



# CITY OF NAPAVINE

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## *Central Services Cost Allocation Plan*

A cost allocation plan for direct, indirect and overhead costs for administrative cost for services shared across programs, activities, funds, departments and grants that are reasonable and equitable.

Draft as of 3/22/2016

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# CITY OF NAPAVINE CENTRAL SERVICES COST ALLOCATION PLAN

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## **INTRODUCTION**

The City of Napavine (the City) provides a wide variety of services to the citizens of Napavine. The City of Napavine is a municipal corporation incorporated November 21, 1913. The City operates under a council-mayor form of government, and under its charter has all powers granted by the constitution and laws of the state. The City provides the full range of services contemplated by statute or charter. These include police, court, public works, parks, planning and development, and general administrative and support services.

The City is a local government, established as a subdivision of the State of Washington. It is funded mostly from local taxing sources, but specific projects may be funded from some federal award and pass-through awards from the State of Washington. The City administers various federal and state funded programs. While the federal portion of the City's total funding is important, it is not a major source of funding for the city.

The City is submitting this Central Services Cost Allocation Plan (CSCAP) prepared in accordance with principles and procedures of the U.S. Office of Management and Budget Circular A-87 (OMB A-87) Cost Principles for State, Local and Indian Tribal Governments and under Washington law and the BARS Manual Section 3.9.5. The City is not considered a "major local government", so its cost allocation plan does not need to be approved by a federal cognizant agency.

The City used historical data, upon which to build the CSCAP. However, the City assigns transaction data or staff to specific programs based on an analysis of functions and services planned for either the budgeted year where practical, otherwise the preceding year, and those assignments are quantified and described in this CSCAP. The allocations are adjusted for actual activity during the year to better reflect the costs associated with the year's activities.

## **PURPOSE/GENERAL STATEMENTS**

The purpose of this cost allocation plan is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to various programs, grants, contracts and agreements. OMB Circular A-87 "Cost Principles for State, Local and Indian Tribal Governments," establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. They are not intended to identify the

circumstances or to dictate the extent of Federal and governmental unit participation in the financing of a particular Federal award.

The Direct Allocation Method treats all costs as direct costs except general administration and general expenses. Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that local governments have for overhead and administrative costs essential to operating the government and providing services to the public. Examples include shared costs for support that it provides to other departments for example legal, financial, human resources, government facilities, maintenance, insurance, purchasing, record’s management and technology. These costs are usually funded by a general fund, but have many other types of funds that provide a variety of services that use these administrative and overhead resources. These indirect services are provided to the jurisdiction’s operating departments such as police, parks and recreation, development services, public works, and utilities.

## SUBMISSION AND DOCUMENTATION REQUIREMENTS

The City has used the guidance for preparing this CSCAP provided by *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government – Implementation Guide for Office of Management and Budget Circular A-87 and the State Auditor’s Office BARS Manual, Section 3.9.5*. These publications discuss submission and documentation requirements. The table below lists the features of the CSCAP and where the information is provided in this CSCAP.

Central Services Cost Allocation Plan Feature	Location provided
<ul style="list-style-type: none"> <li>• General               <ul style="list-style-type: none"> <li>• An organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as benefiting from central service functions</li> </ul> </li> </ul>	Appendix A
<ul style="list-style-type: none"> <li>• The Executive Budget to support the allowable costs of each central service activity included in the plan. CSCAP is an integral part of the budget development process.</li> </ul>	2016 City Budget is available upon request
<ul style="list-style-type: none"> <li>• A certification that the plan was prepared in accordance with this Circular, contains only allowable costs, and was consistently among the various Federal awards and between Federal and non-Federal awards/activities.</li> </ul>	Page 3
<ul style="list-style-type: none"> <li>• <b>Allocated Central Services</b> – For each allocated central service, the plan must also include the following:               <ul style="list-style-type: none"> <li>• A brief description of the service, an identification of the unit rendering the service and the operating agencies receiving the service.</li> </ul> </li> </ul>	Pages 4 – 9
<ul style="list-style-type: none"> <li>• The items of expense included in the cost of the service and the method used to distribute the cost of the service to benefitted departments.</li> </ul>	Pages 10 – 12
<ul style="list-style-type: none"> <li>• A summary schedule showing the allocation of each service to the specific benefitted departments.</li> </ul>	Appendix B
<ul style="list-style-type: none"> <li>• Sound Practices and requirements for allocating overhead costs</li> </ul>	Exhibit 1
<ul style="list-style-type: none"> <li>• Sound allocation factors to equitably allocate overhead costs across multiple funds and departments</li> </ul>	Exhibit 2

