



Venice, Florida

Cost Allocation Overview



Agenda

Cost Allocation Plan Uses & Best Practices

Cost Allocation Process

Questions & Answers





Cost Allocation Plan Uses & Best Practices



Cost Allocation Plan Uses & Best Practices

Government Finance Officers Association (GFOA) recommends governments calculate the full cost of services provided. *(Approved by GFOA's Executive Board, 2002)*

- The full cost of a service encompasses all direct and indirect costs related to that service.
- Indirect costs include shared administrative expenses within the work unit and in one or more support functions outside the work unit (e.g., legal, finance, human resources, facilities, maintenance...). These shared costs should be apportioned by some systematic and rational allocation methodology.



Cost Allocation Plan Uses & Best Practices

Code of Federal Regulations (formerly OMB A-87)

The federal government issued its Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards in the Code of Federal Regulations (CFR) at 2 CFR Part 200 requiring compliance to these regulations for all municipalities that claim indirect or administrative costs to federal funding sources.

The principles are designed to provide that Federal awards bear their *fair share* of cost recognized under these principles except where restricted or prohibited by law. (§A.1. of Appendix A to 2 CFR Part 225)



Cost Allocation Plan Uses & Best Practices

Reasons / Purposes for Cost Allocation Plans:

- Charge indirect costs to Federal or State grant programs and special taxing districts.
- Charge indirect costs to internal service, grant, special revenue, capital, debt and enterprise funds.
- Useful in budgeting process by identifying which departments are being served and the level of service provided.
- Often the only way to determine the full cost of operations. Allows an organization to ensure that they are recovering all allowable costs.
- Useful in identifying costs shared such as buildings and/or services.
- Provides indirect cost analysis, which when combined with direct costs, is useful in determining fee-for-services.



