SPECIAL REPORT 2020

# INDIRECT COST ALLOCATION PLAN

## 2019 Summary & Historical Trends

**OFFICE OF THE DUTCHESS COUNTY COMPTROLLER**

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Dear County Officials & Taxpayers,

The Office of the Dutchess County Comptroller has compiled this special report on the 2019 Annual Indirect Cost Allocation Plan (ICAP). This plan is used by Dutchess County Department of Community and Family Services (DCFS) to make a claim for Federal reimbursement of indirect costs associated with federal grant programs the County participates in. The claim process acknowledges costs the County incurs to administer the Federal Programs and the indirect cost allocation process is the mechanism to determine those costs. The claim requires very detailed statistical information acquired from central service departments and then our office quantifies the services provided throughout the county and allocates the costs equitably.

In 2018, the Comptroller's Office solicited competitive quotes for the preparation of this Indirect Cost Allocation Plan through a formal Request for Proposals. As a result of this process, the Comptroller's Office was able to reduce the costs associated with the preparation of the Plan while also implementing, for the first time, a two-step allocation methodology to maximize cost allocations and increase the associated claimable amount.

This special report outlines the process by which the Comptroller's Office is instrumental in compiling and computing the needed information and therefore resulting in approximately $1,648,341 being reimbursed to Dutchess County in 2020. Additionally, the Comptroller's Office and the new vendor responsible for preparation of the Plan identified that expenses associated with MTA Payroll Taxes for centralized departments had previously never been allocated and claimed; this represents an additional claimable amount of $72,709 in the 2021 plan.

An added benefit and use of this information is the determination of the annual Fringe Benefit Rate that various departments use for inclusion on claims or reimbursements from other departments or outside agencies.

The Comptroller's Office would like to thank all the various departments that contributed to the gathering of this information. I hope you find this information useful and informative.

Respectfully submitted,

Robin L. Lois
Dutchess County Comptroller

# Table of Contents

Comptroller's Summary ..... 3
What is the Indirect Cost Allocation Plan? ..... 3
How is the Indirect Cost Allocation Plan Prepared? ..... 3
How is the Indirect Cost Allocation Report Used? ..... 4
Indirect Cost Allocation for DCFS 2019 Results ..... 5
Historical Perspective 2015-2019 ..... 6
Addendum I - Cost Allocation Methodology and Process ..... 7

## Comptroller's Summary

Dutchess County's Indirect Cost Allocation Plan (ICAP) for fiscal year 2019 has been completed, filed with the New York State Office of Temporary and Disability Assistance and provided to the Dutchess County Department of Community and Family Service (DCFS). Federal regulations establish a two-year historical cost pattern for claiming; therefore, DCFS will claim 2019's indirect costs in 2021.Total costs to be claimed in 2021 amount to $5,463,511.

The anticipated revenue due to Dutchess County in 2021 is approximately $1,648,341 based on the percentage (30.17) received in 2019.

As noted in last year's report, the Comptroller's Office solicited competitive quotes for the preparation of an Indirect Cost Allocation Plan through a formal Request for Proposals. The Comptroller's Office and the vendor identified new expenses associated with the MTA Payroll Taxes for centralized departments, which had previously not been allocated and claimed. In the 2019 plan, this represents an additional claimable amount of $72,709 for 2021.

## What is the Indirect Cost Allocation Plan?

The ICAP is prepared to quantify services provided throughout the County, allocate costs equitably and recover funds. This annual report is prepared by gathering and organizing costs from County Departments that provide service to all Dutchess County Departments in accordance with the Federal guidelines.

The Federal government recognizes grantees incur indirect costs that benefit Federal grant programs. The OMB (Office of Management and Budget) Uniform Guidance: Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards established principles and standards for determining allowable indirect costs applicable to grants, contracts, and other agreements with state and local governments. Indirect costs are those costs not readily identifiable with the program itself but incurred for the benefit of the program.

