



2006/07 Full Cost Allocation Plan

for the

City of Menlo Park

PROJECT SUMMARY

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BACKGROUND

The City of Menlo Park engaged Wohlford Consulting to prepare a Cost Allocation Plan (CAP) to identify the appropriate distribution of citywide administrative costs to the operating departments.

The consultant worked with key representatives from Administrative Services and each contributing department to determine the best structure, approach, and relevant details used for the study. Administrative Services also contributed all of the base data used for the study.

In addition to the summary results, the analysis provides a very detailed and complex view of the “flow” of costs from the administrative departments to the recipients of their services. This document is intended to provide a summary review of the project approach and methodologies used to achieve those results.

Goals and Objectives

A Cost Allocation Plan is designed to:

- Fairly and appropriately distribute indirect and overhead costs, by using measurable, objective, and defensible allocation bases and methods;
- Clearly identify the cost of administrative activities to customer departments, through logical and traceable calculations and displays;
- Create an enhanced internal understanding of administrative programs and support, by demonstrating the true cost of the services provided;
- Facilitate improved quality of related cost studies (e.g., user fees), by calculating citywide overhead and other support costs; and
- Enhance Fairness and Equity, by ensuring that each department receives its appropriate share of the cost.

PROJECT APPROACH AND METHODOLOGIES

General Principles

The City of Menlo Park received a “Full Cost” Allocation Plan, which seeks to identify all legitimate costs for distribution. (Other plan types are more restrictive to meet externally-mandated restrictions.) The development of a CAP follows a series of general guidelines and principles, which originate from federal guidelines established in OMB Circular A-87. These principles can be summarized in the following points:



- The costs to be allocated must be necessary and reasonable to the operation of the government.
- The cost allocations must be based upon the relative benefit received by the other departments.
- Allocation “Bases” must reasonably relate to the effort provided by the central service department or the benefit received by the other departments.

Departments and Functions Included in the Cost Allocation Plan

The Cost Allocation Plan distributes the costs of City departments that serve a central service function supporting the other departments in the City. These “Central Service Departments” include:

- ✓ 701 - Policy Development and Council Support
- ✓ 702 - Service Excellence
- ✓ 703 - Elections and Records
- ✓ 704 - Community Relations
- ✓ 705 - Asset Preservation
- ✓ 706 - Information Support
- ✓ 707 - Internet And World Wide Web
- ✓ 708 - Employee Support
- ✓ 709 - Legal Services
- ✓ 710 - Business Development
- ✓ 201-02/03 - PW - City Facilities (Maintenance)
- ✓ 203-02 - PW - City Vehicles and Equip. (Maintenance)
- ✓ Building Use Charge
- ✓ Equipment Use Charge

The last two “departments” are not existing programs or services in the City, but are legitimate costs commonly applied in a Cost Allocation Plan. The use charges are the equivalent amount to a depreciation charge.

Methodology

The simple purpose of a Cost Allocation Plan is to accurately, fairly, and reasonably distribute the City’s central administrative costs (e.g., City Clerk, Human Resources, City Attorney, etc.) to the operating departments in the City.



The three main project phases are as follows:

1. The total cost of each Central Service Department is allocated to its Functions based on Staff Time Estimates (% of workload).

The best way to ensure the accuracy and fairness of the allocations is to separate the distinct “functions” of each central service department and allocate them individually whenever feasible.

Asset Preservation (705), as an example, was divided into 21 different functions, including Financial Planning & Budget, Accounts Payable, Purchasing, Cash Receipting, and 16 others.

Staff from Asset Preservation identified the percent of work time that each employee budgeted to 705 spent working on tasks related to each Function (totaling 100%). Those time estimates formed the basis for allocating all other costs to the Functions.

2. Each Function is then allocated to the Receiving Departments based on the most appropriate Allocation Bases (statistical data).

