

Exhibit C

STATEMENT OF WORK

1. Operating Plan

Development of Principles and a Model for Allocating IT Costs to Organizational Entities

While every consulting firm, including MGT, standardize certain engagement processes, we do not impose a rigid work plan or pre-determined, one-size-fits all outcome on any of the City of San Antonio's departments, divisions or agencies. We will work with City personnel to combine our cost accounting expertise and experience with similar studies for similar organizations with the collective knowledge, understanding, and desired outcomes of City personnel. As we have done with all past engagements, MGT and the City will work together to define the project deliverables and outcomes.

Although the ultimate project deliverables and outcomes will be jointly identified and established, our work plan and methodology will have the following components. These components are fluid within each engagement and highly customized for each unique project. We are including these components in our proposal to demonstrate our experience and understanding of the details critical to setting up a defensible ISF cost model for such a large service organization.

2. Technical Plan

The following section describes the proposed major tasks necessary to complete the study. It also identifies the projected hours spent per consultant in each phase:

I. Submit Preliminary Data Request and Conduct Initial Kickoff Meetings.

Initially, we will submit a preliminary data request for general information regarding IT Department (ITSD) operations in each of its four major divisions: Enterprise Application, Enterprise Infrastructure, Public Safety Technology, and Customer Relations. This enables the consulting team to familiarize themselves with the overall operations and organizational structure that allows for a more productive initial kickoff meeting to follow.

Our project team will meet with City personnel who have responsibility or a high interest in the evaluation and implementation of the charge back or ISF model. These meetings will refine the specific goals, objectives, requirements, purposes, and schedule of the project. The meetings will also help the project consultants understand the unique aspects of ITSD.

Project Manager: 8 hours

Project Consultant: 8 hours

IT Consultant: 8 hours

2. Review of Organizational Structure and Service Delivery.

During this task, the project team will collect and review data such as organization charts, expenditure statements, budgets, personnel counts, salary reports, and service delivery statistics. Project consultants will work with City personnel to develop and gather the needed data in the most efficient way possible. Project consultants will meet with and interview representatives from the various organizational units involved in order to determine the services provided, personnel providing the services, the recipients of the provided services, direct costs (budget and actual) along with any statistical service delivery data already being collected or readily available.

In order to develop an overall understanding of the factors impacting and shaping service requirements (costs), project consultants will need to review all relevant information regarding operations and programs. This includes reviewing all policies associated with services provided, customer profiles, usage statistics, and all other operational information and policies impacting the cost of those services. The result of this task will serve as the basis of the structure for the internal service model, including the determination of service offerings and future charge back (ISF) rate structures.

Project Manager: 8 hours

Project Consultant: 16 hours

IT Consultant: 8 hours

3. Divide ITSD costs into functions or cost pools.

The costs associated with the service provider, both direct and indirect (from the City-wide cost allocation plan) will be segregated into like or similar functions, referred to as cost pools. These pools will represent distinct activities performed within the division and will include administrative and support, as well as direct service functional costs.

We will determine and distribute all labor costs into functions based on timesheets, assignments, activities, or other allowable methods. Once staff members and their corresponding salaries and wages are distributed into the proper functions, other division costs—such as materials and supplies, benefits, etc.—will also be distributed proportionately into the same functions. The result of this task is a breakdown of all costs into functional cost pools, which can then be allocated to the various services provided (or to non-billable areas if applicable) using meaningful, measurable, and auditable cost distribution (allocation) techniques.

Costs identified as overhead support for ITSD provided through other City departments will be distributed down to the service level as well. However, they will retain their identity throughout the process and their impact easily quantified on our charge back rate cost composition reports. ***MGT has found, with regards to charge back rates that having the composition of a billed rate at a detailed level is***

essential to the acceptance of those charges by end users and external auditors.

From our experiences, we have found that fees will not be accepted by those charged unless the method of calculating the fee is fairly straightforward (simple) and that the amounts can be easily defended. It is one thing to tell someone that the fee for a particular service is, say \$5. It is quite another to tell them why it costs \$5. With our approach, for each fee calculated we will be able to show its composition down to a very low level. The distinction between a direct or indirect cost is paramount as many times the indirect costs are unavoidable and not controllable by the service provider. In our reports we will clearly show that distinction.

Project Manager: 4 hours

Project Consultant: 24 hours

IT Consultant: 8 hours

4. Develop billing bases for each service function.

MGT will use information obtained from task 2 outlined above to select appropriate billing bases for each service provided. Methods derived will serve as the basis for calculating individual service charge back fees and rates. In selecting the billing bases for each provided service, we will take into consideration the effectiveness of potential methods in terms of cost recovery and evaluate which billing technique will send the proper cost and pricing signals to end users in order to influence their behaviors for overall cost control purposes.

We will explore if there are other possible ways to recover costs, and, at the same time properly communicate this message to user departments. Alternative pricing or rate setting billing methods will be identified and presented to ITSD management for consideration.

We will outline the pros and cons of these alternatives and make recommendations based upon our experiences with other jurisdictions. Data (usage statistic) availability will be factored into the selection of each of the billing bases, along with input from ITSD personnel and all GAAP, OMB or City policy requirements.

Project Manager: 4 hours

Project Consultant: 24 hours

IT Consultant: 8 hours

5. Calculate draft charge back fees, charges and rates.

MGT will use all of the cost and statistical information obtained from the tasks above to calculate draft charge back fees and rates using an Excel based model. This model will calculate and provide (through its detailed and summary reports) the full cost of providing each service. Reports will be provided which identify for each service, its full cost along with its direct, indirect and overhead cost components clearly displayed. In

addition, we will create cost composition reports, showing the full cost of each service, broken down at the specific line item level. These cost composition reports will show the annual cost (budget or actual basis), the fee (cost) per unit of service, and the percentage for each significant line item.