In Dutchess County, some departments provide support and services to all departments and divisions of County government. Examples of such departments are: Department of Public Works including the Auto Center, Office of Central & Information Services (OCIS), Human Resources, Comptroller and Finance. DCFS utilizes the services of these Departments as they administer the Federal grants.

## How is the Indirect Cost Allocation Plan Prepared?

The Comptroller's Office is responsible for the preparation of the Dutchess County Indirect Cost Allocation Plan (ICAP) in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards and the Federal award(s) to which they apply. County Departments are contacted by the Comptroller's Office and relevant statistical data is collected for inclusion in schedules prepared by the Comptroller's Office. In addition, to the information provided by the Departments, the Maintenance-in-Lieu of Rent (MLR) cost schedule is prepared by the Department of Public Works and presented to the consultant for the final preparation of the ICAP. MLR costs represent costs associated with the space departments occupy.

The schedules prepared by the Comptroller's Office, the MLR and the County's Annual Financial Report, are provided to an outside contracted consultant who uses the information to create the ICAP in the form required by the Federal Government. The consultant uses a two-step allocation methodology to maximize cost allocations and increase the associated claimable amount.

The final report is filed with the New York State Office of Temporary and Disability Assistance and the Dutchess County Department of Community and Family Services.

## How is the Indirect Cost Allocation Report Used?

Dutchess County Department of Community and Family Services utilizes the ICAP calculation to project budgeted revenue and to claim revenue reimbursement for the applicable indirect costs.

**Observation:**

A total of $999,472 was received in 2019 which represents a decrease of $161,157 over the prior year (2018) revenue. This amount is 30.17% of the indirect cost claim amount. For 2019, DCFS budgeted revenue at $1,027,000 which is 31% of the indirect cost claim amount of $3,313,159.

Additional information in the report is used by various departments.

- The 2019 Fringe Benefit Rate of 53.13%, as calculated by the Comptroller's Office, is used for claims by departments including the Department of Behavioral & Community Health, DCFS, Probation and the Department of Public Works.
- This established Fringe Benefit Rate is used by OCIS for inclusion in their billable rate to reimbursable departments and outside agencies.
- Maintenance in Lieu Report costs are used by Public Works to bill County reimbursable departments (Mental Hygiene, Health, DCFS including the Division of Youth Services, Office of the Aging and Dutchess NY Connects, Airport and Public Transportation) for their MLR costs. Reimbursable departments can then bill available funding sources. A separate audit of the MLR was conducted by the Comptroller's Office and can be found on the Comptroller's county website.

## Indirect Cost Allocation for DCFS 2019 Results

The below chart, prepared by the consultant, is the schedule used for the costs claimed by DCFS.

Final 2019 indirect costs for DCFS totaled $4,290,775; costs claimed for 2019 amounted to $3,118,039 (based on 2 years prior) causing a carry forward positive adjustment of $1,172,726 resulting in $5,463,511 claimable in 2021. The anticipated revenue due to Dutchess County in 2021 is approximately $1,648,341 based on the percentage (30.17) received in 2019. Actual revenue received from claimable costs decreased from 2013 to 2018; in 2019 the actual revenue received increased by .83%.

### Computation of Carryforward and 2021 Fixed Indirect Costs

| | | |
|---|---|---|
| Carryforward Computation: | | |
| Total 2019 Fixed Indirect Costs Claim | $ 3,313,159 | |
| Adjust 2017 Under-Recovery Carryforward Included In 2019 Fixed Indirect Costs | (195,120) | |
| 2019 Adjusted Indirect Costs [1] | | $ 3,118,039 |
| 2019 Actual Indirect Costs | $ 4,290,775 | |
| 2019 Adjusted Indirect Costs | 3,118,039 | |
| Under (Over) Recovery Carryforward | | $ 1,172,736 |
| 2021 Fixed Indirect Costs Computation: | | |
| 2019 Actual Indirect Costs | | $ 4,290,775 |
| Under (Over) Recovery Carryforward | | 1,172,736 |
| Total 2021 Fixed Indirect Costs | | $ 5,463,511 |
| Monthly Fixed Indirect Costs – 2021 | | $ 455,293 |

