

Cost Allocations: A Method to Understanding True Program Costs

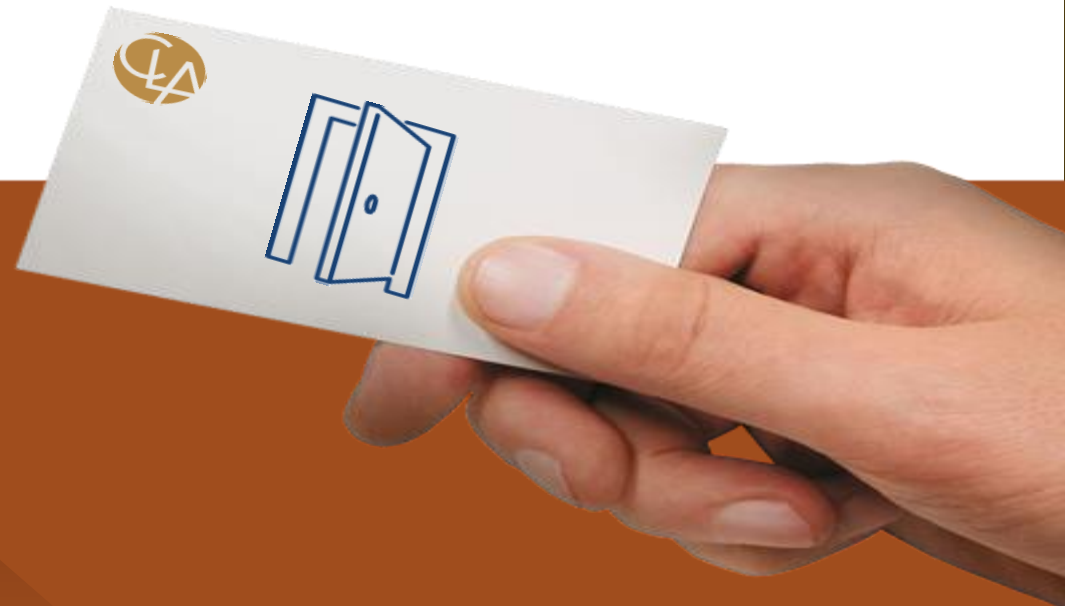
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CLAconnect.com



Learning Objectives

- Understand what a fully-loaded cost allocation process is and the benefits
- Discuss a process for developing cost allocation methodologies and efficiently implementing them
- Identify how cost allocation results are leveraged across the organization



Source: <http://priceisright.wikia.com/wiki/Plinko>

2 ALLOCATION TYPES



INDIRECT COST RATE

- Required for those with federal contracts
- Specific direction given through OMB A-122
- Used by the Federal Government and tested in single audits



FULLY-LOADED

- Optional
- Allocates all expenses to programs to identify true resource requirements
- Used for management and board decision-making

2 ALLOCATION TYPES

- Allocations are not mutually exclusive
- Your organization may use one or both types of allocations for different purposes
- You may be able to use the information gathered for one type of allocation, organized in a new way, for another allocation

Benefits

- Enhancing stakeholder understanding of true costs
- Aides in Management and Board level decision making
- Enhances transparency



FULLY-LOADED ALLOCATIONS

Internal allocations for better decision making

FULLY-LOADED ALLOCATIONS

How many of you currently use a process where you allocate all of your costs to identify the true costs?



FULLY-LOADED ALLOCATIONS

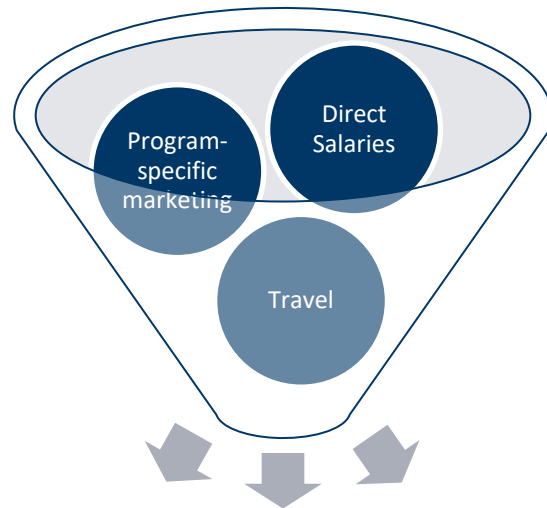
The ideal setup for completing and using a fully-loaded allocation at your organization includes:

- Accounting and reporting system that identifies cost center(s)
- Ability to identify or estimate Management and Administrative staff time spent supporting each department/division/program
- Willingness by staff and board to evaluate financial results in new ways