## CERTIFICATE OF COST ALLOCATION PLAN

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

- 1) All costs included in this proposal dated March 22, 2016, to establish cost allocations for the year ended December 31, 2015, are allowable in accordance with the requirements of BARS manual section 3.9.5, OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
  
- 2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit: The City of Napavine

Signature: Mary A. Wood

Name of Official: Mary A. Wood

Title: City Treasurer

Date of Execution: 4/12/2016

## DESCRIPTION OF CENTRAL SERVICES

### Introduction

The City provides support services to operating units (funds and departments) through the following Central Service Department (costs centers).

- City Council (Legislative)
- Executive (Mayor)
- City Clerk
- City Attorney's Office
- Administrative Services (Finance, Human Resources)
- Community Development (CD Planning, permitting, inspections)
- Public Works (PW) Administration (PW/Planning Administration, Facilities Maintenance)
- Non-Departmental (City-wide expenses)

Operating departments may charge one another for actual services provided, but this is rare. When it does occur, the charge is typically based on actual time incurred as documented on a project time sheet or other tracking sheet. This CSCAP does not quantify or present amounts of these interdepartmental charges as these charges are outside of the central service allocation plan.

The City uses the Vision Municipal Solutions software system for its accounting and financial reporting processes. Costs are captured at various levels of detail. In descending order, costs are captured at the fund level, the sub-fund or department level, BARS coding (Budget Accounting and Reporting System for Washington) and project codes. Direct federal award programs and Federal awards passed through from the State of Washington are assigned and appropriate BARS code and may also include a project code. As such, federal awards can be identified and excluded from receiving cost allocations for unallowable items.

Certain central service departments use BARS and project coding to separately account for services which are allocable to benefitting functions using a different allocation base and methodology. Another way in which the City uses department, BARS and project coding is to capture unallowable costs separately from allowable costs. For example the City's legal department, uses different BARS coding for its criminal (prosecutorial) functions, which are not allocable costs under OMB Circular A-87 and another BARS coding for its civil function, which are allocable costs.

### Central Service Functions

The following provides a description of the central services. The costs presented are budgeted costs for the year ending December 31, 2015. The costs have been summarized, for presentation purposes in the following categories:

Allocable: Salaries, Benefits, Supplies, Services, and Intergovernmental.

Non-Allocable: Specific Account Line Items, Capital, Debt Service/Financing, Interfund and Non-Expenditures.

Special Adjustments: If central services departments receive revenues from services provided, these revenues reduce the amount of costs that are allocated to the operating units.

As further described in the Cost Allocation Methodology section, certain Central Service Costs Centers may use a combination of basis to allocate its costs to benefitting operating units. The determination of the relative weight for each basis may be a matter of judgment or it may be based on underlying cost data. For example the City Clerk's Office estimates that 50% of its effort is driven by the City Council's activities as measured by Council Agenda Items and the other 50% of its efforts is directly related to managing operating units as measured by the size of the operating unit in terms of operating expenditures (referred to as "Fund Activity" in the discussion below). Alternatively, the City Attorney's Office identifies specific labor attorney costs that are allocated based on FTE and costs for specific projects are allocated directly to those special projects.

### **City Council**

Costs captured in this cost center include costs necessary to operate the City Council. The City Council engages in legislative activities and provides policy direction to the City's operations. The City Council costs are allocated to benefitting operating units based on a count of agenda items. The count of agenda items most closely tracks the effort of the Council in addressing the legislative and policy needs of the operating units.

Allocation Base: Council Agenda Items – 100% of the City Council's budget is allocated using this base.

