



Indirect Cost Allocation Plans: *What are they and how to prepare one*

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May 8, 2019
May PSFOA Meeting
Emerald Downs Banquet Room



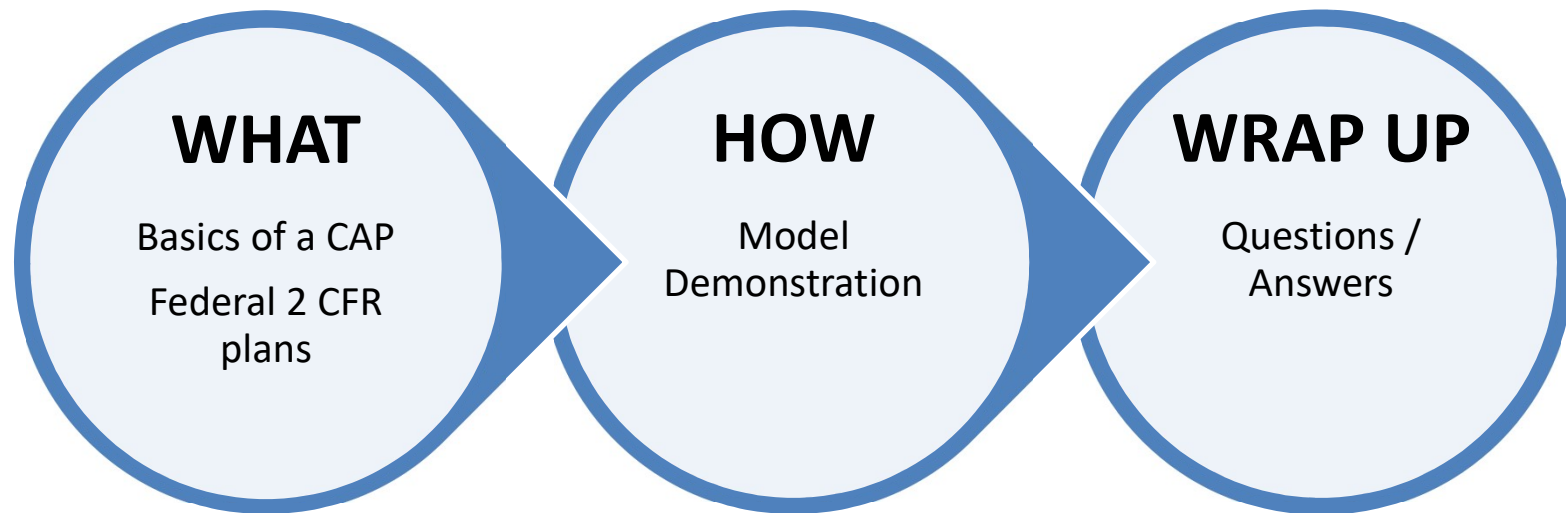
About FCS GROUP

- ◆ 30 Years in business
- ◆ 35 person firm
- ◆ Work nearly exclusively with public sector





Learning Objectives





What is Indirect Cost Allocation?

A method to calculate the cost of **support** activities and functions to serve **direct service** programs, to reimburse the General Fund for services provided.

Example Support Activities

Administration
Finance / Accounting / Budget
Human Resources
Legal
Records Management
Facility Maintenance
Information Technology

*Allocated based
on workload measures*

Direct Service Programs

Police
Fire and EMS
Development Services
Public Works
Utilities
Parks
Library
Cemetery

What are support (indirect) activities?

**Central services or support functions
shared across departments**



**Services are initially paid through
the General Fund or an Internal
Service Fund**

**And equitably charged back to
departments or programs that
directly benefit from them**

What are support activities (con't)?