FULLY-LOADED ALLOCATIONS

Step 1: Record Expenses

DIRECT EXPENSES

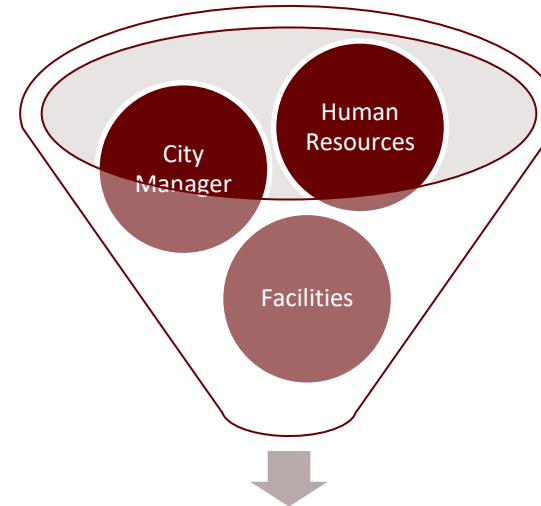


Division A

Division B

Division C

INDIRECT EXPENSES



Management &
Administration

FULLY-LOADED ALLOCATIONS

Step 2: Identify Allocation Departments/Divisions

City/County
Manager

City/ County
Attorney

Finance

Human
Resources

Information
Technology

Facilities
Management

Utility Billing

Public
Grounds

Insurance

FULLY-LOADED ALLOCATIONS

Step 3: Determine Method for Each Dept./Division

← Multi-Step Allocations →

Direct

- Time Study
- Direct Usage

Indirect

- % of Expenses
- % of FTE

FULLY-LOADED ALLOCATIONS

Step 4: Apply Allocations

HR: \$500,000 Expenses

Direct Step

Staff Time:
25% - A
10% - B
15% - C
50% - Indirect

Division A:
\$125,000

Division B:
\$50,000

Division C:
\$75,000

Indirect Costs:
\$250,000

Indirect Step

FTE Size:
20% - A
55% - B
25% - C

Division A:
\$50,000

Division B:
\$137,500

Division C:
\$62,500

Total Allocation

Division A:
\$175,000

Division B:
\$187,500

Division C:
\$137,500

FULLY-LOADED ALLOCATIONS

Step 5: Total and Report

- There are many options for how you can report the information
- Try to identify the most intuitive/logical reporting structure for your organization
- We recommend separating the direct and indirect expenses



Case Study:

Leveraging Allocation Information

**AN EMPOWERED ORGANIZATION IS ONE
IN WHICH INDIVIDUALS HAVE THE
KNOWLEDGE, SKILL, DESIRE, AND
OPPORTUNITY TO PERSONALLY
SUCCEED IN A WAY THAT LEADS TO
COLLECTIVE ORGANIZATIONAL
SUCCESS.**

M. SHAWN CIVEY

QuotePixel.com

Cost Allocation Model

	Primary Allocation Method	Secondary Allocation Method (as applicable)	Membership + CLC	Education	Certification	Standards
Employee Search	% total direct expense	0	23,082	25,253	8,857	14,991
Consulting Services	% total direct expense	0	56,121	61,399	21,536	36,450
Dues & Subscriptions	% total direct expense	0	2,250	2,461	863	1,461
Elections	% total direct expense	0	1,622	1,774	622	1,053
Electronic Delivery	% total direct expense	0	145	159	56	94
Legal Services	% total direct expense	0	10,971	12,002	4,210	7,125
Merchant Discount	% total direct expense	0	15,108	16,529	5,798	9,813
Miscellaneous	% total direct expense	0	2,659	2,909	1,020	1,727
SCTE Awareness	% total direct expense	0	2,335	2,554	896	1,516
SCTE Foundation Donated Servic	% total direct expense	0	6,078	6,650	2,333	3,948
Postage/Shipping/Freight	% total direct expense	0	1,255	1,373	482	815
Printing	% total direct expense	0	1,747	1,912	671	1,135
Promotional Marketing	% total direct expense	0	682	746	262	443
Research & Surveys	% total direct expense	0	3,197	3,497	1,227	2,076
Telephone-Landline	time and effort	% total direct expense	7,211	7,594	2,229	4,853
Telephone-Conference Calls	time and effort	% total direct expense	1,235	1,301	382	831
Travel & Entertainment	time and effort	% total direct expense	2,481	2,612	767	1,669
Travel-Staff	time and effort	% total direct expense	20,138	21,208	6,225	13,552
Website	% total direct expense	0	3,314	3,626	1,272	2,153
Depreciation	program personnel size	% total direct expense	68,966	71,722	19,179	50,761
Loss on Disposition of Assets	% total direct expense	0	628	687	241	408
Diversity & Inclusion	% total direct expense	0	469	514	180	305
Office Supplies-General	% total direct expense	0	6,422	7,026	2,464	4,171
Board Meeting-Awards & Plaques	% total direct expense	0	4,608	5,041	1,768	2,993
Building-Maintenance	program personnel size	% total direct expense	17,854	18,567	4,965	13,141
Payroll- Overhead (Operations) Allocation	% total direct expense	0	307,925	336,883	118,162	199,992
Employer Tax	time and effort	% total direct expense	65,513	68,996	20,251	44,089
Employee Benefit- 401K	time and effort	% total direct expense	40,625	42,785	12,558	27,340
Employee Educ- Tuition Reimb.	program personnel size	% total direct expense	5,675	5,902	1,578	4,177
Employee Relocation-Houseing	program personnel size	% total direct expense	12,389	12,884	3,445	9,119
Employee Tenure/Teambuilding	% total direct expense	0	3,372	3,689	1,294	2,190