### **Mayor**

Costs captured in this cost center include costs necessary to operate the Mayor's Office. The Mayor is the Chief Executive Officer of the City, working closely with the City Council and providing executive management oversight of all operating units. The Mayor costs are allocated to benefitting operating units based on a count of agenda items and based on the fund activity of each operating unit. The count of agenda items and fund activity most closely tracks the effort of the Mayor in addressing the executive management oversight and other service needs of each operating unit.

Allocation Base: Council Agenda Items – 100% of the Mayor's Office budget is allocated using this base.

### **City Clerk**

Costs captured in this cost center include the salaries, benefits and other costs necessary to operate the City Clerk function. The City Clerk provides Council and committee support, engages in legislative activities, manages City records and code, Human Resources departments and front office functions, such as Customer Service (Utility Billing), and supports a number of City-wide activities. The City Clerk



function tracks agenda items by each operating unit in a “Council Log”. The count of agenda items and fund activity most closely tracks the support provided in assisting the operating units with council matters and code review, and management of City Records. A time study will also be performed throughout the year to track the various job duties to support the various departments of the government, where the cost allocation plan will be adjusted annually in September for the next year’s budget.

Allocation Base: Council Agenda Items – 70% of the City Clerk’s budget is allocated using this base.

Allocation Base: Fund Activity (Expenditure Level) – 30% of the City Clerk’s budget is allocated using this base.

### **City Attorney’s Office**

Costs captured in this cost center includes monthly retainer and other costs necessary for the civil legal functions. The City Attorney provides Council support, code revisions, contract review, litigation, and advise to Council and staff to ensure that all Federal, State and municipal regulations are complied with. The City Attorney also oversees criminal matters, which are accounted for in a separate operating unit called Municipal Court Services, since they are not considered a central services function. The count of agenda items most closely tracks and support provided to the operating units in reviewing and advising on matters that are brought to council.

Allocation Base: Council Agenda items - 66% of the City Attorney’s budget is allocated using this base. 34% of the City Attorney’s budget is allocated to Prosecuting Attorney to handle Municipal Court Services.

Special Handling: Attorney costs will be allocated based on time incurred on special projects. Labor attorney costs are allocated based on staffing levels or Full-Time Equivalents (FTE). Labor issues have a direct relationship to the number of City employees.

### **Administrative Services**

(Finance, Human Resources, and Technology)

Costs captured in the Administrative Services department include the salaries, benefits and other costs necessary to operate the Finance, Human Resources and Technology functions. These functions are accounted for separately and are allocated based on specific methods. A description of the functions and the allocation basis follows.

### **Finance**

Costs captured in this cost center include the salary, benefits and other costs necessary to operate the Finance department. Finance staff provides back office functions, such as accounts payable, payroll, grant tracking, financial reporting and budgeting. Fund activity most closely tracks the support for

financial processing and reporting. The count of authorized full-time equivalent (FTEs) staff most closely tracks payroll processing.

Allocation Base: Fund Activity (Expenditure Level) - 100% of the Finance cost centers budget is allocated using this base.

### **Human Resources**

The City Clerk provides services of the HR Manager in supporting the operating units with employee relations, policies and other service needs. Costs captures in this cost center includes salary, benefits and other costs necessary to operate the Human Resources department. The count of authorized full-time equivalent (FTEs) staff most closely tracks the support for employee relations.

Allocation Base: FTE - 100% of the Human Resources cost center's budget is allocated using this base.

### **Information Technology (IT)**

Costs captured in this cost center includes contracts with outside vendors such as Vision Municipal Solutions, Master Meter, Network Solutions, or other vendor's the City may contract with for services. Costs in this area are necessary to operate, maintain and improve the technical infrastructure of the City. The count of hardware, network, and communication systems, adjusted for unique equipment is used to identify general IT infrastructure and end user support. Fund activity most closely tracks general IT infrastructure services and IT equipment count most closely tracks end user support services.

Allocation Base: Fund Activity (Expenditure Level) - 33% Information Technology cost center's budget is allocated using this base.

Allocation Base: IT Equipment - 67% of the Information Technology cost center's budget is allocated using this base.

