



CLACKAMAS COUNTY, OREGON

DRAFT ASSESSMENT & RECOMMENDATIONS: COST ALLOCATION PLAN REVIEW REPORT

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Executive Summary

General Recommendations

- Simplify the Cost Plan and establish consistency across the County with all cost plan matters
- Prepare both a 2 CFR compliant cost plan based on actual expenditures, and a Full Cost Allocation plan based on budgeted expenditures
- Establish narratives for all costs and methodologies used in the cost plan to satisfy 2 CFR requirements and meet the County's goal of transparency
- Establish a timeline for preparation of the cost plan that both adheres to federal/state deadlines as well as being assimilated into the County's annual budget process
- Utilize the carry-forward calculation method to true up the rates between the two-year lags as required in a 2 CFR compliant cost plan
- Standardize a County-wide calculation for hourly rates used in the Cost Plan or chargebacks
- Prepare cost plans on an annual basis
- Consider a phased-in approach if necessary
- Implement a County policy towards utilization and adherence to the Cost Plan and a 2 CFR compliant plan for federal/state reimbursements.

Summary of Recommendations by Department

Finance Department

- Recommend allocating Executive Leadership and Administration and the Financial Systems Support divisions to the divisions they support based on FTE's
- Allocate Accounts Receivable and Accounts Payable programs separately, based on applicable transaction counts
- Allocate Budget program by operating budget dollar value rather than number of accounting lines
- Allocate Grants and General Ledger programs based on a 50%/50% split between number of grants and number of associated grant related journal entries, while also considering subrecipient transactions
- Procurement should be allocated based on both number and dollar value of purchase orders/contracts

Human Resources

- Allocate Administration based on relative FTE's
- Allocate Employee and Labor Relations based on the case counts logged by the programs
- Allocate Classification and Compensation program on the number of requests received by program

- Allocate Recruitment and Selections program on the current year number of job recruitment requests by program

Public and Government Affairs

- This be allocated utilizing three separate functions and allocation statistics: Countywide function allocated based on FTE's; Department Specific function allocated based on actual time spent; external function would not be allocated.
- Lobbying and other services provided to citizens are unallowable

Technology Services

- Administration to be allocated based on FTE's of divisions supported
- Business Systems/Countywide Applications/Geographic Information division should be allocated based on FTE's to actual departments/programs receiving services; this includes calculating allocations to General Fund programs.
- Develop an hourly rate that is calculated consistently with all other hourly rates in the County
- Clackamas Broadband eXchange is partially funded by ARPA- reimbursements from ARPA may not be allocated for the 2 CFR Plan.

County Administration

- Allocate Office of County Administrator based 50% on FTE's and 50% on Operating Expenditures
- Equity, Diversity, and Inclusion should be allocated based on FTE's, as it benefits all departments county-wide
- Office of the County Commissioners has not previously been allocated. The recommendation is using 50% FTE's and 50% Operating Expenses as allocation methods in the Full Cost Plan for their support to other departments

County Clerk

- Any service or activity performed on behalf of the public should not be allocated
- Allocate the Records Management program based on FTE's, for the internal support time spent
- Implement a policy to centralize the scanning and microfilming processes in the Clerk's office

County Counsel

- The Office of County Counsel Administration should be allocated on FTE's of divisions supported
- Develop an hourly rate that is calculated consistently with all other hourly rates in the County
- Recommend allocation based 50% on operating budget and 50% on hours by department

Treasurer

- Clackamas could allocate most of the cost from this department Elected officials and general government are not allowable, but managing property tax collections, audit activity and cash/bank/investments are all general central support functions that could be allocated to the rest of the county.

Facilities

- Allocate Administration based on FTE’s of divisions supported
- Construction and Utilities division’s allocation should be directly billed
- Building Maintenance based on the square footage

Depreciation and Debt Service

- Add Equipment Depreciation to Central Service departments
- Allocate Building Depreciation on square footage
- Allocate Debt Service on square footage, excluding principal

Estimated Allocation Increases

- Estimated increases in allocations to Specific departments (H3S, Transportation, WES, HACC, NCPRD, CCDAG, CCSD5, LEDIS) due to the increase in allocated costs between 2018 actual expenditures and 2023 budgeted expenditures are presented in the table below.

Departments	FY18 Actual Exp's	BY23 Budgeted Exp's	Increase in Allocations to Specific Dept's
Finance	\$4,419,546	\$8,493,517	\$1,252,293
Human Resources	\$3,516,608	\$5,213,903	\$470,990
Public and Government Affairs	\$1,197,780	\$3,399,511	\$594,556
County Clerk	\$383,080	\$2,734,265	\$276,621
County Administration (excl. BOCC)	\$1,040,412	\$6,535,114	\$1,363,847
Board of County Commissioners	\$0	\$958,590	\$237,933
Building Depreciation	\$514,248	\$530,468	-\$29,619
Equipment Depreciation	\$0	\$0	\$0
County Counsel (FY19 Actuals)	\$1,336,975	\$1,617,948	\$28,097
Facilities (FY19 Actuals)	\$11,314,906	\$17,726,651	\$641,175
Information Technology (FY19 Actuals)	\$17,039,763	\$19,175,083	\$213,532
			\$5,049,425