“We generally knew that our expo was subsidizing a number of other programs, but we didn’t know to what extent until we undertook this exercise. The cost model brought clarity and shared understanding to what has financially performed well, what we have been subsidizing, and to what extent.”

- VP of Finance

Cost Allocation Model

		Membership + CLC	Education	Certification	Standards	Expo + Other Events	Leadership Institutes	Total
	Total Revenues	\$ 1,930,956	\$ 2,236,739	\$ 522,193	\$ 1,296,981	\$ 4,860,158	\$ 682,699	\$ 11,529,727
	Total Direct Expenses	\$ 1,104,985	\$ 1,208,900	\$ 424,023	\$ 717,669	\$ 1,957,978	\$ 565,767	\$ 5,979,322
	<i>*Direct expenses DO include direct payroll costs</i>							
	Direct Contribution Margin (\$)	\$ 825,971.32	\$ 1,027,839.14	\$ 98,169.85	\$ 579,312.46	\$ 2,902,180.32	\$ 116,932.03	\$ 5,550,405.14
	Direct Contribution Margin (%)	42.8%	46.0%	18.8%	44.7%	59.7%	17.1%	48.1%
	Total Allocated Expenses	886,216	950,850	304,768	595,594	1,228,750	334,021	4,300,197
	Total Expenses	1,991,201	2,159,750	728,790	1,313,263	3,186,727	899,788	10,279,519
	Total Margin (\$)	\$ (60,244.73)	\$ 76,989.51	\$ (206,597.70)	\$ (16,281.18)	\$ 1,673,430.81	\$ (217,088.69)	\$ 1,250,208.01
	Total Margin (%)	-3.1%	3.4%	-39.6%	-1.3%	34.4%	-31.8%	10.8%
Allocation Drivers								
	% total direct expenses	18.5%	20.2%	7.1%	12.0%	32.7%	9.5%	100.0%
	% total direct revenues	16.7%	19.4%	4.5%	11.2%	42.2%	5.9%	100.0%
	2 step (time and effort, % direct)	24.2%	25.5%	7.5%	16.3%	21.4%	5.2%	100.0%
	2 step (personnel size, % direct)	23.5%	24.4%	6.5%	17.3%	23.1%	5.1%	100.0%
Total Expenses per Activity								
	<i>Note: see further breakdowns on individual tabs</i>	# Members	# Course Attendees	# Certifications	# Stand. Members	# Expo Attendees	# Participants	
	2014 - Total Expenses	1,991,201	\$ 2,159,750	\$ 728,790	1,313,263	3,186,727	\$ 899,788	
	2014 - Activities	17,852	2,879	30,158	158	4,245	86	
	Total Expenses per Activity	\$ 111.54	\$ 750.17	\$ 24.17	\$ 8,311.79	\$ 750.70	\$ 10,462.65	

Cost Allocation Model

What did the results provide?

- **Clear picture of the financial performance of each department**
- **Delineation within departments of what programs were profitable and what programs required investment from other areas**
- **Common language with which to discuss profitability**
- **Support for efforts to re-think pricing in certain programs**

GFOA Resources

- <http://gfoa.org/measuring-full-cost-government-service>
 - **Recommendation:** GFOA recommends that governments calculate the full cost of the different services they provide.
- <http://gfoa.org/pricing-internal-services>
 - **Recommendation:** GFOA recommends that governments follow these steps when considering an internal service pricing system:
 - ◇ Identify goals of internal service pricing;
 - ◇ Develop allocation strategy;
 - ◇ Define level of costing detail;
 - ◇ Determine cost of service;
 - ◇ Decide basis of allocation; and
 - ◇ Consider potential drawbacks.
- <http://gfoa.org/taking-advantage-indirect-cost-allocations>

QUESTIONS?



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