state special and non-governmental cost funds to reimburse the General Fund.

Central Service Departments and Services

The Central Service Agencies (CSAs) are the DOF, Department of Technology, State Controller's Office, State Treasurer's Office, State Personnel Board, Department of Human Resources, Office of Administrative Law, State Library, Retirement Benefits, California State Auditor, Legislature and the Governor's Office. Department of Justice services are not included for Pro Rata distribution but are included in the Statewide Cost Allocation Plan to recover expenses from federal funding sources.

Centralized services include, but are not limited to: audits, budgets, information technology, payroll, payables, banking, investments, cash management to human resources, retiree health and dental benefits, legislation, government administration, planning and research. Approximately 141 state entities, including agency secretaries and individual state departments from 11 major agencies benefit from centralized services. Organizations receiving services may not opt out of participation.

Pro Rata Basis, Allocation and Assessment Collection Process

The Pro Rata process apportions the costs on a reasonable and consistent basis. For example, costs are allocated based on quantifiable workload units such as labor hours expended, positions, dollars expended for operations or benefits, records maintained, warrants issued, claims processed, transactions performed, sum of past actual costs for specific functions, etc.

The apportioned amount is further allocated to each state department's funding sources based on the percentage of total State Operations support dollars in each fund. The amount allocated to each fund is classified as "billable" or "non-billable." Billable funds are funded by special revenue sources such as fees, licenses, penalties, assessments, interest, etc. The billable funds within each state department reimburse the General Fund for the Pro Rata allocations. Non-billable funds are the General Fund, Special Deposit Fund, and federal funds.

The Pro Rata amount is calculated annually. In June each year, DOF emails template workload spreadsheets and a schedule to the CSAs followed by expenditures spreadsheets in early July. Using the spreadsheets, each CSA agency submits by department served: past year actual workload (reimbursed and non-reimbursed hours), expenditures by function and any reimbursements or other funding received, and estimated budget year expenditures. Workload and expenditure spreadsheets are due to DOF in July and August, respectively. The CSA budget officers certify the information is accurate.

From the worksheets, DOF calculates a unit cost for each workload function for the past fiscal year and the budget year. These unit costs are multiplied by the workload of the benefitting department. All functions for each benefitting department are summed and a report called "Detail by Function" is generated for each department.

DOF allocates each department's total central service administrative costs for all functions based upon the department's funding sources in the mid-column of the Governor's Budget. The Detail by Fund report displays each department/agency's allocation by fund.

DOF certifies the Pro Rata assessments around the middle of June every year. DOF sends the State Controller's Office (SCO) a letter instructing it to transfer an assessment by department and fund. The SCO transfers the Pro Rata assessments quarterly on August 15, November 15, February 15, and May 15.

Department of General Services Cost Reimbursable Services

The Department of General Services (DGS) provides a myriad of services primarily to state agencies on a cost reimbursable basis through an established two-year rate setting procedure. The Division of State Architect and Office of Administrative Hearings also offer services to California local governments. Each DGS program operates under its own statutory authority. The following briefly describes the services offered in the DGS 2014-15 Price Book, services all state departments use, the rate setting methodology, contracting and billing process.

DGS Price Book

The DGS 2014-15 Price Book describes the services the following 10 DGS entities provide:

Entity/Service Provider	Services
Office of Administrative Hearings	Administrative hearings
Office of Fiscal Services	Accounting and financial services (budgeting, accounting)
Fleet and Asset Management	Vehicle acquisitions, car rental, state fleet asset management, surplus property, transit storage, travel services
Office of Human Resources	Human resource services (classification, payroll, recruitment & examinations, labor relations, grievance handling, performance consulting
Office of Legal Services	Bid protest services, contracts review and approval, Hearing Officer services, Legal advice hourly services
Office of State Publishing	Addressing services, forms management, information and records management services, mail services, printing & publishing services, video production
Procurement Division	Contract advertising, moving state and household goods, purchasing, small business certification and outreach, disabled veteran business enterprise and (DVBE) certification

Real Estate Services Division	Asset management, building & property management, construction services, rent, project management & development
Office of Risk and Insurance Management	Risk and insurance management, natural gas services program
Division of the State Architect	Regulation services

Source: DGS 2014-15 Price Book

The DGS price book is published every year in the fall and covers rates for the current fiscal year and proposed rates for the subsequent fiscal year. Government Code 14604 requires DGS to submit the price book to the Department of Finance no later than August 1 each year. Finance approval is usually granted between August 1 and September 1 each year.

Services All State Departments Use

All state departments receive and are billed for statewide control agency and operations services that include the operations of the State Capitol complex, Legislative Bill printing, and statewide procurement policy services. Departments may not opt out of these services but may opt out of other contracted services.

The DGS Budget Office estimates that probably the most used services are those provided by the DGS Real Estate Services Division, Building and Property Management Branch that operates and maintains 58 buildings statewide and houses many state agency tenants. In addition, the Real Estate Leasing and Planning Section manages hundreds of private lease agreements to house state customers.

Rate Setting Methodology, Contracting and Billing Process

In April each year, DGS collects projected workload information from the service provider programs in a spreadsheet form that captures projected billable hours, projected utilization or state spend, or contract values. The DGS Budget Office validates the information provided by the programs/service providers.