Introduction

At the request of Clackamas County (County), MGT Consulting, LLC (MGT) has completed a review of the cost allocation and charging practices of the County's internal services. The review included an evaluation of the methodologies, data, calculations, and processes utilized to determine the costs that were included in the FY 17-18 allocation basis waterfall, which lists each account, the service, and the allocation basis. The objective of the review was to determine the appropriateness of current costs, methodologies, and processes; and where appropriate, to provide recommendations for revisions and/or improvements that would enhance the accuracy of those costs and to comply with Generally Accepted Accounting Principles (GAAP) and Federal cost principles and procedures outlined in the Code of Federal Regulations (CFR) Part 200. This report provides a brief description of cost principles and requirements that should be followed in the development of the costs charged for services provided by the Internal Programs and Service Divisions and recommendations of best practices for each allocation basis.

INDIRECT COST RECOVERY PRINCIPLES AND PROCEDURES

Currently the County recovers partial administrative and support costs (indirect costs) from the Funds, Departments, Lines of Business and Programs that are receiving support. To ensure recovery of indirect costs, the Finance Department annually prepares a Countywide Central Services Cost Allocation Plan (CAP) and an allocation of costs for the Internal Services Programs. The CAP and the allocation of costs for the Internal Services are prepared in accordance with generally accepted accounting principles (GAAP) but ultimately in accordance with Federal cost principles and procedures outlined in the Code of Federal Regulations (CFR) Part 200. The compliance of a plan according to CFR Part 200 CAP is based on Federal cost principles that are required to enable the recovery of indirect costs from state and federally funded programs.

In the MGT Recommendations section of this report, a budget-based Full Cost Allocation is recommended. A budget-based allocation is not 2 CFR 200 compliant for recovering costs from federal/state grants but can be implemented to recover costs from non-federal/state funded programs.

GAAP PRINCIPLES

The cost allocation and charges are prepared in accordance with GAAP standards, recognized and promulgated by the Governmental Accounting Standards Board. In preparing the allocations, Financial Management adheres to the following basic GAAP principles related to the allocation of indirect costs:

- Allocated costs are necessary and reasonable and have been incurred per County policies.
- Each program is only allocated costs for services utilized.
- Allocations are reasonably allocated to capture relative benefit received.
- Costs are only applied and recovered one time.

FEDERAL PRINCIPLES

The Internal Programs and Central Service Cost Allocation Plan (CAP) are prepared in accordance with applicable Federal cost principles and procedures presented in 2 CFR Part 200, previously presented in Part 225, Cost Principles for State, Local and Indian Tribal Governments (U.S. Office of Management and Budget [OMB] Circular A-87). For years, these principles were referred to as the “OMB Circular A-87”. The costs allocated by the Internal and Central Service programs must comply with federal cost principles and procedures in recognition of 2 CFR Part 200 requirements to be supported by County’s financial statement audit perspective. The County identifies and allocates indirect costs in accordance with the following general criteria:

- Costs are necessary and reasonable for proper and efficient performance and administration of federal awards.
- Costs are allocable to federal awards under the provisions of the Circular. Costs have been allocated to a cost objective only if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- Costs are authorized or not prohibited under state or local laws or regulations.
- Costs conform to any limitations or exclusions outlined in 2 CFR Part 200 principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
- Costs are afforded consistent treatment. A cost has not been assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
- Except as otherwise provided for in 2 CFR Part 200, costs have been determined in accordance with generally accepted accounting principles.
- Costs have not been included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
- Costs are net of all applicable credits.
- Costs are adequately documented.

SCOPE OF WORK & METHODOLOGY

MGT worked with the County staff at the beginning and during the project to determine what the scope of the evaluation of central service departments for County would be and how the results of this study would be used. MGT met with and reviewed the following central service departments:

1. County Administration
2. County Clerk
3. County Counsel
4. Finance
5. Human Resources
6. Public & Government Affairs (PGA)
7. Facilities (internal service fund)
8. Technology Services
9. Non-Departmental & Depreciation (if not in each department’s expenses)

The following is a list of tasks that were performed during the project and a review of the charging practices of the central departments as follows:

- Met with County staff to establish a timeline of the project and expectations.
- Reviewed the structure of County as an organization and the chart of accounts.
- Reviewed the prior allocation waterfall and discussed cost distribution procedures.
- Discussed the history of charging methods and any findings or major changes to the allocations in previous years.
- Determined whether the costs are accorded consistent treatment for each service or any extraordinary circumstances where costs need to be adjusted.
- Identified any areas where costs are direct billed and determined whether they will be billed going forward.
- Identified any areas of concern for County staff or departments receiving allocations that would need a closer look.
- Developed a report for County, identifying areas of concern, best practices and recommendations for allocation bases for each service.

DRAFT

GENERAL MGT RECOMMENDATIONS

Feedback received from County Administration/leadership characterized the Cost Allocation Plan as confusing and expensive to receiving departments. Departments think they are paying duplicate charges, and don't always understand how the charges are calculated. Confusion exists around direct internal service fund charges compared to and in combination with allocations. In addition, some of the central service providers have noted that departments will obtain services elsewhere to avoid charges from the cost plan (shadow IT systems, shadow document storage and other cost avoidance behaviors).