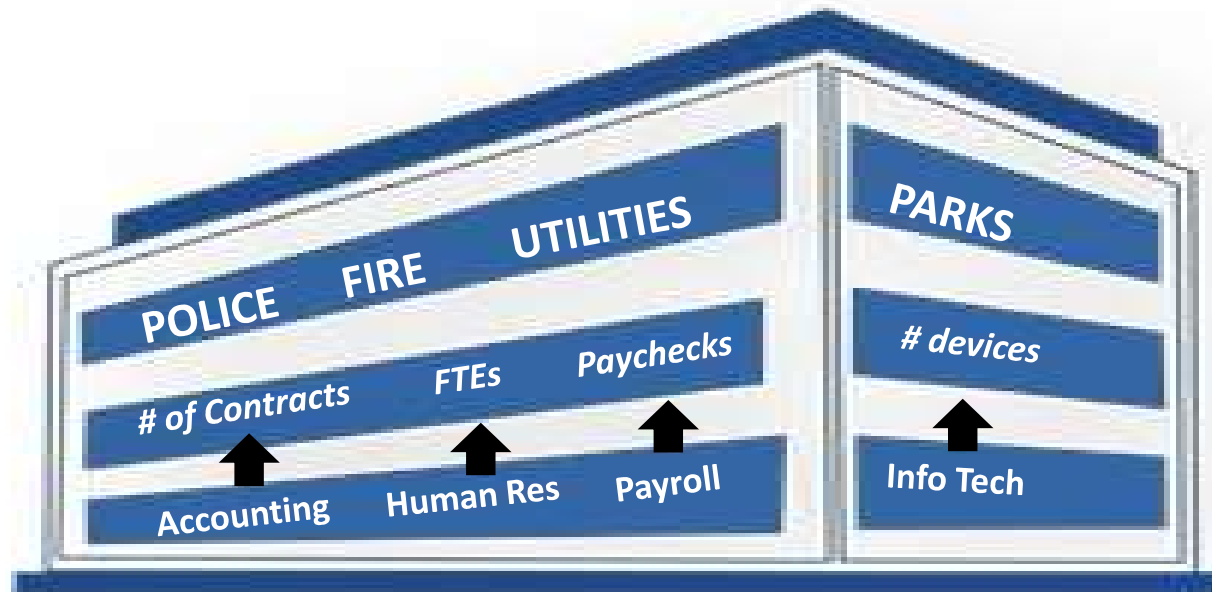
Departments include overhead costs in determining the full cost of providing services



This allocation process should be based on measures of workload and guided by a cost allocation plan.

Actual cost of service

RCW 43.09.210: When one fund is charging another fund, the fund being charged may only pay for the actual costs of the services it receives.





What is the WA State Auditor going to review?

- ◆ Documented plan
- ◆ Responsible person
- ◆ Benefit to funds charged
- ◆ Allocation basis
- ◆ Frequency of update or review
- ◆ Use of actuals
- ◆ Review the allocation methodology
- ◆ No duplication with internal service fund expenditures



Cost Allocation Plans – common pitfalls

- ◆ **Do you have a documented plan?**
 - No written policies or allocation plan
 - Plan not recently updated
 - Plan does not represent current operations

- ◆ **Is your allocation basis defensible?**
 - Allocation method is not fair nor equitable
 - Allocations based on unsupported estimates or basis of calculation

- ◆ **Are your allocations based on actuals?**
 - Estimates not reconciled to actuals
 - Budget allocations are not reconciled to actuals



Guiding Principles of Overhead Allocation

- ◆ **Allocation must be fair and equitable**
- ◆ **Charges to the benefitting funds must not exceed the cost and level of service that each fund receives**
- ◆ **Beneficiary pays principle: Extent to which a support service provides benefit guides how much of the cost is paid by the fund.**