### **Community Development**

Costs captured in this cost center include salaries, benefits and other costs necessary to maintain the Community Development department. The Community Development department provides planning and economic development of the City, Planning and Building/Code Enforcement, parks maintenance. Staff will track their time to establish a cost allocation base and monitor and re-evaluate annually in September for the next year's budget.

Allocation Base: Fund Activity (Expenditure Level) - The fund Activity base is modified to include only those operating units which use the Community Development services is allocated using this base.

Special Handling: Customer Service & Admin - Administrative support is provided to Building/Code Enforcement and Planning based on management's estimate of time. These are allocated based on time management's estimate of service.

### **Public Work's Administration**

Costs captured in this cost center include salaries, benefits and other costs necessary to provide management and administration of public works (Streets, Water, and Sewer) and non-police vehicle maintenance, and administration and customer service to utility billing. Since several functions are contained in this cost center, and the benefit to operating units varies, several cost allocation bases are used. Fund activity most closely tracks the management, administrative support and other service needs of the public works operating units. Vehicle count most closely tracks the support of City maintained vehicles for non-police operating units. Costs for customer service and administrative support to building and planning operating units are handled separately.

Allocation Base: Fund Activity (Expenditure Level) - The Fund Activity base is modified to include only those operating units which use the PW Administration services. 100% of the PW Administration cost center's budget is allocated using this base.

Allocation Base: Vehicles - The Fund Activity (Expenditure Level) is allocated using this base.

Special Handling: Customer Service & Admin - Administrative support is provided to Utility Billing processing, receipting, utility billing inquiries/complaints is allocated using this base.

### **Facilities Maintenance**

Costs captured in this cost center include costs necessary to provide janitorial services and maintenance of buildings. Square footage most closely tracks janitorial and building maintenance services and is used to allocate internal labors costs to operating units. Rent, utilities, insurance and repairs are separately handled and charged to operating units.

Allocation Base: Square Feet - 100% of the Facilities Maintenance cost center's budget is allocated using this base.

### **Non-Departmental (City-wide Expenses)**

Costs captured include office supplies, insurance, and other costs necessary to support City-wide operations. Non-allocable costs such as community service contracts, health and human services funding and contingencies are excluded. Fund activity most closely tracks supplies and services provided to operating units. Insurance claims most closely track the value of insurance to operating units.

Allocation Base: Fund Activity (Expenditure Level) - 30% of the Non-Departmental cost center's budget is allocating using this base.

Allocation Base: Insurance Claims - 70% of the Non-Departmental cost center's budget is allocated using this base.

## **COST ALLOCATION METHODOLOGY**

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### **Introduction**

As desired in the introduction to Central Services, the City provides support services to operating units (fund and departments) through the following Central Services Departments (cost centers).

- City Council
- Mayor
- City Clerk
- City Attorney's Office
- Administrative Services (Finance, Human Resources, Information Technology)
- Community Development (Planning/Building/Code Enforcement, Parks, City Hall Maintenance)
- PW Administration (Utility Billing, Facilities Maintenance)
- Non-Departmental (City-wide Expenses)

Central service departments use BARS and project coding to separately account for services which are allocable to benefitting functions and to capture unallowable costs separately from allowable costs.

### **Accounting, Financial Reporting and Cost Allocation Systems**

Under Washington State law and the BARS manual, government officials may charge a portion of the costs for central overhead services to restricted funds, such as enterprise 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 to the utilities or to other funds with restricted revenue sources that cannot pay for such charges.

RCW 43.09.210 indicates that when one fund is charging another, the fund being charged may only pay for the actual costs of the services it receives. Governments are expected to document those services and the costs of providing them to demonstrate these charges are fair, equitable and valid and reflect services provided.

The City uses the Vision Municipal Solutions software system for its accounting and financial reporting processes. The accounting system is able to produce reports for allocation to operating units. Each central service cost center grouping uses a unique method to allocate its costs to the benefitting departments. However, several central services use the same base, upon which to allocate its costs (for example agenda item count and fund activity). Other cost center groupings may use different methods for certain segments of its cost pool for allocation based on data it accumulated during the year.

