

## CITY OF STEVENSON COST ALLOCATION PLAN

Revised October 11, 2016, to take effect January 1, 2016

Under Washington State law and the State Auditor's Office *Budgeting, Accounting, and Reporting System* (BARS) manual, government officials may charge a portion of the costs for central overhead services to restricted funds, such as utility funds or special revenue funds, only to the extent that each fund benefits from those services. Governments may not allocate general government service costs such as public safety, parks, law enforcement, and community and economic development.

BARS manual section 3.9.5 discusses Overhead Cost Allocations. Exhibit 1 of that section lists "Sound practices and requirements for allocating overhead costs", including developing and maintaining a written plan, describing the allocation factors used, and explaining the rationale behind those decisions. Exhibit 2 of that section lists appropriate allocation factors for common types of overhead costs. The City must maintain appropriate documentation to support the overhead costs that were charged to each fund. (See the BARS manual for a complete discussion).

The City Administrator will develop cost allocation methods under the guidance provided by State Law and the BARS manual to be submitted to City Council for review and approval.

**PASSED** by the Council of the City of Stevenson this 20<sup>th</sup> day of October, 2016.

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Frank Cox, Mayor

## **CITY ADMINISTRATOR SALARY AND BENEFITS:**

BARS Manual Section 3.9.5 Exhibit 2 lists several cost allocation factors that are relevant to the allocation of City Administrator salary & benefits including:

- For Accounting: Actual expenses or number of transactions.
- For Budget: Actual expenses, budgeted expenses, or number of staff (FTE).
- Human Resources: Number of staff (FTE)

*Exhibit 2 note (a): Using actual expenses, budgeted expenses, the number of staff – or a combination of the three – can all result in fair and equitable allocations. Governments must document why the approach they selected results in fair and equitable allocations that best reflect the cost of services actually received by the benefiting funds.*

From review of the normal job duties of the City Administrator – Day to day tasks include many functions that benefit the public at large including working with the Planning Director, the Building Inspector, Court, and the Fire and Police departments. These functions must be charged to the General Fund only.

Day to day tasks that benefit all funds include budget, audit, financial oversight, Human Resources, liability insurance, City Council assistance, grant management & compliance, economic development, and the supervision of Accounts Payable, Purchasing, Payroll, and Bookkeeping.

To allocate City Administrator costs to the benefiting funds, while ensuring that all functions benefiting the public at large are charged solely to the General Fund, City Administrator Salary & Benefits will be prorated to funds based on the total annual expenditures of each fund, with the following modifications:

1. General Fund expenditures will be increased by 50% for cost allocations purposes. This 50% markup results in the General Fund being overcharged, but allows us to be sure that all functions benefiting the public at large are charged solely to the General Fund.
2. Tourism Fund expenditures will be increased by 50% for cost allocation purposes. The rationale for this markup is the amount of time required from the City Administrator to oversee and manage this fund. The City Administrator manages the tourism fund personally, including preparing and receiving application packages, organizing documents and assisting the Tourism Advisory Committee with review of applications, preparing and managing contracts for each of the recipients (19 of them for 2015, for example), responding to questions from applicants and grant recipients, and submitting the on-line expenditure reports required by the State Legislature for each grant recipient.
3. Fund 400 (Water and Sewer) expenditures will be decreased by 50% for cost allocation purposes to more closely match the amount of time spent by the City Administrator on these functions.

~~4. Annual expenditures for street improvement projects will be included with "Street Fund" expenditures for cost allocation purposes because they benefit City streets.~~

4. Capital improvement funds and project grant funds (including Street improvement projects) will not be allocated any City Administrator expense. The primary source of revenue for these funds is State and Federal grants, many of which do not allow indirect costs or allocated expenses. Additionally, Street improvement projects are overseen by the Public Works Director with limited involvement of the City Administrator.
5. No City Administrator expense will be allocated to the Equipment Service Fund, as all expenses in the Equipment Service Fund are simply charged back to other funds.
6. Annual expenditures will be analyzed at the end of each year and used for the following year's cost allocations.