Cost Allocation Plans

Develop written plans

- How and Why costs are allocated

Maintain records

- How calculations were made
- Amounts charged

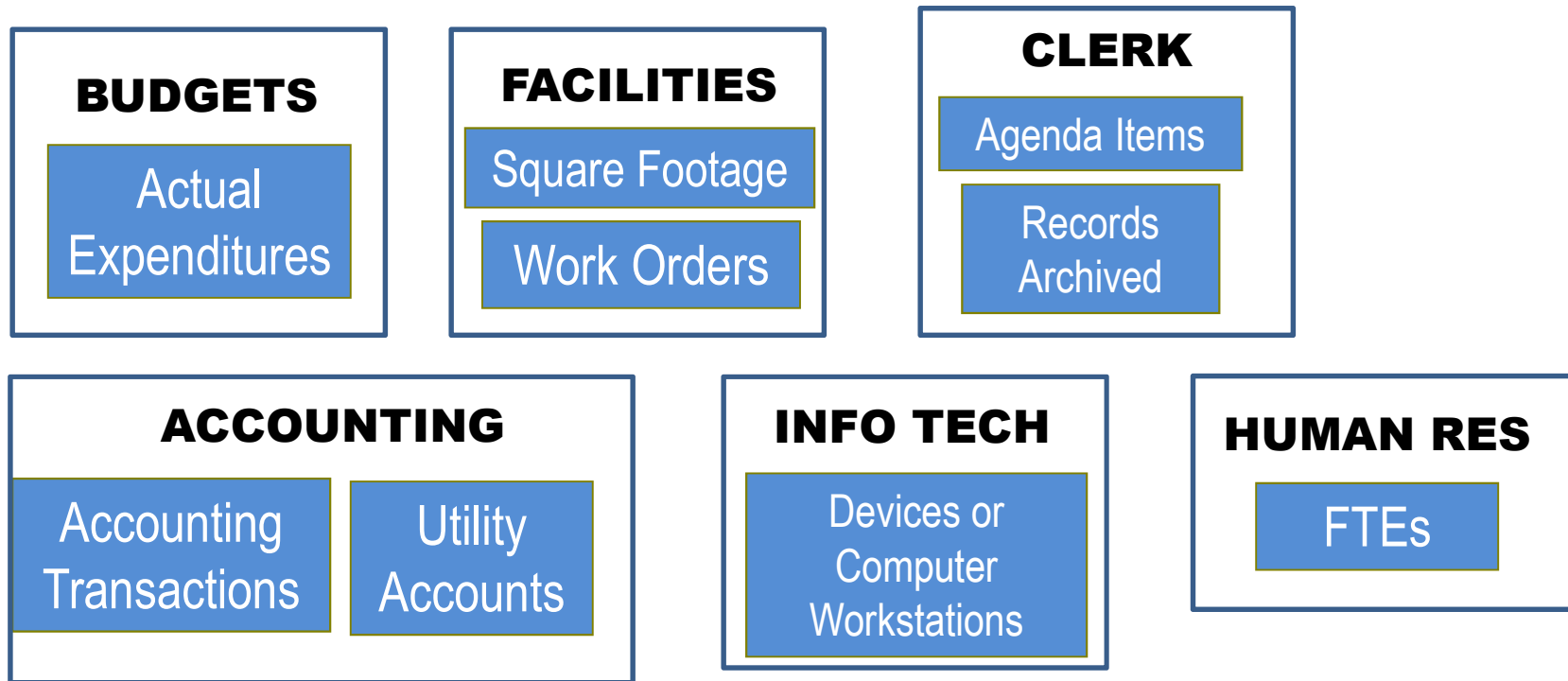
Keep the plan current

- *Best practice:* Annual review and update
- More frequently if organization or operations have changed



How are Support Costs Allocated?

The number and variety of workload measures used is dependent on the complexity of the organization and the goals of the plan...



...and should be based on data that can be obtained easily on a regular basis or is recorded already for some other purpose.