Feedback from the central service departments has included concerns over allocation revenue falling short, while also fearing that future costs increases may be poorly received or result in changes in behavior. In addition, some expressed a desire to change the allocation methodology to better represent usage. Most all central service departments expressed a desire for more transparency regarding the calculation of the allocated costs.

Overall, it has been noted that most all of the Clackamas County departments have great access to quality, detailed data which is usually one of the major obstacles to overcome when compiling a cost plan. Additional complications, however, are that several service departments are hybrid in nature in that they utilize both direct charge and allocation methodologies. Furthermore, there was also some expressed desires for changes to organizational structures.

County Administration has emphasized the desire to “build public trust through good governance.” The administration has requested a plan that is simple, transparent, and logical. Therefore, one of the goals of this study is to simplify at least one part of the plan by establishing consistency in the development of hourly rates utilized by some of the central service departments. The recommendations set forth from the feedback received via the many departmental meetings will encompass improving the transparency of the plan among all departments and administrators.

The cost allocation process should aid decision making and minimize waste of valuable resources. A proactive policy for departmental participation should simultaneously be adopted as part of the allocation process. “Underground agreements” should be discouraged. A cost plan will provide its users the full cost of providing a program or service. The County can take this information and determine the best way to incorporate it for the betterment of the County as a whole. The knowledge of the true, full cost of a service will allow a County to determine the actual amount of subsidies given, if appropriate and applicable, and to do so transparently and consistently.

DEVELOP A FULL-COST PLAN & COUNTYWIDE APPROACH TO COST RECOVERY

The recommendation for addressing staff concerns and adopting best practices is to have an Internal Service cost allocation plan and rates calculated. The plan and rates should identify all of these costs and allocate them down to the appropriate level of the County organization. This will help in clearly identifying the true/full cost for each service and to ensure sustainability and to help make future decisions on the direction of and ongoing service levels of each central service department allocated in the plan.

INCLUSION OF NARRATIVES AS PART OF THE COST PLAN

Per 2 CFR Part 200 it is required to include narratives with the cost plan. These narratives detail the different types of activities and tasks each of the central service departments perform as well as what types of different activities are included in the statistics on which the allocation methodologies are based. The information contained in these narratives can help educate all readers about all the processes involved in each of the departmental/divisional jobs. It is common for most users of services to not have any knowledge as to all the steps required to complete a task, or to even know all the different services a department performs. These narratives are very effective in communicating clearly what all the services are that are being provided, processes completed and clarifies cost methodologies. Clearly written narratives are an integral part of the transparency needed in every cost plan.

COMPLETION AND COMMUNICATION OF TWO DIFFERENT COST ALLOCATION PLANS

Full Plan, based on budget and 2 CFR Plan for state/federal recovery MGT understands the County's desire to ensure that countywide administrative and support costs incurred on behalf of federal and other restricted-resource programs administered by the County are recovered to the maximum extent possible. The best strategy for accomplishing this goal is to prepare two separate cost allocation plans: A Full Cost CAP that the County for internal allocations and a Federal CAP that can be used to measure indirect cost for federal or state grant awards as defined by 2 CFR Part 200 federal guidelines. The countywide cost allocation will identify, aggregate, and allocate all the countywide administrative costs for full cost recovery from each department and/or funding source that benefit from the services provided based on the FY2020-21 data.

A well-conceived and managed cost allocation process allows counties to maximize both internal and external recoveries, while minimizing audit risk.

Full Cost CAPs allow the County to identify and incorporate most overhead costs, while 2 CFR Part 200 requires a local government agency wishing to recover costs of countywide or agency administration and support services from federally funded programs to annually prepare a federal cost allocation plan. Federal CAP calculations must include documentation on all costs that are billed to or recovered from federally funded programs using an allocation or billing methodology.

Federal approval is required for the CAP if the Schedule of Expenditures of Federal Awards (SEFA) shows direct federal spending of more than \$100M in a fiscal year. This excludes one-time funds such as FEMA, CARES Act, ARPA, etc. The cognizant agency for the County is determined by total federal dollars (direct and pass-thru) spent on the County. For Clackamas County, the Department with the most federal dollars is Health, Housing & Human Services (H3S).

2 CFR Part 200 contains a list of unallowable costs, which cannot be directly or indirectly charged to Federal Grants and Contracts. Some of these costs include advertising, public relations or Advisory Councils, alcoholic beverages, entertainment, fundraising, or lobbying. This list is not inclusive of all unallowable costs.

Federal approval is required for a departmental indirect cost rate (ICRP) ICRP if the SEFA shows direct federal spending of more than \$35M in a fiscal year for the department that the rate is prepared for. Similar to the CAP, the ICRP also excludes one-time funds like CARES Act, etc. A departmental cognizant agency is determined by total federal dollars (direct and pass-thru) spent on the program. If federal approval is not required, pass through agencies (typically state agencies) are supposed to review and approve ICRPs.

The table below in Exhibit 1 describes the objectives, typical uses and considerations associated with both types of cost allocation plans.