## **COST OF THE ANNUAL AUDIT:**

BARS Manual Section 3.9.5 Exhibit 2 lists several cost allocation factors that are relevant to the allocation of audit expense.

- For Accounting: Actual expenses or number of transactions.
- For Budget: Actual expenses, budgeted expenses, or number of staff (FTE).

Exhibit 2 note (a): *Using actual expenses, budgeted expenses, the number of staff – or a combination of the three – can all result in fair and equitable allocations. Governments must document why the approach they selected results in fair and equitable allocations that best reflect the cost of services actually received by the benefiting funds.*

During the annual audit, the State Auditor’s Office performs a Financial Statement Audit and a Performance Audit of the City. Both are primarily based on review and analysis of accounting records. Of the criteria listed in Exhibit 2, “Actual Expenses” provides a straight-forward, verifiable, direct method of allocating these costs. Costs of the annual audit will be allocated as follows:

1. The costs of the annual audit will be prorated to all funds based on the most recent year’s total annual expenditures of each fund, with the following modifications:
  - a. Annual expenditures for street improvement projects will be included with “Street Fund” expenditures for cost allocation purposes because they benefit City streets.
  - b. Capital improvement funds and project grant funds (other than street improvement projects) will not be allocated any audit expense. The primary source of revenue for these funds is State and Federal grants, many of which do not allow indirect costs or allocated expenses.
  - c. No audit expense will be allocated to the Equipment Service Fund, as all expenses in the Equipment Service Fund are simply charged back to other funds.
2. Annual expenditures will be analyzed at the end of each year and used for allocation of audit expenses for the next audit.

**OFFICE STAFF SALARY & BENEFITS:**

BARS Manual Section 3.9.5 Exhibit 2 lists some of the cost allocation factors that may be considered for different circumstances. The factor most applicable to allocation of office staff time (salary and benefits expense) is FTE, or actual time spent working in each department (fund). From observations of day to day staff activities, and from interviews with Carla Cosentino and Candace Ford, the estimated time spent in each fund is as follows: (Updated for transfer of Municipal Court to Skamania County. Front office staff continue to assist with Municipal court, but that work is now reduced to a small level).

	<u>2015</u>	<b>(Proposed) <u>Sept 2016</u></b>
<b><u>CARLA</u></b>		
001.100.000.512.50.10/20.00 <b><u>Court</u></b> Clerk Salary/Benefits	15%	5%
001.100.111.514.22.10/20.00 Budget & <b><u>Accounting</u></b> Salary/Benefits	25%	35%
100.400.000.543.31.10/20.00 <b><u>Streets</u></b> General Services Salary/Benefits	2%	2%
400.000.000.534.70.10/20.00 <b><u>Water</u></b> Customer Services	29%	29%
400.000.101.535.70.10/20.00 <b><u>Sewer</u></b> Customer Services	29%	29%
	100%	100%
<b><u>CANDACE</u></b>		
001.100.000.512.50.10/20.00 <b><u>Court</u></b> Clerk Salary/Benefits	13%	0%
001.100.111.514.22.10/20.00 Budget & <b><u>Accounting</u></b> Salary/Benefits	25%	38%
100.400.000.543.31.10/20.00 <b><u>Streets</u></b> General Services Salary/Benefits	2%	2%
400.000.000.534.70.10/20.00 <b><u>Water</u></b> Customer Services	30%	30%
400.000.101.535.70.10/20.00 <b><u>Sewer</u></b> Customer Services	30%	30%
	100%	100%
<b>Total FTE by Fund:</b>		
001 - General Fund, Court	0.28	0.05
001 - General Fund, Acctg	0.50	0.73
100 - Streets	0.04	0.04
400 - Water	0.59	0.59
400 - Sewer	0.59	0.59
	2.00	2.00