FCS GROUP Recently Completed ICAP Studies

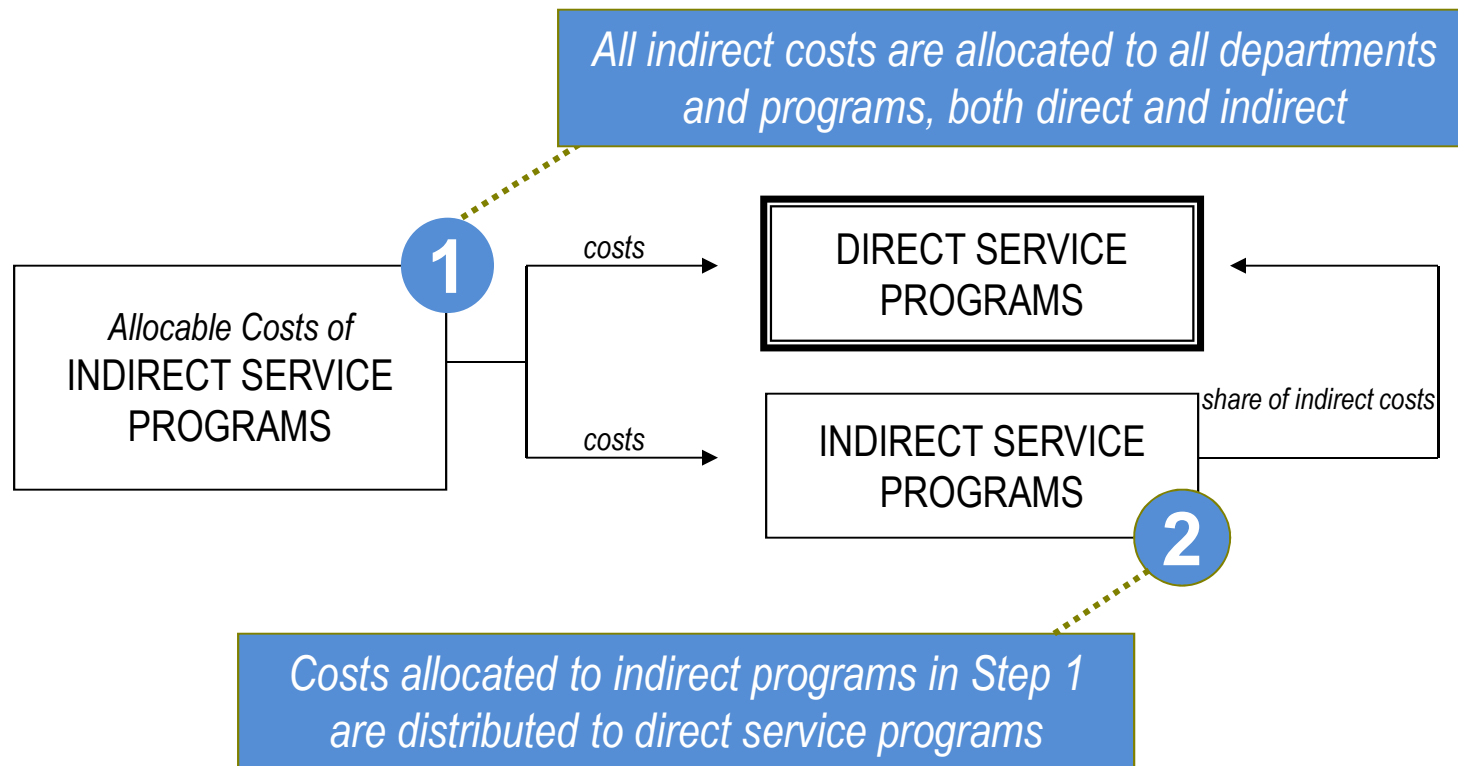
- ◆ Ashland, OR
- ◆ Boise, ID
- ◆ Coeur d'Alene, ID
- ◆ Hillsboro, OR
- ◆ Kent, WA
- ◆ Lacey, WA
- ◆ Mill Creek, WA
- ◆ Ridgefield, WA
- ◆ Oregon Higher Education Coordinating Commission,
- ◆ Shelton, WA
- ◆ Sumner, WA
- ◆ Toppenish, WA