It is during the completion of this task where we will recommend appropriate fees and charges for each service provided. For those fees where full recovery may be deemed unrealistic, we will factor in appropriate subsidy percentages based on discussions with City personnel. In addition, based upon our national experience, we will identify any potential additional sources of revenue (other than general taxes) for services offered whereby ITSD might seek cost recovery.

Project Manager: 4 hours

Project Consultant: 32 hours

6. Draft written Charge Back User Guide (Services Manual).

Many will be unfamiliar with the unique federal and state requirements associated with internal service funds or chargeback models. The required documentation for ISF (charge back) rates and charges **is much more extensive than what is normally associated with a traditional cost allocation plan.** We keenly understand this fact and through our past experiences we recognize that federal guidelines also require the following:

For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include: a brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this Circular, with an explanation of how variances will be handled.

Within the last year alone, MGT consultants have prepared nearly a dozen ISF or charge back User Guides and manuals in compliance with the federal and state regulations as noted above. Pursuant to these regulations we will provide, during this task, a written internal service fund or charge back user guide (manual) for ITSD. The manual will include:

- ❖ Written descriptions of the services provided.
- ❖ Documentation of general rate structures and designs.
- ❖ Documentation of rate calculation procedures and techniques.

- ❖ Written descriptions of reconciliation or “true up” methods.
- ❖ Listings of data sources and reports utilized.
- ❖ Listings of pertinent definitions and terms.

Project Manager: 4 hours

Project Consultant: 24 hours

7. Create Ten Year ISF (Charge Back) Rate Forecast Model.

Through our collective experience with many similar studies, we have learned that a critical component of effectively managing a charge back operation is the forecasting of costs and the related impact on **future rates**. For both the service provider and the end users, it is of vital importance to anticipate future costs, to budget and plan accordingly thereby eliminating unwanted “surprises” and to obtain necessary funding. In addition to documenting the services and rate calculation procedures as outlined above, we will also develop an Excel based ten-year rate and fund balance forecasting model for the charge back services of ITSD.

This tool is designed to predict the need for future adjustments in charge back rates and to quickly (and accurately) conduct internal “what if” scenario analysis. The model will be prepared in a format consistent with traditional internal service fund reporting requirements as recognized by GAAP accounting and, as such, will resemble a statement of changes in net assets, forecast for the next ten years. The model will represent a series of linked worksheets designed to allow Information Technology to forecast changes in individual line items of costs and revenue streams based upon known or anticipated factors. The model will become the property of the City upon completion of the project, thus reducing the City’s reliance upon external consultants.

Project Manager: 2 hours

Project Consultant: 8 hours

8. Conduct internal quality control review.

The MGT project team will undertake an extensive internal review process to raise the accuracy of the charge back process and ensure that City personnel do not waste time reviewing substandard or incomplete work.

Project Director: 2 hours

Project Manager: 2 hours

Project Consultant: 2 hours

IT Consultant: 2 hours

9. Present preliminary project results to ITSD and modify as needed.

We take great pride in the quality of our deliverables and our reputation. Not only do we need to meet the rules and regulations governing the creation of charge back models, but we also strive to exceed the expectations of our clients. We do not consider a project final until our clients are completely satisfied and **they** consider it final.

This means that we go to great lengths to communicate draft findings to client representatives **throughout** the project. We recognize the importance of client involvement in the accuracy and ultimate acceptance of our deliverables. Although we will be presenting draft reports and findings throughout the project, this task simply represents the culmination of those efforts into a meeting with all vested parties where all of our proposed deliverables are presented and discussed. Any modifications or changes after this meeting will be incorporated into final deliverables as outlined below.

Project Manager: 8 hours

Project Consultant: 8 hours

IT Consultant: 8 hours

10. Provide the final Cost Allocation Model(s) to the City.

We will provide both printed and electronic copies (Adobe PDF file, Excel and MSWord on CD-ROM) of the final charge back model and rate manual to City personnel following confirmation that the work is considered final by the City's project manager. Additionally, we will provide electronic copies of all support files or schedules, and other reports as requested.

Project Consultant: 4 hours

11. Assist ITSD and Innovation & Reform Team with the preparation and delivery of two (2) presentations to City management and other stakeholders.

MGT staff will also assist in the preparation and presentation of the rates and methodologies to City management and interested stakeholders. This will include preparation of presentation documents, attendance at meetings and/or presentations, and fielding questions or concerns from those in attendance.

Project Manager: 8 hours

Project Consultant: 2 hours

12. Provide instruction to appropriate City staff (up to four hours of on-site training) on the model features and how to incorporate changes and develop "what if" scenarios in the rate forecasting model.

MGT staff will also assist in the preparation and presentation of the rates and methodologies to City management and interested stakeholders. This will include preparation of presentation documents, attendance at meetings and/or presentations, and fielding questions or concerns from those in attendance.

Project Consultant: 4 hours

As previously stated, the ultimate project deliverables and outcomes will be identified and established jointly between MGT and the City. Although our actual work plan we contain the activities just described, these activities will be highly customized to the unique needs and desires of the City of San Antonio.

The projected total hours by consultant classification is:

Project Director: 2 hours
Project Manager: 52 hours
Project Consultant: 156 hours
IT Consultant: 42 hours

TOTAL HOURS: 252