The Finance department will allocate costs based on actual data accumulated at least annually in order for the year-end report to reflect an adjustment from budget to actual. If practical, the adjustment to actual will be completed semi-annually.

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

- For Accounting: Actual expenses or number of transactions.
- For Budget: Actual expenses, budgeted expenses, and 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 City Administration – 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 Police department. These functions must be charged solely 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 Accounts Payable, Purchasing, Payroll, and Bookkeeping.

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

- a. The General Fund will be double weighted for cost allocations purposes. This method results in the General Fund being overcharged, but is necessary to be completely sure that all functions benefiting the public at large are charged solely to the General Fund.
- b. Annual expenditures for street improvement projects will be included with “Street Fund” expenditures for cost allocation purposes because they benefit City streets.
- c. Capital improvement funds and project grant funds which may not be charged indirect or overhead costs under State or Federal guidelines will be combined with the General Fund or the Fund Activity for cost allocation purposes.
- d. 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.
- For Budget: Actual expenses, budgeted expenses, and 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 which may not be charged indirect / overhead under State or Federal guidelines will be combined with the General Fund for cost allocation purposes.
2. Annual expenditures will be analyzed at the end of each year and used for allocation of audit expenses for the next audit.

## **Specific Cost Allocation Methodologies Used in this Central Services Cost Allocation Plan (CSCAP)**

As provided in the Description of Central Services Section of this CSCAP, each central service cost center grouping uses a unique base, upon which to allocate its costs.

The central service functions allocated in this CSCAP are grouped by the allocation base used as follows:

**Council Agenda Items** - Count of agenda items is tracked by City Clerk. The budget is based on YTD actual. The actual allocation is based on current year count.

**Allocation Base: Council Agenda Items** - Count of agenda items is tracked by the City Clerk. The allocation of next year's budget costs is based on actual counts through September of the current year. Actual allocations made during the year ending December 31, 2016 will be based on actual expenditures.

- Used by City Council, Mayor, City Clerk and City Attorney

**Fund Activity (Expenditure Level)** - Fund activity or expenditures is tracked by Finance. Expenditure level is measured by the size of the operating unit in terms of operating expenditures. The allocation of the next year budget is based on budgeted expenditures. Actual allocations made during the year ending December 31, will be based on actual expenditures.

- Used by Mayor, City Clerk, Finance, Information Technology, Community Development, PW Administration (modified for PW activity)

**FTE (Full Time Equivalent)** - The budgeted count of employees is tracked by Finance. Both the budget and actual allocation is based on the current year budgeted FTE. If the actual FTE is changed at any time within the year, the allocation will be modified to reflect the current activity of FTEs.

- Used by City Attorney (for labor attorney), Human Resources, Finance (payroll).

**IT Equipment & Communication Equipment** – The actual count of equipment, servers, databases or ports, adjusted for the current budgeted purchases and software support, are tracked by Finance. Both the budget and actual allocation is based on the current budgeted IT equipment count and department activities as well as FTE. Unless there is a significant change between budget and actual, it will not be adjusted. Greater weight is provided to IT infrastructure which is fairly stable.

- Used by all departments within the city.

**Vehicles** – The actual count of vehicles, adjusted for current budgeted purchases, is tracked by Inventory. Both the budget and actual allocation is based on the current budgeted vehicles count and fund activity and FTE. Unless there is a significant change between budget and actual, it will not be adjusted.

- Used by Public Works and Community Development

**Square Feet** – The actual count of square footage, adjusted by acquisitions, is tracked by Finance. Both the budget and actual allocation is based on the department fund activity on the budgeted square footage. Unless there is any change between budget and actual, it will not be adjusted.

- Used by Facilities Maintenance, Utilities, Insurance and any expense based on the square footage use of City Hall and other city buildings.

**Insurance Claims** – City Clerk tracks the insurance claims of the City, insurance costs are allocated based on aggregated claim data from the insurance provided. Aggregated data is used to smooth out the impact to any particular department from year to year.