The general method for allocating costs from each administrative department to the other departments is to identify an “allocation basis” and distribute the costs proportionately. These allocation bases consist of various available data/statistics that best reflect the workload related to the recipient of the service. The following table shows some examples:

Sample Allocation Structure:

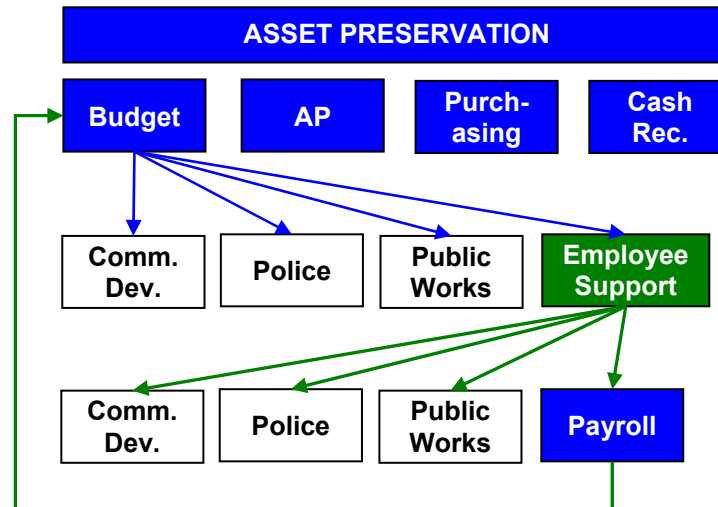
Asset Preservation

Function	Allocation Basis
Financial Planning & Budget	Operating Budget
Accounts Payable	AP Transactions
Purchasing	Purchase Orders
Cash Receipting	Cash Receipting Transactions

Dozens of allocation bases are potentially available, and the selection of the most appropriate measure followed a discussion with key department staff. The Menlo Park CAP utilized 22 different allocation bases overall. Some of the other allocation bases included: FTE, square footage occupied, vehicles or equipment counts, and volunteer hours, among others.

3. The incoming costs to Central Service Departments are sub-allocated (re-allocated) to the other Receiving Departments.

As with the operating Receiving Departments, the Central Service Departments provide support to each other. Consequently, they receive allocations from each other also. The following chart illustrates this situation:



In order to fully distribute all Central Service costs to the Receiving Departments, it is necessary to further allocate those “incoming” costs to the other Receiving Departments. This process is often called a “step-down” routine, and this occurs twice in the Menlo Park’s CAP. These second and third allocations were based upon the same proportions as the initial allocations.

Project Steps

The summary steps to accomplish this study included:

1. Meet with City staff to customize the structure of the analysis and the model;
2. Identify and classify the Central Service (administrative) Departments;
3. Classify the “functions” of each allocated department;
4. Determine the optimal allocation basis for each function;
5. Identify the source and collect allocation bases data/statistics;
6. Populate analytical model and calculate results;
7. Employ quality control processes;
8. Review results with the City;
9. Revise and finalize;
10. Document and communicate results.



City Input and Participation

City staff was instrumental to the successful completion of the Cost Allocation Plan, as they contributed the following information, review, and assistance:

- City Documents:
 - Budgets and Basic Cost Data
 - Personnel Information
- Model Design:
 - Design/Customize the Cost Plan Structure to fit the City
 - Identify Staffing Structure and Involvement
- Data Collection:
 - Workload Estimates
 - Allocation Basis Data (statistics)
 - Other Allocation Measures
- Quality Control (Review Results):
 - Critical Review of Multiple Iterations
 - Internal Quality Control
 - Respond to Queries and Challenges

Quality Control

A cost analysis study is almost entirely reliant upon the data provided by the City. Since all study components are interrelated, bad data at any step in the process will cause the ultimate results to be flawed. To avoid accuracy problems and other quality flaws, the study included a series of Quality Control measures.

Our Quality Control measures are designed to ensure that we have covered all of the issues, appropriately accounted for positions and resources in the models, and factored all other data fairly and accurately in the study. The elements of our Quality Control process include:

- | | |
|---|------------------------------|
| ✓ Clear instructions and guidance to City staff | ✓ Challenge and Questioning |
| ✓ Process Checklists | ✓ Balance and Cross-Checks |
| ✓ Reasonableness Tests and Validation | ✓ Internal City Review |
| | ✓ External Consultant Review |

Every critical step in our study process included a Quality Control check.



SUMMARY OF RESULTS

The ultimate product of a Cost Allocation Plan is a summary worksheet that illustrates the final distribution of costs to each of the receiving departments and funds. This document, along with the supporting workbook that details all of the distributions and their bases, has been provided to the City under separate cover, and are now available for review on the City's intranet.