

Cost Allocation Plan (CAP)

Washtenaw County Working Session

May 7, 2009

Budget Development Timeline

- Information Sharing & Input from BOC
 - *Financial State of County (Done)*
 - *Review Revenues (Done)*
 - *Mandated & Non-Mandated Services (Done)*
 - *Community Needs & Major Expenditures (Done)*
 - *Employee Compensation & Benefit Levels (Done)*
 - *Outside Agency Allocation & Integrated Funding (Done)*
 - *Support to Non General Fund (Done)*
 - *Regionalism, Shared Services & Government Efficiency (Done)*
 - *Cost Allocation Plan (Tonight)*
 - Reserves (May 21st)
- Administrator's Recommended Budget Phase 1 at June 3rd Ways & Means Committee

Overview

- All CAP calculations are done by Maximus using Federally accepted practices – they will outline this for us tonight
- Policy decision on how we choose to allocate CAP
- Details on our allocation in your handouts

Overview

- Policy considerations to keep in mind
 - Maximize outside revenue where eligible
 - We have decided to freeze or waive CAP amounts to protect service levels, but should be reviewed given changes in outside funding
 - Sometimes CAP is outdated if we have made significant restructurings due to two year lag
 - BOC policy within budget development as to how revenue gained should be allocated

Washtenaw County. Michigan County-Wide Indirect Cost Discussion



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Outline

- What are indirect costs?
- What is an A-87 Cost Plan?
- Why do an A-87 Cost Plan?
- What Benefit to an A-87?
- What Else can we do with A-87?
- How is the plan prepared?

What are indirect costs?

- Costs are either direct or indirect.
- County government department budgets typically include direct expenses.
- Indirect expenses (shared expenses) are accounted for in departments (Central Service Depts.) that provide services to other departments rather than to the general public.

Examples of direct and indirect departments

- **Direct Departments**

- Courts
- Sheriff
- Health
- Register of Deeds
- Parks

- **Central Service Depts.**

- Administrator
- Finance
- IT
- Human Resources
- Corporation Counsel
- Security
- Building Operations
- Insurance

What is an A-87 Cost Plan?

- Federal Management Circular A-87 is the prescribed guidelines for identification of costs both Direct and Indirect allowable under federal awards.
- In Washtenaw County's case it identifies the Indirect Costs allowable on Federal Awards for:
 - **FOC**
 - **PA**
 - **Health**
 - **Other**

Are there other kinds of Indirect Cost Plans?

- Yes
- **A-87** is for Federal Purposes and is least aggressive.
- **Full –Cost Plans** are more aggressive and identify all indirect costs. (Treasury, Commissioners, higher depreciation, etc.)
- **Budget Cost Plans** use Budgeted Expenses vs. Actual Expenses

Why do an A-87 Cost Plan?

- In order to recover indirect costs the State and Federal government require an approved A-87 county-wide cost plan be prepared annually to identify all indirect costs eligible for reimbursement.
- The plan identifies and maximizes the recoverable costs incurred by the county to provide contracted services under federal awards.

What are the direct benefits received by Washtenaw County?

- The 2007 Cost plan identified **\$876,116** of indirect costs for the Friend of the Court.
- In 2009 the County will receive through the Title IV-D CRP program approximately **\$541,981** ($\$876,116 \times \text{Time Study \% [93.73\%]} \times \text{FFP [66\%]}$)
- Prosecutor will receive approximately **\$41,000** in 2009.

Some Facts About Washtenaw County's Indirect Costs

- Indirect costs for 2007 equaled \$27,715,801.
- Not all state and federal programs pay indirect costs, some disallow, some limit and some have maximums.
- Some programs require departmental cost studies to identify not only County –Wide indirect costs but also department overhead.
 - Health Department
 - Courts

How is the plan prepared?

- Plan requires audited financials.
- Departments are segregated between Grantee and Central Services.
- Central services departments are identified.
- Costs are functionalized.
- Appropriate allocation statistics are identified.
- Costs are allocated.
- Costs are accumulated.

Sample Department - Finance

- **Costs are functionalized**
 - Accounting
 - Accts payable
 - Payroll
 - Budget
 - Purchasing
 - Auditing
 - Consultants

Once Costs are Functionalized – Allocation Statistics Are Determined

- Accounting- Accounting Transactions
- Accounts Payable – A/P Transactions
- Payroll – Average Number of Employees
- Budget – Annual Expenditures
- Purchasing – Number of Purchase Orders
- Auditing – Total transactions by department
- Consultants – Direct to benefiting departments

Accumulation the Costs

- All costs are accumulated by department.
- Cumulative costs are compared to projected costs.
- Differences between projected costs and actual costs are compared and “Roll-Forwards” are calculated.
- The Washtenaw County plan is called a “FIXED with ROLL-FORWARD”.

Roll-Forward Computation

Year	2005	2006	2007	2008	2009
Friend of the Court					
Actual Costs	\$525,000		\$575,000		
Projected costs - Fixed			\$525,000		
Difference (Roll-Forward)			<u>\$ 50,000</u>		
Actual Plus Roll-Forward			\$625,000		
Amount Claimed					\$625,000

The diagram illustrates the roll-forward computation process. Arrows show the flow of data: from 'Actual Costs' in 2005 to 'Projected costs - Fixed' in 2006; from 'Actual Costs' in 2005 to 'Actual Plus Roll-Forward' in 2007; from 'Projected costs - Fixed' in 2006 to 'Actual Plus Roll-Forward' in 2007; from 'Difference (Roll-Forward)' in 2007 to 'Actual Plus Roll-Forward' in 2007; from 'Actual Plus Roll-Forward' in 2007 to 'Amount Claimed' in 2009.

Other Plans

- Some departments are so complex it may be appropriate for them to have their own plan-
 - Health Dept
 - Courts
 - Sheriff
 - Parks & Rec.
 - Co-op Extension

Other uses

- Determining the full cost of an operation
- Setting user fees
- Recovering costs for internal services
- Projecting costs for inter-governmental charges
- Estimating costs on proposed grants