<i>Exhibit 1. Comparison of Cost Allocation Methodologies</i>			
PLAN TYPE	OBJECTIVES	TYPICAL USES	CONSIDERATIONS
FULL COST CAP	<ul style="list-style-type: none"> Identify the true costs of administering all county departments, divisions, and programs. Justification for charging the proportional cost for county administration and support to internal sources, or external sources in the case of billing rates and user fees. Typically result in 15% higher returns than 2 CFR Part 200 plans. 	<ul style="list-style-type: none"> Charging non-General Fund funds for administrative and support services. Recovering countywide administrative and support costs in hourly and billing rates. Recovering countywide administrative and support costs in use fees and rates. Budgeting and resource allocations. 	<ul style="list-style-type: none"> Administrative and support costs allowable under GAAP. Plan conforms to 2 CFR Part 200 principles but is not as restrictive. Is not submitted for review to a cognizant agency. Basis for transfer of dollars from non-GF to the General Fund.
FEDERAL CAP (2 CFR PART 200)	<ul style="list-style-type: none"> Identify administrative costs allowable under 2 CFR Part 200 and distribute those costs on an equitable basis. Charging admin and overhead costs to grants, claims and other uses that specifically require 2 CFR Part 200 use. 	<ul style="list-style-type: none"> Charging overhead costs to federal grants. Charging overhead costs to state grants and SB 90 claims. Provides a conservative view of countywide administrative and support costs. 	<ul style="list-style-type: none"> If this type of plan is used for grant or claim use, 2 CFR Part 200 requires that an annual plan be prepared. May be reviewed by a cognizant agency.

UPDATE CAP TIMELINE DETAILS: ALIGN WITH BUDGET PROCESS, FISCAL YEAR END & INDICATE WHEN PLANS ARE SCHEDULED TO BE COMPLETED

MGT has developed the recommended timeline below to make it clear for County leadership, Finance staff as well as interested departments when the two plans will be prepared, completed, submitted and how that overlaps with existing processes to close fiscal year end, begin the budget, apply central services costs, charge non-general fund departments or outside entities, and develop rates for cost recovery of those costs.

MGT to kick off Cost Allocation Process	March 2022
MGT to meet with Central Service Departments	May- June 2022
All CAP data requests due to MGT	July 2022
Draft CAP Recommendation Report due	August 2022
Final Draft of MGT Recommendations submitted	September 2022
BOCC gathers to discuss budget priorities and to establish budget calendar	October 2022
Draft of 2CFR Cost Allocation Plan Submitted (based on actual expenses)	October 2022
Quarterly Budget Committee planning session	October 2022
Draft Full Cost Allocation Plan Submitted (based on budgeted expenses)	November 2022
Annual Financial Audit Due	December 30 2022
Final Annual 2CFR Cost Allocation Plan Submitted	December 30 2022
Prepare proposed budget	January – March 2023
Final Full Cost Allocation Plan Submitted	March 2023
Budget Hearing	May 2023
Enact Resolutions Adoption of Budget	June 30 2023

Since the County’s fiscal year ends on June 30, we recommend that the new Full Cost allocations be implemented in the next budget year, effective July 1, 2023. There may be material allocation and/or rate increases that may prove challenging to County leadership and departments. County Leadership and departments should discuss the allocation as they review their budget, providing leadership the opportunity to evaluate the best implementation process for the increase in the budget. This will allow recipient county customers to:

- Absorb the increases over a longer period
- Request current year budget adjustments during their initial budget meetings
- Manage department costs to understand and account for the full costs of all county support services they receive (both directly and indirectly).

A typical cost plan preparation timeline is 90 days, therefore, if the due date for the final plan is to be November 1st, then a kickoff meeting would need to occur around August 1st. The departmental meetings would also commence with data due from the departments approximately two (2) weeks following the meeting. A draft of the plan would be due within 30-45 days, approximately September 15th through October 1st. Usually, once the draft is provided, any further meetings would need to occur around that October 1st timeline. Comments would be expected in two weeks, and a final draft, with all additional comments, should be delivered by November 1st.

BEGIN UTILIZING A CARRY-FORWARD CALCULATION TO TRUE UP PLANS AND RATES OVER TIME

The County’s plan generally meets federal requirements of 2 CFR Part 200 but that type of plan is extremely restrictive. Previously stated, one of the overlaying MGT recommendations will be for the County to produce two plans: 1) a Full Cost Plan using budgeted dollars; and 2) a federally compliant 2 CFR plan using actual expenditures and excluding certain departments and cost types.

Using a 2CFR Plan when required, and a full plan based on budget for other purposes, should aid the County to overcome the timing issue currently encountered by using a Full Cost plan based on budgets only.

Another federally recognized tool (detailed in section 200.308 and 200.403 of 2 CFR 200) for improving accuracy of the County's CAP over time is the adoption of a carry-forward calculation. MGT has many clients that use actual expenditures but utilize a carry-forward calculation to true up the departments' share of costs over time. This is done because the costs in the current year are being estimated with actuals from two years prior. This lag necessitates a true up otherwise if the estimated plan called for too little allocation or too much, the difference can be properly accounted for. Local government entities accomplish this true up and manage the two-year lag by comparing a prior plan allocation to the current one and rolling or carrying the difference forward. The carry forward method takes the indirect cost rate or dollar allocation (can be done with rates or plans) which was established prior, makes a comparison, then takes the difference in value between the estimated costs and the actual costs of the period covered by the rate or allocation. This difference is carried forward as an adjustment to the dollar allocation or rate computation of a subsequent period. This method improves the accuracy between the two-year lag and smooths any large variances over specific periods. This is in the federal guidance to help manage variances and make the County's plan or rates never perfect in any one fiscal period but correct over the course of time.

