

Attachment 14

Case Study State of Confusion

Central Service Cost

Allocation Plan

Fiscal Year Ending June 30, 2001

One of the objectives of OMB Circular A-87 is to provide a procedure whereby State/local governments can identify, value and recover the costs of administrative service rendered outside the grantee/contractor departments, but which are nevertheless necessary to the accomplishment of federally supported programs performed by those departments.

The State/local central service allocation plan is that procedure.

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Central Service Cost (continued)

The State of Confusion is a typical State/local government. It has numerous central service organizations which provide support to its operating or line departments.

The Chief Financial Officer for the State made a study of the central service departments in her government. She concluded that all or a portion of the functions of some of those departments fell within the meaning of the concept of “the general costs of government” stipulated in A-87 and, hence, the costs associated with those functions were unallowable or ineligible as a charge to Federal awards.

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Central Service Cost (continued)

However, she identified many functions, and the cost related thereto which were not general costs of government and hence could be considered for reimbursement.

She also made a quick assessment of the work involved in putting together a cost allocation plan and the benefits she might realize from such a plan in terms of probable additional Federal monies and useful management information. She decided the anticipated benefits justified the expense, which she estimated to be primarily staff time.

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Central Service Cost (continued)

The pertinent information that she gathered is shown on the following slides.

Assignment:

Using that information, identify the most appropriate allocation base to use for each element of cost and then distribute these to the benefiting activities.

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Central Service Cost (continued)

Departments	Total	Unallowable(2)	Allowable
Chief Executive(1)	\$ 960,000	\$ 960,000	\$ 0
Auditor(3)	1,785,000	60,000	100,000
ADP(3)	780,000	0	0
Treasurer	450,000	20,000	430,000
Personnel	560,000	40,000	520,000
Budget	325,000	29,000	296,000
Purchasing	250,000	20,000	230,000
Accounting	450,000	25,000	425,000
Building & Grounds(4)	250,000	40,000	210,000
Total	\$ 5,810,000	\$ 1,194,000	\$ 2,111,000

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Central Service Cost (continued)

Additional Information:

- 1. General expenses required to carry out the overall responsibility of government as stipulated in OMB Circular A-87. These amounts are included in all others in the following schedules.**
- 2. Costs related to the other departments have been analyzed for allowability under A-87. As a result, specific items of unallowable cost have been identified and excluded from further consideration.**

Case Study State of Confusion Central Service Cost (continued)

- 3. The Automatic Data Processing and the Auditor functions are considered to be services furnished and billed for and as such are identified as a direct billed item. However, the over/under recovery is handled differently between the two activities. For the Auditor, the over/under recovery is handled as an allocated cost while for the ADP function, the over/under recovery is rolled into a subsequent billing rate.**
- 4. The building occupied by the operating agencies costs \$4,000,000 and is 60 years old. The Controller has determined that comparable space in this area is renting for \$6.25 per square foot.**

State of Confusion Central Service Cost Allocation Plan Statistics - FY Ending June 30, 2001

	(A) Total		Audit		Checks		Purchase		Building		Personnel	
	Direct Cost		Man Hours		Issued		Orders		Square Feet			
<u>Operating Agencies</u>	<u>Dollars</u>	<u>%</u>	<u>Hours</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Agriculture	3,000,000	10%	2,000	20%	13,000	10%	13,500	15%	35,000	10%	1,500	15%
Corrections	1,800,000	6%	1,000	10%	6,500	5%	4,500	5%	7,000	2%	1,000	10%
Community Affairs	600,000	2%	0	0%	5,200	4%	900	1%	10,500	3%	300	3%
Health	1,200,000	4%	1,000	10%	13,000	10%	13,500	15%	42,000	12%	900	9%
Social Services	9,900,000	33%	4,000	40%	26,000	20%	27,000	30%	122,500	35%	2,300	23%
Education	4,800,000	16%	1,000	10%	19,500	15%	9,000	10%	70,000	20%	1,400	14%
Transportation	1,500,000	5%	0	0%	6,500	5%	5,400	6%	10,500	3%	600	6%
Law Enforcement	1,200,000	4%	0	0%	3,900	3%	3,600	4%	14,000	4%	800	8%
All Others	6,000,000	20%	1,000	10%	36,400	28%	12,600	14%	38,500	11%	1,200	12%
Totals	<u>30,000,000</u>	100%	<u>10,000</u>	100%	<u>130,000</u>	100%	<u>90,000</u>	100%	<u>350,000</u>	100%	<u>10,000</u>	100%
(A) Excluding equipment, major subagreements and flow-through funds.												

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	<u>Total</u>	<u>Auditing</u>	<u>Budget</u>	<u>Treasurer</u>	<u>Purchasing</u>	<u>Accounting</u>	<u>Personnel</u>	<u>Building & Grounds</u>	<u>Building Use Allow.</u>	<u>Total</u>
<u>Central Services:</u>										
Auditing	\$100,000									
Budget	296,000									
Treasurer	430,000									
Purchasing	230,000									
Accounting	425,000									
Personnel	520,000									
Bldg & Grnds	210,000									
Bldg Use Allowance										
Total	\$									
<u>Operating Agencies:</u>										
Agriculture										
Corrections										
Community Affairs										
Health										
Social Services										
Education										
Transportation										
Law Enforcement										
All Others										
Total		\$	\$	\$	\$	\$	\$	\$	\$	\$

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State of Confusion
Central Service Cost Allocation Plan
Summary Worksheet
Fiscal Year Ending June 30, 2001
Solution

	Total	Auditing	Budget	Treasurer	Purchasing	Accounting	Personnel	Building & Grounds	Building Use Allow.	Total
Central Services:										
Auditing	\$100,000	(100,000)								
Budget	296,000		(296,000)							
Treasurer	430,000			(430,000)						
Purchasing	230,000				(230,000)					
Accounting	425,000					(425,000)				
Personnel	520,000						(520,000)			
Bldg & Grnds	210,000							(210,000)		
Bldg Use Allowance	80,000								(80,000)	
Total	<u>\$2,291,000</u>									
Operating Agencies:										
Agriculture		20,000	29,600	43,000	34,500	42,500	78,000	21,000	8,000	276,600
Corrections		10,000	17,760	21,500	11,500	25,500	52,000	4,200	1,600	144,060
Community Affairs		0	5,920	17,200	2,300	8,500	15,600	6,300	2,400	58,220
Health		10,000	11,840	43,000	34,500	17,000	46,800	25,200	9,600	197,940
Social Services		40,000	97,680	86,000	69,000	140,250	119,600	73,500	28,000	654,030
Education		10,000	47,360	64,500	23,000	68,000	72,800	42,000	16,000	343,660
Transportation		0	14,800	21,500	13,800	21,250	31,200	6,300	2,400	111,250
Law Enforcement		0	11,840	12,900	9,200	17,000	41,600	8,400	3,200	104,140
All Others		10,000	59,200	120,400	32,200	85,000	62,400	23,100	8,800	401,100
Total		<u>\$100,000</u>	<u>\$296,000</u>	<u>\$430,000</u>	<u>\$230,000</u>	<u>\$425,000</u>	<u>\$520,000</u>	<u>\$210,000</u>	<u>\$80,000</u>	<u>\$2,291,000</u>
		Audit	Total	Checks	Purchase	Total	Number of	Building	Building	
		Man Hours	Direct Cost	Issued	Orders	Direct Cost	Personnel	Sq Feet	Sq Feet	