



Indirect Cost Allocations
November 1, 2017

What is Indirect Cost Allocation?

(A) a bunch of numbers Administrator & Finance made up to confuse the media

(B) a recognized process used to allocate a portion of costs incurred by the General Fund to those Funds that benefit from those services

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BEST PRACTICE

Indirect Cost Allocation

Background:

In addition to the direct cost of providing services, governments also incur indirect costs. Such indirect costs include **shared administrative expenses** where a department or agency incurs costs for support that it provides to other departments/agencies (e.g., legal, finance, human resources, facilities, maintenance, technology).

Recommendation:

The Government Finance Officers Association (GFOA) encourages governments to allocate their indirect costs.



BEST PRACTICE

Indirect Cost Allocation

How often should an externally performed cost allocation take place?

An indirect cost allocation should be used for a maximum of three years (unless a law or regulation requires a shorter period).

A shorter interval may be necessary [due to]:

Changes in grant requirements;

Purpose for which the allocation is to be used ...

(for example, a cost allocation used to chargeback costs to departments)

Augusta allocates costs annually to comply with grant requirements

Indirect Cost Allocation Rationale

- Identify key indicators which are measurable and representative of the purpose of the department
- Use metrics which create a reasonable allocation of costs (costs are allocated according to support effort)
- Monitor allocation process to ensure metrics and cost pools continue to be appropriate

Augusta Uses External Firm to provide Allocation Plan

Why?

- Complex formulas and metrics
- Time-consuming process
- Must comply with requirements for federal grants
(Airport, HND, Transit)

Example: Human Resources

HR is a General Fund department.

HR supports all employees, not just General Fund employees.
Some HR cost can be allocated based on employee count.

	Employee Count	Cost Allocation
General Fund	300	\$450,000
Other Funds	<u>700</u>	<u>\$1,050,000</u>
Total	1000	\$1,500,000

Augusta Georgia's Human Resources Allocations

Allocation	Basis
Human Resources	Number of positions by fund/dept
Benefit Services	Total Health/Life/LTD premium payments by fund/dept
Employment	Number of positions by fund/dept
Personnel Actions	Number of RPAs and terminations by dept
Employee Relations	Number of disciplinary actions by fund/dept
Compensation	Total salary expenditures by fund/dept

Example: IT Help Desk

IT is a General Fund department.

IT supports all employees, not just General Fund employees.
Help Desk cost can be allocated based upon calls received.

	# Calls	Cost Allocation
General Fund	1000	\$200,000
Other Funds	<u>500</u>	<u>\$100,000</u>
Total	1500	\$300,000

Augusta Georgia's Information Technology Allocations

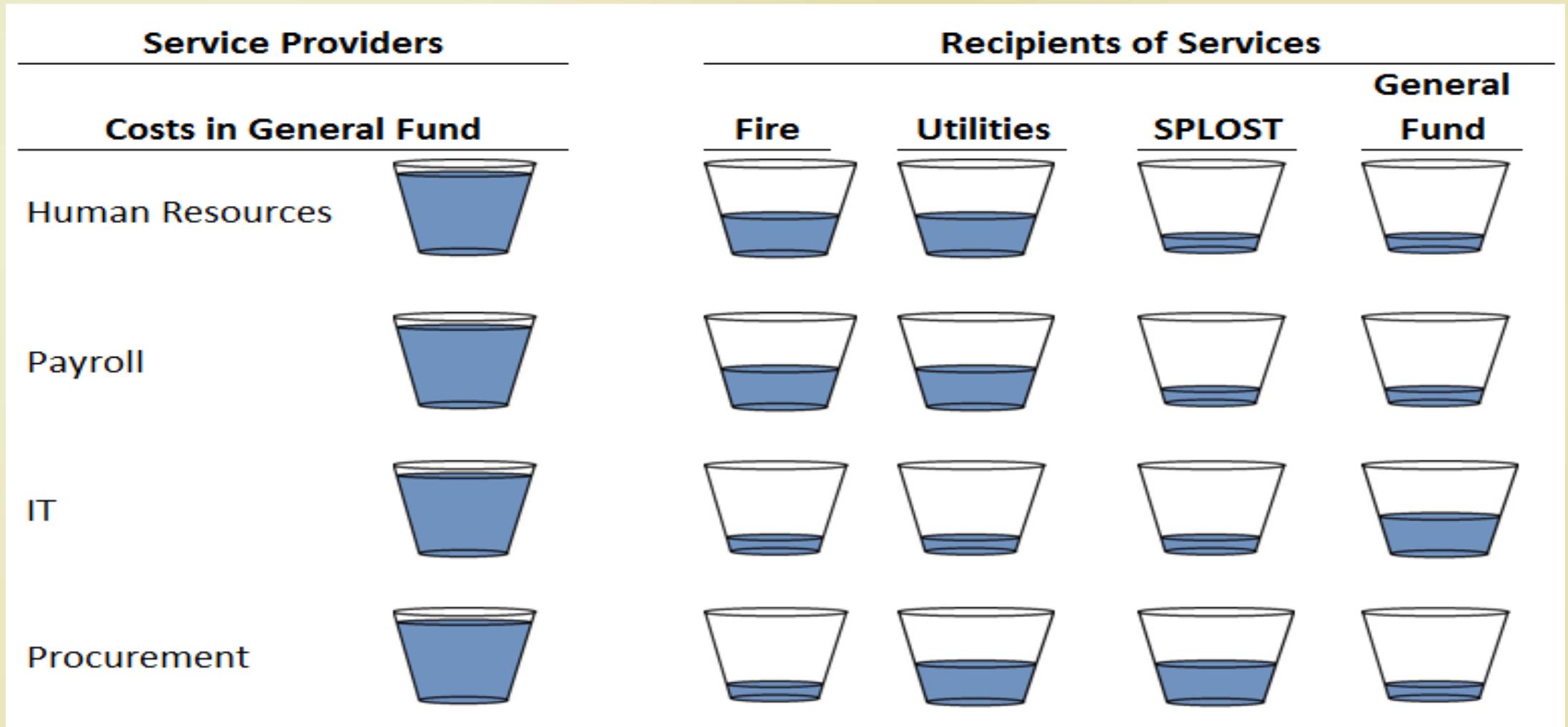
Allocation	Basis
Service Tickets	% of IT service tickets by fund/dept
Network Users	% of network users by fund/dept
Systems Support	% of applications supported by fund/dept
Telecom Users	% of telecom users by fund/dept
Radio Users	% of radio users by fund/dept
General Support Help Desk	% of general support help desk tickets by dept
Repairs & Maintenance	Total repairs & maintenance costs by dept

Augusta Georgia

Other Allocations (partial list)

Allocation	Basis
Payroll	Number of payroll transactions by fund/dept
Accounts Payable	Total expenditures by fund/dept
Law Department	% of staff effort benefitting various depts
Procurement	Number of RFPs
Procurement	Number of Purchase Orders Issued
Clerk of Commission	Number of agenda items

In other words: Who totes the water?



Questions / Comments