Next, the DGS Budget Office calculates the cost to recover for each independent line of business for the next fiscal year and proposed rates for the subsequent fiscal year. The formula used is workload or outputs times the projected rate equals revenue. The projected revenue must be sufficient to fully recover the costs of operating that particular business line. The Budget Office compares the projected workload to the actual workload to validate the workload is achievable.

The DGS services are procured and provided under an Interagency Agreement.

Depending on the service, DGS may bill on a monthly, quarterly, biannual, annual, or as-needed basis. DGS has delegated authority to collect payment for most services through an EFT process. The DGS accounting section sends a transaction notice to the State Controller’s Office (SCO) requesting the billed amount of funds be transferred on the appropriate date. For services not paid for through the EFT process, DGS invoices the customer accordingly.

In summary, both DOF and DGS base their cost allocation/recovery method primarily on workload, outputs or billable hours. DOF recovers statewide general administrative costs that departments cannot opt out of. DGS also provides some statewide services that can’t be opted out of, but also provides many individual services that can be selected, paid for on a cost reimbursable basis, and terminated by customers at their choice.

Alternative Approach Recommendations

As previously noted, the three-year data analysis did not reveal any significant positive or negative findings to using the current cost distribution method. However, based on the results of the benchmarking study, DCA management should consider exploring the following alternative approaches. All three are variations of the current approach but give stronger consideration to incorporating objective workload information that can be collected in a cost-effective way. If the data collection process is onerous, lengthy and expensive, it defeats the purpose of collecting the information.

In order of implementation ease and practicality, CPS recommends DCA the following alternative approaches to improve cost distribution fairness and efficiency:

1. Consider charging all clients their share ($1/39^{th}$) for: a) the Consumer Information Center (CIC) handling of non-jurisdictional telephone calls, and b) the Correspondence Unit's handling of non-jurisdictional emails. This change would fairly spread the costs to all DCA clients and reduce the burden of those clients that currently support all costs related to the CIC and Correspondence Unit.

2. Where appropriate, consider moving toward a workload distribution approach that incorporates the two-year roll forward methodology to level out/mitigate the effects of high costs in a particular fiscal year. Using the two-year methodology should encourage service usage and reduce the desire to opt out of a particular service. This change would not apply to certain services that are best charged on an authorized position (AP) basis.

3. Consider using an approach that considers weighting APs and workload, then allocate hours on a proportional basis.

   For example, assume the number of authorized positions and workload are each weighted 50% (0.5) and a total of 35 hours need to be allocated to three clients. The following table demonstrates how this approach may be applied.

Client	APs	Workload Units	Calculation	% Hrs. Allocated
1	3	10	3 (.5) + 10 (.5) = 6.5/35	**18.6%**
2	5	12	5 (.5) + 12 (.5) = 8.5/35	**24.3%**
3	20	20	20 (.5) + 20 (.5) = 20.0/35	**57.1%**
Totals	**28**	**42**		**100.0%**

   Another version of this approach would be to examine historical trends and prorate the APs and workload units over time. For example, totals from the prior year might be weighted 50%, while two-year old data would be weighted 30%, and three-year old data 20%.

4. Consider implement an activity-based costing (ABC) methodology. ABC is a form of cost accounting that is designed to accurately reflect the cause-and-effect relationships between products or services, activities and costs. The fundamental concept underlying ABC is that costs are either assigned directly to a job, product or service, or they are assigned to various other activities the organization performs. The costs assigned to an organization's activities are eventually assigned to a client job, product, or service.

   The implementation of ABC requires the development of an economic model that can be developed in a spreadsheet or database that reflects the actual cause-and-effect relationship between the organization's products or services (cost objects), related activities, and costs. Ideally, the organization's client database, employee time reporting, and general ledger accounting system are integrated. This method is more accurate than the current and other alternative approaches offered, but would require more time reporting and financial infrastructure than is currently available at DCA.

Attachment 1

BUSINESS AND PROFESSIONS CODE - BPC

DIVISION 1. DEPARTMENT OF CONSUMER AFFAIRS [100 - 472.5]

CHAPTER 3. Funds of the Department [200 - 211]

Section 201

(a) (1) A charge for the estimated administrative expenses of the department, not to exceed the available balance in any appropriation for any one fiscal year, may be levied in advance on a pro rata share basis against any of the boards, bureaus, commissions, divisions, and agencies, at the discretion of the director and with the approval of the Department of Finance.

(2) The department shall submit a report of the accounting of the pro rata calculation of administrative expenses to the appropriate policy committees of the Legislature on or before July 1, 2015, and on or before July 1 of each subsequent year.

(b) The department shall conduct a one-time study of its current system for prorating administrative expenses to determine if that system is the most productive, efficient, and cost-effective manner for the department and the agencies comprising the department. The study shall include consideration of whether some of the administrative services offered by the department should be outsourced or charged on an as-needed basis and whether the agencies should be permitted to elect not to receive and be charged for certain administrative services. The department shall include the findings in its report pursuant to paragraph (2) of subdivision (a) that it is required to submit on or before July 1, 2015.

(Amended by Stats. 2014, Ch. 395, Sec. 4. Effective January 1, 2015.)