

Introducing the Cost Allocation Plan to the County of Riverside

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Presentation Topics

- What is a Cost Allocation Plan?
- Uses for a Cost Plan
- Development of a Cost Plan
- Carry Forward adjustment
- Q&A
- Quick overview of how to read a cost plan

What is a Cost Allocation Plan?

- The 2 CFR Part 225 states in Appendix C:

“Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, **there needs to be a process whereby these central services costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The central service cost allocation plan provides that process.** All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.”

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What is a Cost Allocation Plan? (continued)

- In general terms:

A cost plan is a tool used to calculate the indirect costs of such departments as Finance, Human Resources, Information Technology, Facilities, etc. (central support departments) to distribute to the Receiving departments (receivers of the service) in order to get reimbursement to the General Fund for that service.

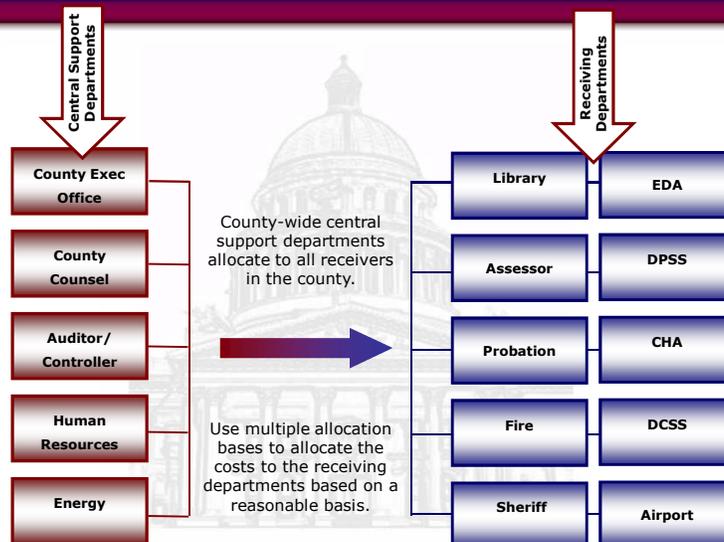
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What is a Cost Allocation Plan? (continued)

- Central Support Departments are those departments whose primary purpose is to support the other department/funds in the county, not to support the public.
- Receiving Departments are those departments who receive costs for services performed for their benefit.

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Cost Allocations from Central Services to Receiving Departments



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Where did the cost allocation plan come from?

- The federal government came up with this process over 30 years ago in order to get every agency on the same track to receive benefit for services they performed.
- Before then there was no way to equally give out reimbursement for services because the agencies that were more sophisticated in calculating the cost knew to add in the overhead costs of services and not just the direct cost where as the smaller less sophisticated agencies were left just getting back what they could determine.
- There needed to be some guidelines put in place to make it fair for all agencies to receive reimbursement for the actual cost of services performed.

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Uses for the Cost Allocation Plan

- Reimbursement for services from non-General Fund operations within the agency.
- Calculate the indirect cost for user fee related services so this cost can be included in the calculation of the user fees to the public.
- Federal/State grant reimbursement.

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Uses for the Cost Allocation Plan (continued)

- Section 1460 of the State Controller's Handbook states:

"Non-grantee departments charging for their services can utilize the cost plan in determining their billing rate structures. **If a department charges the public a fee for a service it provides, the board of supervisors should be aware of the total cost of providing that service, including all applicable indirect costs.** This will allow the supervisors to establish fees at the appropriate levels to recover the **true costs** associated with the services provided. Even if the department is not charging a fee for the service, this concept can be employed as a management tool in identifying county(city)wide overhead costs to all applicable departments. Non-grantee departments should note the cost recovery limits set by OMB A-87 and, if necessary, adjust their costs to recover as nearly as possible the total costs of doing business."

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What Does OMB A-87 or 2 CFR Part 225 Stand For?

- OMB Circular A-87 is the Office of Management and Budget's Cost Principles for State, Local, and Indian Tribal Governments.
- 2 CFR Part 225 is the "New" OMB A-87.
- OMB A-87 has been moved to Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225, as part of an initiative to provide the public with a central location for Federal government policies on grants and other financial assistance and non-procurement agreements.

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Development of a Cost Allocation Plan

- First identify all central support departments.
- Discuss all functions that each of these central support departments perform.
- Discuss reasonable allocation basis for each function. (i.e. for payroll function allocate on the number of paychecks and for county counsel allocate based on the number of hours worked.
- Spread each staff member to each function based on timesheets.
- Apply all direct bill credits to each function for services paid in the current year for service.

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Development of a Cost Allocation Plan cont...

▪ Direct Bills

- Credits are applied to each department that pays for service in the current year of service.
- For example if you receive service from County Counsel in FY 10/11 and you pay for that service in FY 10/11 then a direct bill credit is applied.
- When it goes through the cost plan then your credit is given and ONLY the remaining indirect portion of cost is applied to the department.
- There is NO double counting of cost. When you are direct billed in the year it covers salary and benefits only and not the indirect portion which is what flows through the cost plan.

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Carry Forward Adjustment

- In the example to follow the following years apply:
 - FY1 = FY 08/09
 - FY2 = FY 09/10
 - FY3 = FY 10/11
 - FY4 = FY 11/12
 - FY5 = FY 12/13

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Carry Forward

Fiscal Years



- FY1 - The County incurs operating expenditures (FY 08/09)
- FY2 - The County uses actual expenditures from FY1 to prepare a Countywide Cost Allocation Plan for use in FY3.
- FY3 - The County incurs operating expenditures (FY 10/11).
 - The County has an approved cost plan that presents FY3 ESTIMATED costs based on FY 08/09 actual exp.
 - A adjustment is made based on the estimate from FY1 (FY 08/09) for use in FY 10/11 to the FY3 actual plan and a carry forward adjustment is applied based on the difference.

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Carry Forward *cont.*

FY 08/09 actual for use in FY 10/11		FY 10/11 actual for use in FY 12/13	
Department 1		Department 1	
Estimated	\$100,000	Actual	\$125,000
		Estimate	\$100,000
			collected by dept in FY 10/11
			\$25,000 under estimated cost by
So actual from FY 10/11 for use in FY 12/13 plan is:			
Actual calculated of		\$125,000	actual cost from FY 10/11
plus difference between estimate			
from 2 years ago and acutal this year of		\$25,000	under collected in FY 10/11
equals		\$150,000	amount charged to department in FY 12/13

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Q & A

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COST ALLOCATION PLAN

- Quick overview of how to read a cost plan.
- Please see attached pages and I will walk you through them.

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Thank you!



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