MGT recommends that actual costs of services be used if that information is tracked and available. If there is data that is tracked down to the project level, then costs should be allocated down to that same level. If there are costs that can only be identified down to the department or division level then those costs should be allocated to the division which should then be allocated down to the department level. This will identify the appropriate allocation basis to spread expenses to each project and to take into consideration any extraordinary circumstances for those who don't receive the service or same level of service.

Finally, it is important to evaluate Personnel Service Activity if there is salary or personnel included in the total cost of service being allocated. It would be appropriate to identify what activity/service/support they provide if there are various services being provided to different customers. This would ensure that the allocated cost could be identified as specific support costs, those costs are built in, allocated appropriately, and recovered.

STANDARDIZE THE COUNTYWIDE CALCULATION OF HOURLY RATES FOR USE IN PLAN OR CHARGEBACKS

There are services across several departments within the County that are directly charged to the recipient department. These charges are calculated utilizing a rate per hour multiplied by the amount of time to provide the service. Some of the central service departments that provide these services include County Counsel, Technology Services, PGA and Facilities. Based upon discussions with these departments the way in which the rate per hour is calculated is inconsistent. MGT recommends that a consistent way of calculating this rate is adopted. The numerator should include an average salary for a specific group of similar positions in both pay amount and service provided. An overall benefit rate for the County should be applied to the salaries before being divided by a specified number of productive hours, which would be total hours available less holiday, sick and the County average holiday hours. This should also be reduced by the County average of nonproductive time. Should we include overhead and indirect, MGT will detail the calculation in the department sections later in this report.

Several clearly identified cost components factor into a full-cost hourly rate calculation:

- **Direct Labor, Salaries & Wages** – What the employee is directly paid as an hourly wage or annual salary if full-time.

- **Fringe Benefits** – Benefits paid on the employee’s behalf by the County which could include taxes, health insurance, workers’ compensation coverage and other non-salaried compensation or benefits.
- **Paid Leave or Productive Hours** – This is the number of hours that an employee may be compensated for when they are not at work. This could include but is not limited to sick leave, county holidays, vacation, jury duty, training, staff meetings or other items that the employee is compensated for when they are not performing their primary function/duty.
- **Departmental or Program Indirect Costs**- This includes a mix of labor and non-labor costs that the department incurs to do business. This is often referred to as indirect, overhead, or non-program costs. This usually includes supervision, departmental administration, training costs, consultants, utilities rents and other miscellaneous services, materials, and supplies.
- **Countywide Indirect Costs** – This includes costs in the CAP. These costs are allocated to the entire county for central service departments such as: Finance, County Admin, County Counsel, Facilities, and Technology Services.

MGT recommends that Finance establish countywide definitions of what those five items include or do not include so that all departments are calculating their full cost hourly rates using a standard methodology and the same assumptions. MGT will provide some sample calculations for this later in the report for County Counsel, Facilities, and Technology Services.

County Policy on Full Cost and Phase In Options

MGT recommends that the cost allocation plan be completed on an annual basis. Even if the leadership wants to pause the process or hold assumptions, new costs should always drive current year allocations.

Identified Challenges to a Full Cost Allocation Process:

As discussed in Recommendations 1 and 3, MGT recommends the preparation and completion of two plans. The Full Cost Plan is new to the County and can seem overwhelming to departments that have limited resources or have been historically shown/allocated cost that are either incomplete or subsidized. Universal understanding of the full cost of countywide central services is the first step to improving cost recovery and general fund health. That does not mean that all departments should be billed and charged for every dollar in the Full-Cost CAP, but all departments should know what the full cost is.

1. A completed Full Cost Allocation Plan will calculate the cost of services provided to all receiving departments within a County. The County may choose the level of recovery from full to zero. By implementing a Full Cost Allocation Plan, the County can calculate the recovery rate, and identify the subsidy rate for programs the County wishes to assist.
2. Further complicating this shift is that Clackamas County has not updated cost information in the allocations for several years (since FY2018-19). Pivoting to the full plan, the outcome could result in significant increases for receiving departments. To counteract this complexity, when first making a major change to plans, MGT has observed counties phasing in the full cost responsibility. Thus, it is common for counties to institute a phase in methodology to help limit the change over a period of time. These methodologies can vary; however, it is critical that the methodologies are consistent across all payors. Examples of phasing include:
 - a. Not charging for specific central service departments, such as stating charges will include all departments except for County Admin, Depreciation and County Counsel and then in the next year adding those charges in.
 - b. Require only an 80% payment in year one, 90% in year two, and 100% in year three. This example would require some type of roll forward as charges will change every year.
 - c. Permanently exclude certain programs or funds from the overhead calculations.

- d. Identifying an appropriation in the next budget cycle to offset historic or expected CAP charges so that the entity can budget for, plan for, and expense indirect costs to improve transparency.