*Note:*

*[1] Per 2017 Central Services Cost Plan.*

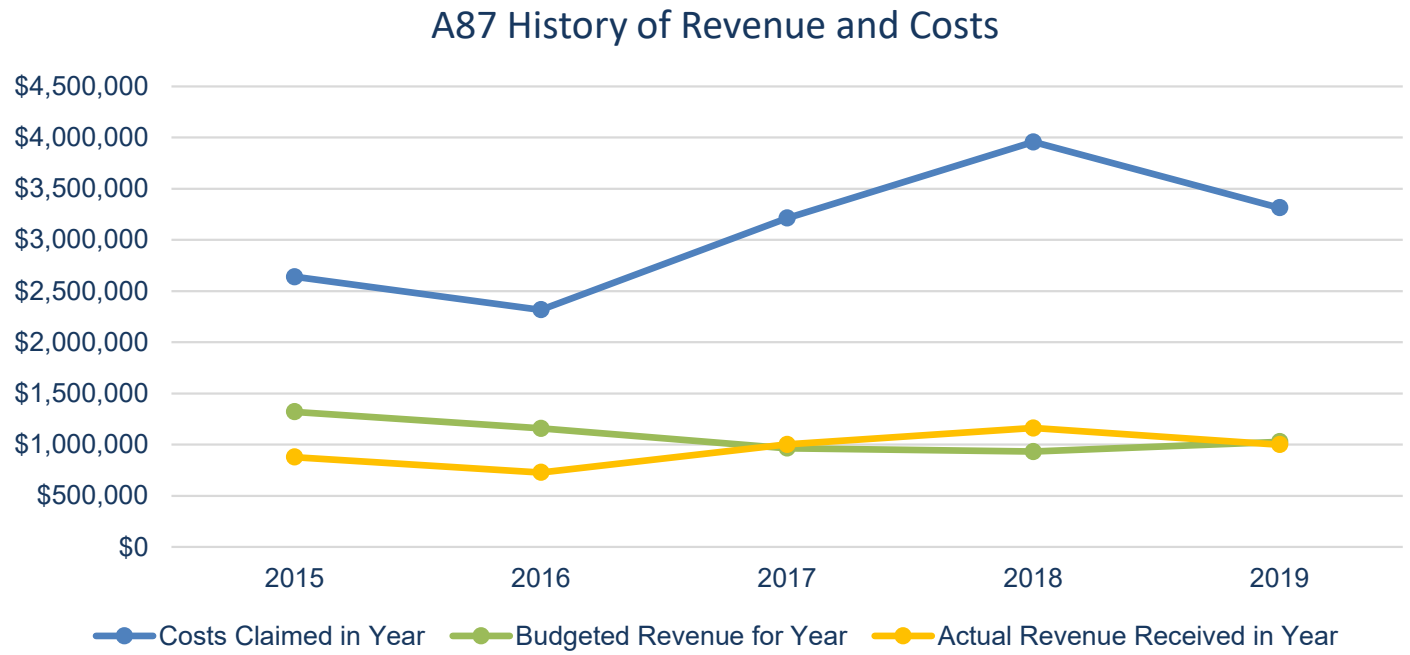
## Historical Perspective 2015-2019

The table below reflects the historical data from 2015 through 2019. The following graph displays Claimable Costs, Budgeted Revenue and Actual Revenue Received for each year. The amount of claimable expenses in 2019 decreased based on the carry forward.