- Used by Non-Departmental

**Special Handling: Specific Costs** – some costs are accounted for under the guidance provided by State Law and BARS manual section 3.9.5 discusses Overhead Cost Allocation. Overhead



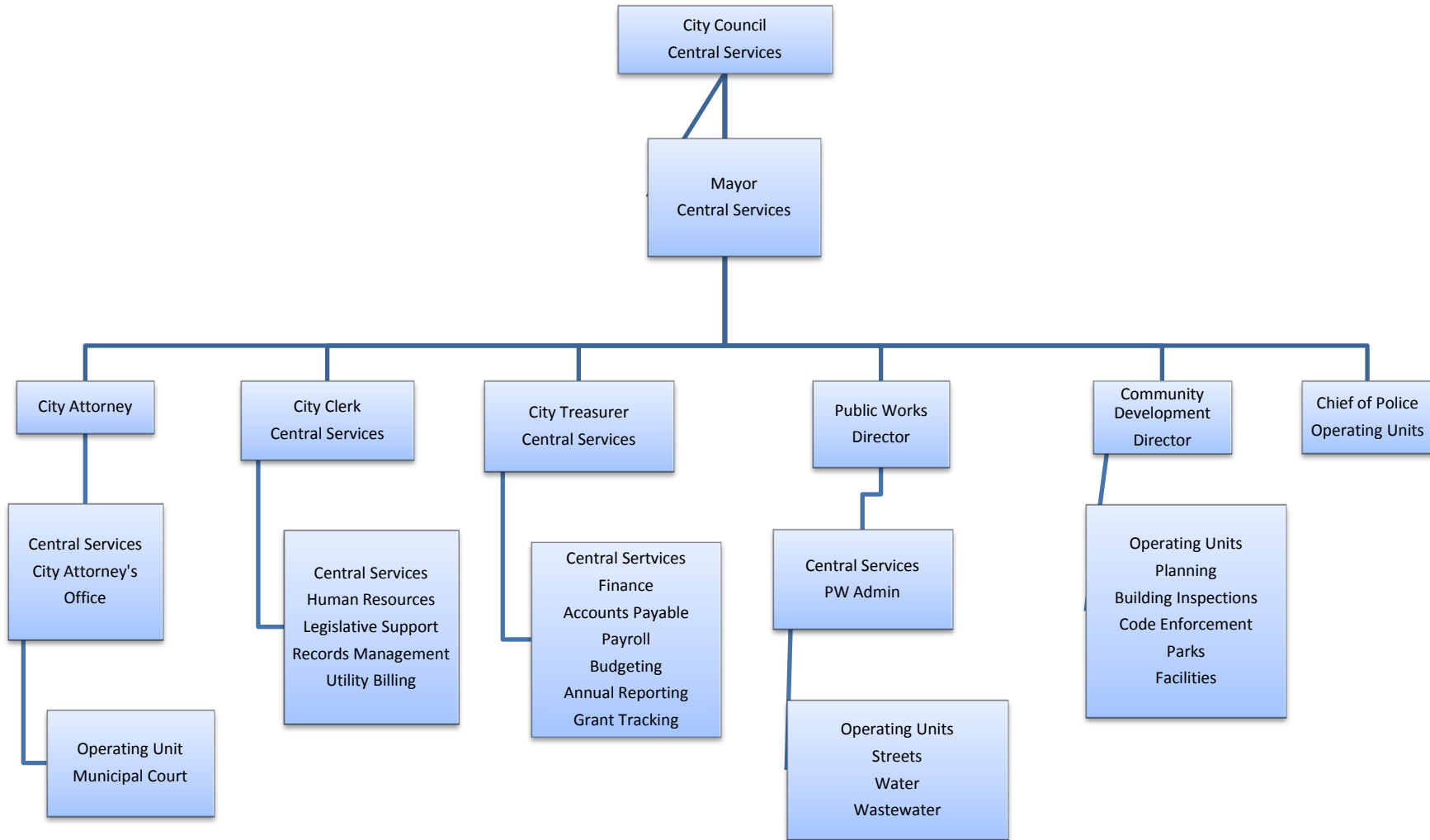
costs consist of the costs of central services or support functions shared across departments. They may include accounting, human resources, payroll, information technology, janitorial services and other administrative support. See Exhibit 1 and 2 for further detail.