Negotiations of cost plan charges should be avoided at all costs, they nullify the objectivity, consistency, and transparency of any cost plan. A negotiation is different than a review. For example, charging one department based on budgeted FTE’s and another on actual FTE’s is a negotiation and is not consistent with federal guidance. A change related to a review would be when a department analyzes the details of their computer counts, for instance, and notices that two computers are related to personnel that left the County last year and asks for an adjustment to their counts.

DEPARTMENT SPECIFIC MGT RECOMMENDATIONS

MGT has provided an evaluation and list of recommendations for each central service that is allocated through the countywide CAP. Below is a summary of those assessments, by department:

Finance Department

The mission of the Department of Finance is to provide financial and facilities management services to County departments and agencies so they can effectively deliver services to their customers while promoting transparency and responsible stewardship of public funds. 100.7 FTE

Based on best practices, MGT understands that most services that have a countywide benefit could be allocated to the entire county. In rare exceptions, when state or federally funded, those costs may not be allocable but for most special programs, funds can share the costs of these systems and services. Allocation recommendations are as follows:

Finance Org & Functions	Current Allocation Method	Proposed Allocation Method
Financial Executive Support		
Executive Leadership & Administration (150101)	Not Allocated	FTE # by Program
Financial Systems Support (150102)	Not Allocated	FTE # by Program
Accounting Services		
AP (150202)	payment vouchers	Transaction # by Program
AR (150203)	Cash Receipts	Transaction # by Program
Payroll (150204)	# of paychecks issued	# of paychecks issued
Financial Management & Accountability		
Budget (150302)	# of budgeted accounting lines	Budget \$ by Program

Financial Reporting Grants &GL (150303)	# of grants/federal awards count (now both Grants and GL)	50% # of Grants/50% # of Journal Entries
Procurement & Contract (150304)	# of purchase orders issued; Contract \$amount>= or <\$50K; P-Card Count	50% \$ of PO's/50% \$ Contracts
Courier & Mail Operations		
Courier & Mail (150402)	# of courier stops; # of mail pieces	# of courier stop and # of mail pieces, % weight based on salary split

When meeting with Finance, there was much discussion regarding how each of the different divisions of the department was allocated, and if that methodology was the best one available.

Executive Leadership and Administration:

It is rare that the administrative division of a finance department is not allocated. This area of the finance department performs a vital role in the operations of the department, in a supervisory and support capacity. Therefore, we recommend that this section be allocated to the other sections of the department based on their relative FTE's. It is noted that the Financial Systems Support section does not provide support to facilities, therefore, their FTE's would not be included in the allocation base. This allocation methodology is typically utilized for all administrative sections of departments. Utilizing this methodology across the county allows for consistency, simplicity, and transparency. There is a complication with the Finance Director providing support to Facilities, whereas the other personnel in the department do not. This can be overcome by completing a time spent by person calculation as a background calculation.

Financial Reporting Grants and GL:

The Financial Reporting Grants and General Ledger section previously were separate, and the allocation methodology was based off a count of just Federal grant awards. Based on the recent combination of the two functions and per discussion with the personnel in this section, it was felt that a better allocation methodology for this section would be based on a 50%/50% split between # of Grants (inclusive of all types) and # of associated grant related journal entries with a 10% weighting for grants with journals associated with subrecipient payments.

Accounting Services:

The Accounts Receivable team wanted a better definition of the data to be utilized within the plan and to be allocated separately – previously they were combined. Our recommendation is to separate the two teams and better define the transaction types included within the population of the allocation base to only include those types that correlate with the costs being allocated (salaries). These would include AR/CR and IF transaction types for the accounts receivable function and ACH and CHK for the accounts payable function. If some departments have accounts payable staff that perform tasks normally performed by the accounts payable team, consideration should be given to weighing the allocations going to these departments for a more accurate allocation of costs.

Payroll:

No changes or recommendations are noted for the payroll section. Allocation based on number of payroll checks is a best practice and universally accepted method for handling payroll costs.

Budget:

Previously the budget section was allocated by the number of budgeted accounting lines; however, based on previous discussion there appears to be a better relationship with allocated costs to the dollar value of budgets handled. We recommend utilizing this information as it is more understandable to the recipient of allocations.

Procurement and Contracts:

The current cost plan has the procurement section broken down into four separate functions, each utilizing a separate allocation methodology: number of purchase orders issued; number of contracts greater than and separately less than \$50,000; and number of PCards. The smallest of these functions includes approximately \$60,000 in salaries and the largest \$230,000. MGT recommends having the salaries of assistants allocated based on a 50%/50% between number and dollar value of purchase orders and contracts under \$50,000 and the salaries of analysts allocated based on dollar value of contracts greater than \$50,000. The supervisor of this section would be split between assistants and analysts based on their personnel numbers. This methodology simplifies the calculations with the combination of methodologies while also making a logical split based on position title. By utilizing both the number and dollar value of purchase orders and contracts under \$50,000 it helps to compensate for departments that have a lot of little orders and those departments that have fewer, larger contracts.

Courier and Mail:

No changes or recommendations are noted for the courier section. However, if the cost of accumulating this data becomes too cumbersome, MGT would recommend changing the allocation methodology to FTE’s. On occasion company policy may need to override changes in methodology. For example, the cost of accumulating the courier allocation statistics may outweigh the benefits for the County as a whole vs any one receiving department, primarily due to materiality. Consequently, final methodology decision should ultimately lie with county administration and established policies

The one outlier in the department is the person that handles PCards. Currently, this position is in the Courier function and allocated out based on the number of PCards by department. There is some discussion as to the proper placement for this position. As this function would only include the costs of one person, it is recommended to fold these costs in with the accounts payable function versus breaking it out into its own function.