The Comptroller's Office and the new vendor responsible for preparation of the plan identified that expenses associated with MTA Payroll Taxes for centralized departments had not been previously allocated and claimed.

| Year | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Total Claim** | **$2,639,191** | **$2,316,341** | **$3,211,739** | **$3,956,285** | **$3,313,159** |
| **Budgeted Revenue for Year** | **$1,319,596** | **$1,158,171** | **$964,563** | **$931,405** | **$1,027,000** |
| *% of Claim Budgeted for Revenue* | *50.00%* | *50.00%* | *30.03%* | *23.54%* | *31.00%* |
| **Actual Revenue Received in Year** | **$877,040** | **$728,406** | **$1,001,785** | **$1,160,629** | **$999,472** |
| *% of Claim Received in Revenue* | *33.23%* | *31.45%* | *31.19%* | *29.34%* | *30.17%* |

*Per the Director of Administrative Services at the Department of Children and Family Services, the net rate of reimbursement is dependent on adjustments to claims, ceilings and category splits. The reimbursement rate of 33% from 2015 dropped to 30% in 2019*



## Addendum I - Cost Allocation Methodology and Process

The Cost Allocation Plan (CAP) used cost data and allocation statistics to allocate the costs to departments/divisions/programs for Fiscal Year (FY) 2018.

A double step-down allocation procedure is used to distribute costs among Central Services and to departments that receive benefits. Costs are input by cost center identifications consistent with Dutchess County's accounting code structure, which allows for efficient balancing with the financial reporting systems. Additionally, allocation statistics are provided, where appropriate, for the proper distribution of the identified indirect cost pools. Credits for direct-billed payments, cost adjustments, and other valid and applicable costing factors are also considered.

A double step-down procedure allows all Central Service Departments to allocate costs to all other Central Service Departments. Since Central Service Departments' costs are not simultaneously allocated, the process must be performed sequentially, one department after another. The second step-down allows for the equitable allocation of the costs the Central Service Departments receive from one another. This double step-down approach mitigates potential allocation inequities, and has been widely accepted by federal cognizant agencies for more than 30 years.

### First Step-Down

The first step-down allows each Central Service Department to allocate to any other department, regardless of the sequence of the departments. The department also can allocate to itself, providing that the statistical measurements indicate a basis for the allocations.

*Process*

The process of allocating during this round is achieved sequentially, consistent with the order of the Central Service Departments. As each Central Service Department performs its allocations, it allocates:

- Costs from entity financial records
- Cost adjustments
- Credits
- Costs received from other Central Service Departments that have completed their first-round allocations

### Second Step-Down

The rule for the second step-down is that each Central Service Department can allocate only to another department sequenced after the allocating department; provided that the statistical measurements indicate a basis for the allocations.

*Process*

The process of allocating during the second step-down is achieved sequentially and consistent with the order of the Central Service Departments. As each Central Service Department performs its allocations, it allocates:

- Costs received from other Central Service Departments that have completed their second-round allocations
- Costs received in the first step-down from itself and from the Central Service Departments sequenced after the allocating department

## Cost Allocation Process

*Initiating the Process*

Data to be included within the cost allocation process is based on:

- Application of federal cost principles or full costing principles, as applicable
- Interviews
- Review of financial documents
- Review of organizational structure
- Analysis of statistical data relative to benefit of services provided

*Establishing the Cost Pools to be Allocated*

The organizational structure is analyzed to determine which departments or cost pools provide services to other departments/divisions/programs. These cost pools become the “Central Service Departments” in the ICAP.

Next, each cost pool is evaluated to determine the activities or services provided. The costs are then broken into subparts or activities such that each activity can be allocated on a statistical measure that is relevant to the service provided and the benefit received.

Line items of expenditures are analyzed to determine which activities receive the benefit of the costs. Distributions of these costs are made according to the determined benefit of each activity.

*Establishing the Statistical Measurements or Basis for Allocation*

Available statistical measurements are evaluated to establish the most equitable and meaningful basis for allocating each activity within each Central Service Department. Consideration is given to determining the measurement that most appropriately demonstrates its relationship to the receiving units.

*Accommodating Exceptions and Adjustments*

Applicable cost adjustments for unallowable costs and/or capitalized assets are incorporated into the appropriate schedules. Credits for direct billings, special revenues, etc. are included in the computation.

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