*Current or recently
completed in past 24
months*

Analytical Steps

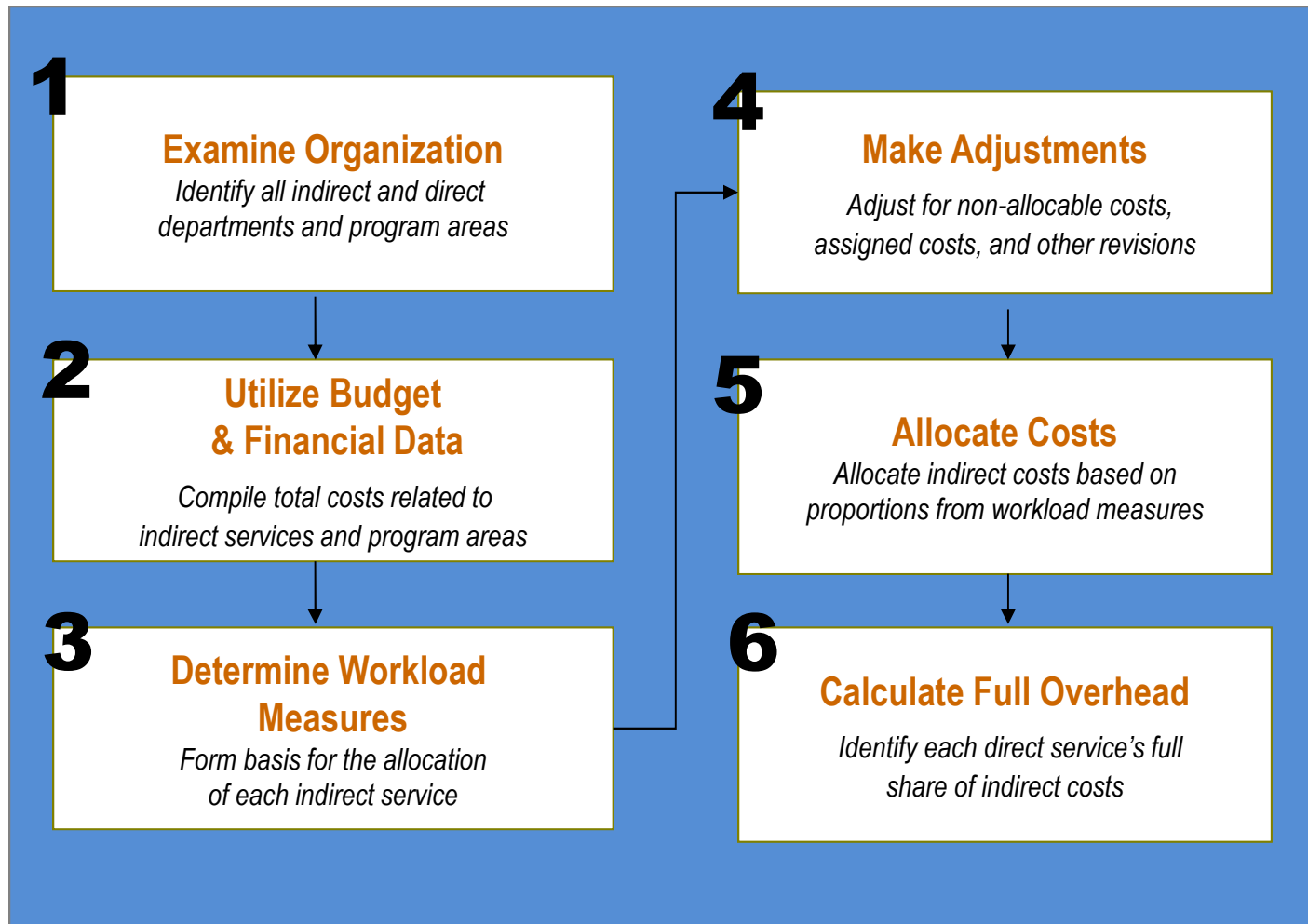
Cost Allocation Methodology

Two -Step Process



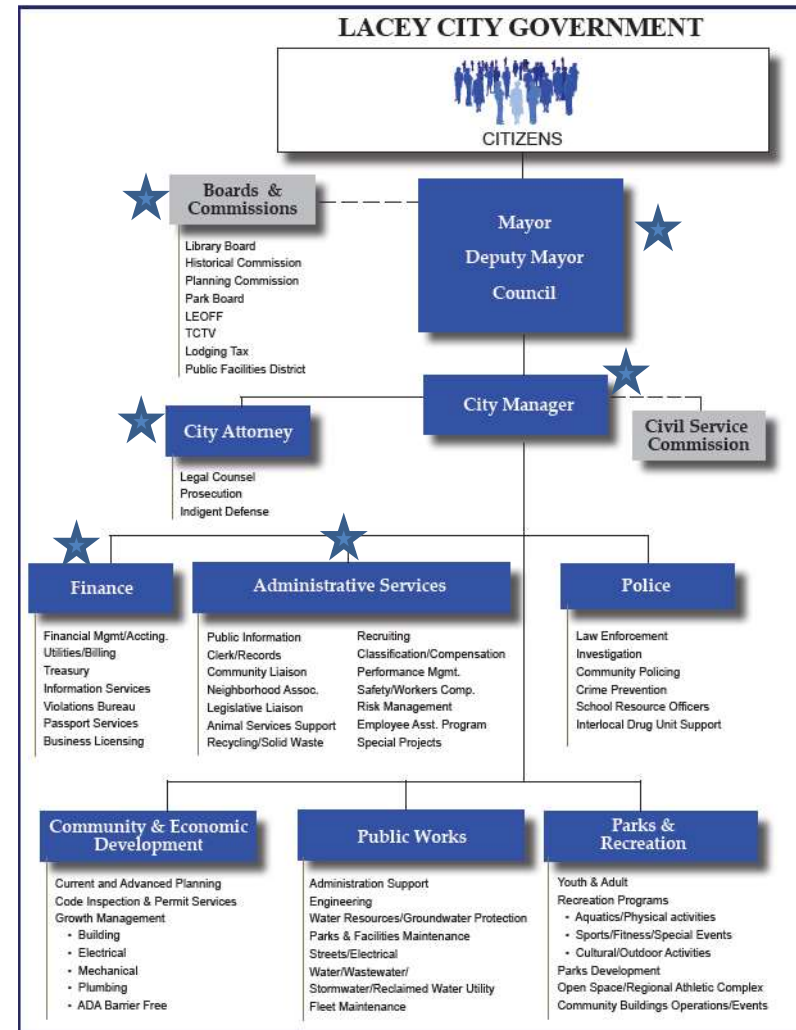


Basic Analytical Steps



Step 1. Examine Organization

- ◆ Identify indirect service departments and programs
- ◆ Identify direct service departments that receive support



Step 2. Utilize Financial Data

- ◆ Compile the costs of indirect program areas
- ◆ Exclude any direct service costs
- ◆ Decide if departmental costs need to be broken into programs