Human Resources

The mission of the Department of Human Resources (HR) is to provide employment, benefits and wellness, risk management and workforce planning services to County Departments so they can have the resources they need to provide high quality services and achieve their strategic results.

Based on best practices, MGT understands that most services that have a countywide benefit could be allocated to the entire county. In rare exceptions, when state or federally funded those costs may not be allocable but for most special programs, funds can share the costs of these systems and services. Allocation recommendations are as follows:

Human Resources Org & Functions	Current Allocation Method	Proposed Allocation Method
Administration		
Office of the Director/Administrative Services (150101)	FTE’s	FTE’s of divisions supported
Workforce Data Management (150102)	FTE’s	FTE’s
Employee and Labor Relations		
Employee and Labor Relations (150202)	FTE’s	# of grievances, disciplinary actions and internal complaints
Workforce Design		

Classification and Compensation (150302)	FTE's	# of Class & Comp Req's
Recruitment and Selection (150303)	FTE's	# of Positions Filled + New Budgeted Positions
Workforce Development and Planning (150304)	FTE's	FTE's

There are six divisions in human resources that are allocated in the cost plan. Historically, all divisions used FTE's for allocating costs across receiving departments. Based on discussions with departmental personnel there is desire to update some allocation statistics to better represent activity and usage.

HR Office of the Director:

This area of the Human Resources department performs a vital role in the operations of the department, in a supervisory and support capacity. Therefore, we recommend that this section be allocated to the HR programs based on their relative FTE's. This allocation methodology is typically utilized for all administrative sections of departments. Utilizing this methodology across the county allows for consistency, simplicity, and transparency.

Workforce Data Management:

As this division of the HR department usually has a touch on all departments of the county, any statistics provided usually replicate FTE statistics. Given the simplicity that FTE data provides, such as its ease of understandability, it is recommended that FTE's continues to be used as an allocation methodology.

Employee and Labor Relations:

It is recommended that the allocation methodology utilized to allocate this division of HR be changed from FTE's to a count of cases logged by this division. As this division also performs various activities, it is going to be important to provide detail regarding this and the counts included in their allocation base within the cost plan narratives, to help assist the reader and provide additional transparency.

Class and Compensation:

The Class and Compensation division performs various activities. It is going to be important to be descriptive within the cost plan narratives about the activities performed by this division, as each of these requests are a bit different and are all included within the count in which allocations are made.

Recruitment and Selection:

It is recommended that the Recruitment and Selection division be allocated based on the current year's number of positions filled plus new budgeted positions. These counts provide the most inclusive amount of data covering the activities and tasks provided by this division. Per review of the data, it does appear that the fluctuation from year to year by department is stable, those high users are high users year over year. Adding additional types of data muddies the transparency of the data to the reader, adding unnecessary complexity. There are some situations where complexity is necessary, however, given the results of the job opening requests data, it appears representative of the efforts of this division.

Workforce Development and Planning:

There is a desire to change the allocation methodology of this division to be a better representation of the activity that is occurring. The department is working on gathering this data.

Public and Government Affairs (PGA) Department

The mission of the Department of Public and Government Affairs is to provide timely and reliable information, equitable public engagement, strategy, and advocacy services to the people of Clackamas County, their Board of County Commissioners, and other countywide elected officials so they can thrive, build connection, and trust with their government, and impact the future of their community.

Public and Government Affairs Org & Functions	Current Allocation Method	Proposed Allocation Method
Strategy and Policy	FTE	Countywide based on FTE's / Dept Specific based on actual hours / External which is Not Allocated
Brand Identity	FTE	Countywide based on FTE's / Dept Specific based on actual hours / External which is Not Allocated
Communications & Community Engagement	FTE	Countywide based on FTE's / Dept Specific based on actual hours / External which is Not Allocated
Government & External Relations	FTE	Countywide based on FTE's / Dept Specific based on actual hours / External which is Not Allocated

Since the last time the cost plan was updated in 2018, this department has undergone several organizational changes. In 2018 this department was just one division, and now it is made up of four divisions. Specifically for this department the information contained in the narratives to the cost plan is going to be important to explain the distinct types of services that are performed by this department. In the narratives, it should detail the type of costs that are directly billed to recipients.

Per 2 CFR Part 200, any services provided to the public cannot obviously be allocated to any other county departments, in addition Lobbying costs are specifically called out as non-allocable. It will be important that these are tracked and excluded from allocations.

The record keeping kept by this department accumulates the time spent on countywide projects and department specific projects. There are specific people within the department that perform work that is external in nature that should be excluded, as well as any other non-labor or contracted labor related to lobbying. Lobbying activities account for approximately 25% of staff time in Government and External Relations.

It is recommended that this department be allocated utilizing three separate functions and allocation statistics: Countywide function allocated based on FTE's; Department Specific function allocated based on actual time spent; external function would not be allocated.