# APPENDIX A: ORGANIZATION CHART

City of Napavine

Organizational Chart

Central Services & Operating Units



## EXHIBIT 1

### Sound Practices and requirements for allocating overhead costs

#### 1. **Develop and maintain an overhead allocation plan that reflects decisions about which overhead costs will be allocated to which funds or departments and on what basis.**

A well-developed plan must:

- a. Include relevant, up-to-date information about overhead and how to allocate it equitably. It must describe each overhead cost center, which costs are allocable and which is not, and what allocation factors and data sources will be used to calculate the allocations. It must describe the decisions made and the rationale for those decisions. It must contain the calculations of overhead charges to each fund and department. Cities. The plan should be updated the annually.
- b. Use factors that equitably allocate central overhead costs to each fund or department. Allocation factors are used to allocate overhead costs to departments and funds that benefit from overhead services. Different factors are necessary to equitably allocate the various overhead costs. For example, square footage is an appropriate factor to allocate maintenance and janitorial costs. The number of transactions is an appropriate factor to allocate accounting costs. Good allocation factors result in each fund and department paying only for the overhead services it received. Local governments must ensure that allocation factors are based on current and accurate information. If estimates or budgeted figures are used, governments should adjust them to actual at least annually. Exhibit 2 shows appropriate allocation factors for common types of overhead costs.
- c. Allocate overhead to all benefitting funds and departments for overhead services received. If governments decide not to charge overhead to a particular fund or department, the general fund must absorb that fund or department's share of the costs. Excluding a fund or department from the calculation results in overcharges to all remaining funds and departments.
- d. Ensure that general government costs or questionable costs that do not clearly benefit the utilities (or other funds with legally restricted revenues) are charged entirely to the general fund. The primary purpose of general government programs is to serve the public at large. Charging such costs to the utilities or other funds with restricted revenue sources that cannot pay for such expenses is questionable because they do not support these funds. The costs of such programs are typically paid for by the general fund.

#### 2. **Properly charge departments:**

- a. Charge departments and funds only after overhead services are provided. Overhead allocation plans allow a government to forecast the amount of overhead it will charge each department in a given year. Although costs can be charged quarterly, monthly or more frequently, they must *always* be charged after services are rendered. If the general fund charges overhead costs before services are rendered, it has borrowed money from other funds, and Interfund loan rules must be followed (Loans).
- b. Charge departments and funds only for actual costs. If local governments charge departments and funds based on estimated overhead costs, they should reconcile and adjust those estimates to actual costs at least once a year. Similarly, OMB Circular A-87 requires such reconciliation and adjustment if estimated overhead costs have been allocated to federal grants.

3. **Maintain appropriate documentation** to support what overhead costs were charged to each department and fund, the amount of the charge and how it was determined. State law (RCW [43.09.210](#)) says that when one fund charges another for services provided, the receiving fund should pay the full value of the services. Governments cannot demonstrate compliance with this law unless they maintain documentation that shows (1) the cost of each overhead cost center, (2) the level of service each provided to benefitting funds and departments and how it was determined, and (3) the amount charged to each fund and department.

## EXHIBIT 2

### Sound allocation factors to equitably allocate overhead costs across multiple funds and departments

Type of costs	Factors used to calculate overhead costs
Maintenance and janitorial	Square footage
Electric and other externally provided utilities	Square footage
Accounting	Actual expenses or number of transactions
Budget	Actual expenses, budgeted expenses or number of staff (FTE) (a)
Payroll	Number of staff (FTE)
Human resources	Number of staff (FTE)
IT services	Number of computers, servers, databases or ports (b)
Telephone Equipment	Number of phones, FTE of staff
Legal – indirect costs	Actual expenses or hours worked, labor related based on FTE
Insurance	Number of staff (FTE), claims or loss history, square footage, property values insured, and risk factor
Accounts payable	Number of transactions (including vouchers or invoices)
Purchasing	Number of transactions (procurements)

Notes: If local governments are allocating other overhead costs not shown above, they must choose allocation factors that result in allocations that are fair, equitable and reflect the cost of services actually received by the benefiting funds.

(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.

(b) Ports alone may not be the best basis for organizations that have moved to a wireless network model.