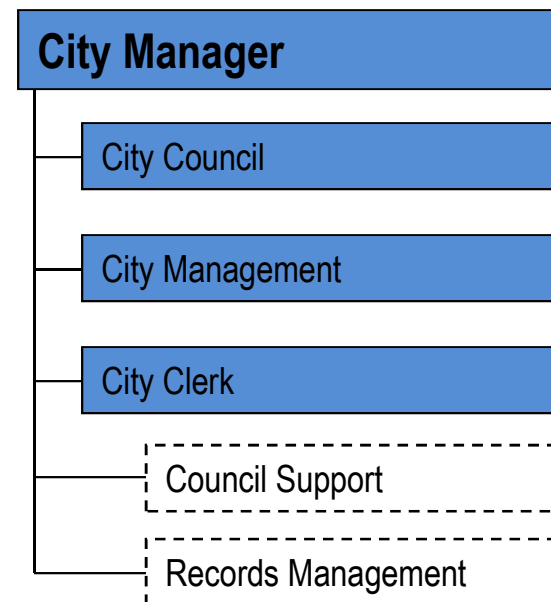
City Attorney - Legal Counsel	Total	Non-Allocable	Allocable
Salaries-Regular	\$ 96,593		\$ 96,593
Employer Paid Benefits	7,389		7,389
Prof. Svc-Other	118,126	(118,126)	-
Prof. Svc-Litigation	11,890	(11,890)	-
Prof. Svc-Prosecution	220,934	(220,934)	-
Dues, Subscriptions, Publ	625	(625)	-
Rentals-Other	13,560		13,560
Support Services	12,666		12,666
Total	\$ 481,783	\$ (351,575)	\$ 130,208

Excluded as these services are provided directly to the public.