Cost Allocation Process



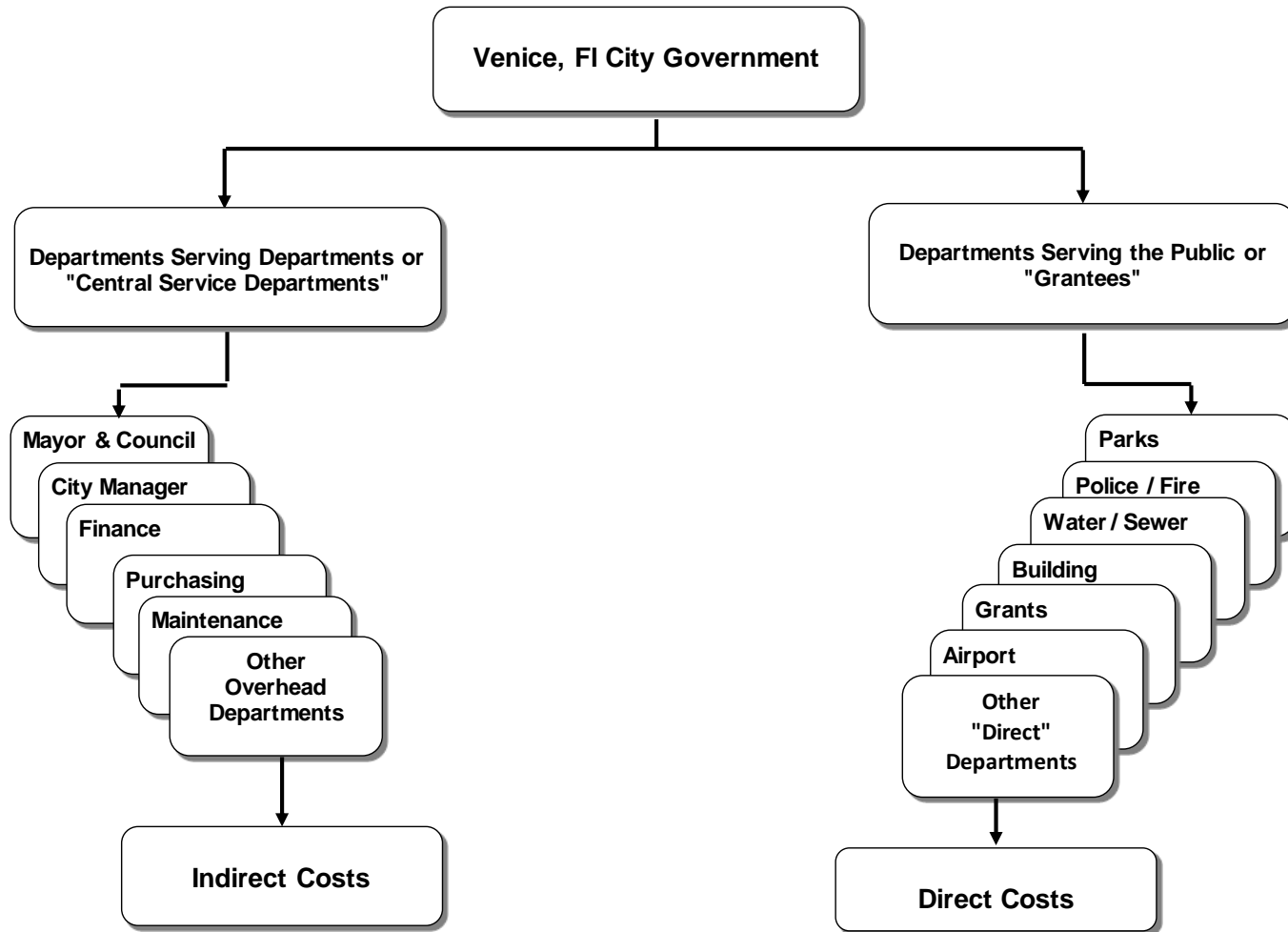
Cost Allocation Process

Data / Information Requirements

- Organization Chart
- Chart of Accounts
- Expenditure Detail
- Revenue Detail
- Payroll Data
- Labor Distributions
- Assets Inventory
- Direct Billings
- Staff Interviews
- Statistical Data/Metrics
- Grants Inventory (Schedule of Federal Expenditures)



Cost Allocation Process



Cost Allocation Process

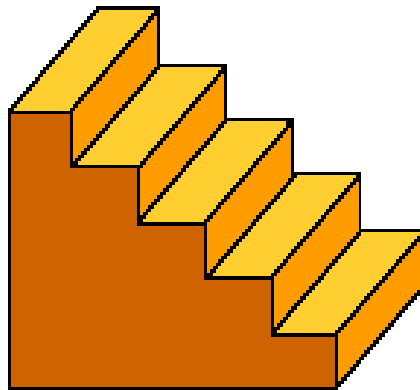
To be Allocable, Costs Must:

- Be necessary & reasonable for proper & efficient performance
- Be authorized & not prohibited by state or local laws or regulations
- Conform to limitations imposed by any other FFP regulations
- Be accorded consistent costing treatment
- Follow GAAP unless otherwise prescribed
- Be net of all applicable credits and adequately documented
- Posses a relationship between costs allocated & benefit of services

Cost Allocation Process

Single Step-Down Allocation Approach

A Single Step-Down allocates each Central Service to the departments sequentially below the service being allocated and then “closes out” – it may not receive any allocated costs from other central services after it has allocated its own costs.

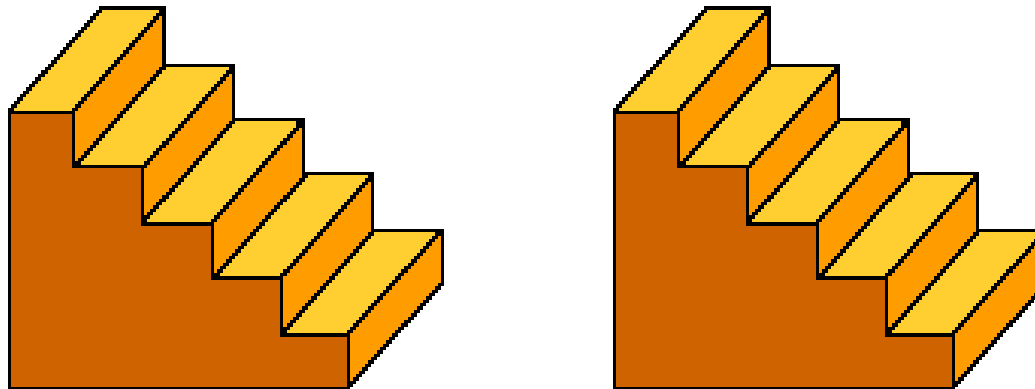


Cost Allocation Process

Multiple (Double) Step-Down Allocation Approach

A Double Step-Down allows each Central Service to allocate to any other Central Service Department in the first step down, regardless of the sequencing order of allocation.

During the second step down, the Central Service allocates only to departments sequentially below the service being allocated and then “closes out” (effectively becomes a single step-down with the second pass).





Questions & Answers