What remains are activities in support of general governmental function.

Step 2. Calculate Cost Pools

- ◆ Indirect service program areas may not necessarily be recognized budget divisions
- ◆ A simple allocation of a department's budget should be completed to identify costs for each program area



Step 3. Determine Workload Measures

- ◆ Bases for allocating costs
- ◆ Reasonably measures a department's use of indirect support
- ◆ Calculate percentages from each selected data set

	Agenda Items	Boxes / Other Storage Measures	Positions	Devices / Computers	Phones
Department Name - Division - Function					
Pre-Allocators	Legislative & Executive	71	28	5.5	15
	Finance	69	10	11	17
	Central Services	0	39	6.5	16
	Public Works	34	35	8	12
Direct Departments	Judicial / Municipal Court	6	18	4	9
	Law Enforcement	5	2	22	38
	Fire / EMS		8		
	Detention / Correction			1	1
	Code Enforcement			0.5	0.5
	Streets	23	19	3.85	1.5
	Nat Res - Pollution Control				
	Animal Control			0.5	0.5
	Planning / Development		13	4	4
	Housing / Prop Development				
	Mental / Physical Health Svc				
	Ed / Recreational Services (Participant Rec)		2		1
	Libraries				
	Culture & Comm Activities - Arts	35			
	Cultural / Rec Facilities				
	Park Facilities		2	2.5	1
	Tourism		1		
	Bond Fund				
	Capital Fund				
	Water	20	14	7.35	5
	Sewer	16	25	7.65	4
	Solid Waste	21	1	2	0
	Storm Drainage		3	4.15	1
	Payroll & Benefits Fund				
	Firemen's Pension				
	Central Mason Fire District				
	Equipment Maintenance / Rental			1	1



Step 3 (con't). Examples of Workload Measures

Program Area	Allocation Factor
City Council	Agenda Items
City Management	50/50 split between FTEs & Total Expenditures
City Manager/City Clerk- Council Support	Agenda Items
City Clerk- Archive and Records Management	Records
City Attorney- Legal Counsel	Agenda Items
Human Resources	FTE
Risk Management	33/33/33 split Vehicles & Equipment, Salaries and FTEs
Finance- General Accounting	Expenditures
Finance- AP/AR	# of Transactions
Finance- Customer Service	Utility Accounts
Finance- Payroll	FTEs
Public Affairs- Website Support	Website Pages
PW: Facility Maintenance	Facilities Cost
City Hall Debt Service	City Hall square footage
General Info. Technology Cost	# of IT Devices



Step 4. Make Adjustments to Cost Information

- ◆ Remove costs that are assignable and identifiable to individual direct depts. For example:
 - Grounds Maintenance at Parks
 - Engineering costs on Sewer utility
 - Janitorial costs at the Library
- ◆ Make any exclusions needed to comply with 2 CFR 200 regulations (we will discuss in Part 3 of this ppt)



Step 5. Allocate Overhead Costs

- Step 1:** Apply workload measures to all departments
- Step 2:** Allocate remaining indirect costs to direct service departments (ex. HR's cost of supporting Finance, other O/H depts.)
- Step 3:** Calculate organization-wide rates, dept.'s share of Citywide O/H
- Step 4:** Include dept. admin
- Step 5:** Calculate fully-loaded departmental rates to charge to outside agencies

Step 6. Calculate full overhead

Final results represent an allocation basis and methodology that is cost based, fair/equitable, and based upon the benefits derived.

Dept:	Department Name:	Departmental Admin:	Direct Expenditures:	Citywide Overhead	Total Allocated:	Fully-Loaded Overhead Rate
JU	Judicial & Corrections	\$ 145,051	\$ 630,331	\$ 139,263	\$ 284,314	45.11%
LE	Law Enforcement & Animal Control	240,856	2,288,982	513,499	754,354	32.96%
FR	Fire & Rescue	-	1,320,744	57,577	57,577	4.36%
ST	Streets	-	1,096,476	130,715	130,715	11.92%
NR	Natural Resources	-	7,553	308	308	4.08%
CD	Community Development	64,194	402,212	95,452	159,647	39.69%
LI	Library	-	41,012	1,693	1,693	4.13%
CC	Culture & Comm Activities	5,350	154,218	34,109	39,458	25.59%
REC	Recreation	37,447	70,654	6,577	44,023	62.31%
PK	Parks	-	242,920	47,019	47,019	19.36%
HM	Hotel/Motel	-	72,825	3,429	3,429	4.71%
WA	Water	-	1,755,209	569,648	569,648	32.45%
SE	Sewer	-	5,025,989	832,942	832,942	16.57%
SW	Solid Waste	-	1,278,727	309,060	309,060	24.17%
SD	Storm Drainage	-	588,834	243,983	243,983	41.43%
MH	Mental & Physical Health	-	1,992	81	81	4.08%
EM/R	Equipment Maintenance / Rental	-	679,402	43,828	43,828	6.45%
Total		\$ 492,897	\$ 15,658,079	\$ 3,029,182	\$ 3,522,080	22.49%

Federal Reimbursement (2 CFR 200 – SubPart E)



What is 2 CFR – SubPart E

- ◆ Prescribes federal regulations on Cost Principles and establishes what can be charged to a federal award
- ◆ What it says:

“A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.”

2CFR §200.405



Standard of Care - Costs

- ◆ **Cost is allocable if:**

- (1) Incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the entity
- (3) Can be distributed in proportions that may be approximated using reasonable methods; and
- (4) Necessary to the overall operation of the entity and is assignable in part to the Federal award.

2CFR §200.405



Allowable vs Unallowable Costs

Advertising

Advisory councils

Alcohol

Alumni activities

Audit services

Bad debts

Bonding costs

Chief exec / Legislature / Judicial

Collections

Compensation/Benefits

Conferences

Contingencies

Donations

Defense / Prosecution

Depreciation (ex. land)

Employee health/welfare

Entertainment

Equipment/Capital exps

Fines/Penalties

Fundraising

Gains/Losses from asset disposal

Good / Services for personal use

Idle facilities / capacity

Insurance

Intellectual property

Interest expense

Lobbying

Losses on awards or contracts

Maintenance and repair

Materials/Supplies

Memberships/Subscriptions (except lobbying)

Organization (unless approved)

Participant costs

Plant and security

Pre-award

Professional services

Proposal costs

Publication and printing

Rearrangement and facility improvements

Recurring costs

Relocation costs for employees

Rental costs

Scholarships (only if necessary for award)

Selling / marketing costs

Specialized service facilities

Student activity costs

Taxes

Termination costs

Training and education

Transportation and travel

Trustees

Legend: Allowable Unallowable

2CFR §200.420-.475



Should you prepare a 2CFR?

- ◆ **Do you have a federal award?**
 - Review award provisions; may require you to have a cost allocation plan

- ◆ **A CAP is not required. What should I do?**
 - You are not required to allocate costs to a federal award
 - However, if you choose to, you have two options:
 - Prepare a 2CFR cost allocation plan
 - Use a de minimis rate of 10% of your modified total direct costs (MTDC) in lieu of a determined indirect cost rate

- ◆ **Note:**
 - Indirect cost rate good for four (4) years. May extend for one 4-year period and must reapply

2CFR §200.414(f) & (g)



What does the 2CFR say?

(f) In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph (d)(1)(B) may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.... If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract [§200.68]. *Editor's note: A subaward or subcontract means an award provided by a pass through agency.*

$$10\% \times \$25,000 = \$2,500.$$

2CFR §200.414(f) & (g)

Model Demonstration



Model Demonstration



Wrap Up

- ◆ **Covered:**
 - Cost allocation plan and its principles
 - General methodology

- ◆ **Next steps:**
 - Prepare a cost allocation plan
 - Update it annually
 - Prepare a 2 CFR cost allocation plan if needed

- ◆ **Questions?**

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