Technology Services

The mission of the Technology Services Department is to provide high quality, innovative and cost-effective technology to the public, County staff, and County Commissioners so they can provide and receive County services. In the County’s prior Cost Allocation Plan, Information Services was organized and allocated as follows:

Technology Services Org & Functions	Current Allocation Method	Proposed Allocation Method
Administration - 180101	Spread across the dept	FTE’s of divisions supported
Business Systems - 180202	Charged to Non-Dept.	FTE’s
Countywide Applications - 180203	Charged to Non-Dept.	FTE’s
Departmental Applications - 180204	Direct Charged	Direct Charged
Geographic Information - 180205	Charged to Non Dept.	FTE’s
Telecommunication Services - 180302	# of Cameras	# of Cameras
Clackamas Broadband eXchange - 180303	Direct Billed	Direct Billed
Network Services - 180402	Quarterly Counts	Annual Count, Mid-Year or FY End
Clackamas Broadband eXchange - 180303	Quarterly Counts	Annual Count, Mid-Year or FY End

There is a tradeoff between complexity and simplicity. A cost/benefit to be taken into consideration when determining the best way in which to structure the allocations of the Technology Services department of the County. A more complex methodology will most definitely result in a more accurate allocation of resources; however, it also comes with a higher administrative lift (increased costs, availability of time spent on other activities). In addition, is a more complex methodology better if it is not understood (transparent) by most payors? Not usually. The opposite would be true for a more simplistic methodology; it may be easier to understand and require less administrative time to process, but it would result in a slightly less accurate statement.

Based on the comments received from the County, overwhelmingly a cost plan that is easier to understand and more transparent is desired. The following recommendations take this goal into account.

Another concern brought up during discussion with the department is the desire to build a reserve related to the purchase of new or replacement/update of hardware and/or software. This is a very real concern for this department across most all municipalities (not just an issue in Clackamas County). The County must be careful about collecting for future infrastructure costs and cannot build reserves with the cost allocation plan. Depreciation can be allocated and collected, but not any future costs. Internal service

funds/rates can build in replacement costs, but according to 2 CFR 200 must be managed intentionally and have a schedule of capital expenses for a ten-year period that it sticks to so that any reserve balance can be explained by future spending and not be perceived as overcharging.

Administration:

To be consistent Countywide with how the administrative division of a department is allocated, it is recommended that this division be allocated based on the FTE's of supported TS programs.

Business Systems / Countywide Applications /Geographic Information:

Currently, the costs associated with this division of Technology Services are being allocated to Non-Departmental, which means they are not being recovered. Based on the integral nature these systems/services provide the County, they should be considered part of the full cost of doing business for each department that utilizes them. Therefore, as these systems are considered countywide it is recommended that they be allocated based on FTE's.

Departmental Applications:

The costs of services included in this division are inclusive of both labor and non-labor costs. Currently, the costs are allocated to receiving departments based on direct costs and fully loaded rates for labor. Please see the separate section in this report that details out information related to the calculation of hourly rates. This methodology is typical and widely accepted.

Per discussion with the department there was a desire to treat subscription costs as pass-through costs, via directly journaling the software subscription costs to the ultimate user department, whereas these costs would thus have to budgeted within the department of the ultimate user. This option allows the ultimate users to be better consumers of their resources by ensuring the inventory of users for which they are being charged is accurate. This would be a policy decision to change the methodology, but it is considered an acceptable practice and is widely used.

Telecommunication Services:

The current allocation of Telecommunication services based on number of cameras is billed out like an internal services stand-alone fund. This process is typical for this type of service and readily accepted and understood. There are no recommendations for change.

It is desired to have this division made into its own Internal Service Fund, so that any fluctuations do not affect the Technological Services budget. This would be a policy decision that could be investigated. A decision to change this service into an internal service fund could remove it from the cost allocation plan and would need to be budgeted at the department level.

Clackamas Broadband eXchange:

This division is partially funded by ARPA. To comply with 2 CFR Part 200, the County must ensure any costs reimbursed by ARPA, or any external source, must not be allocated to departments within the cost plan. In addition, any revenue obtained by non-County agencies needs to reduce any associated costs before they are included in the cost plan for allocation. The remaining costs are directly billed based on usage by receiving departments. This methodology is sound and other than ensuring compliance with 2CFR Part 200, there are no further recommendations.

Network and Technical Services:

Currently there is great administrative work, including quarterly counts of different types of devices, in which to allocate these services. Although the use of devices is a widely used and accepted methodology, the counts are usually based on an inventory as of a specific date, and not adjusted. It is understood that some types of devices leverage more use of resources than others, for example, PC's versus standalone

printers. To make a better connection between the costs and the allocation statistic, it is common to apply a weighting factor to replicate the average additional time spent between the different types of devices.

County Administration

The mission of County Administration is to support the Board of County Commissioners, provide leadership and guidance to County departments, and assist the public so that the Board, County employees, and the public experience transparency, responsiveness, efficiency, and effectiveness from their government.

County Administration Orgs & Functions	Current Allocation Method	Proposed Allocation Method
Office of the County Administrator	FTE's and 50% to BOCC	50% FTE's / 50% Operating Expenditures
Equity, Diversity & Inclusion	NEW	FTE's
Performance Clackamas	NEW	50% FTE's / 50% Operating Expenditures
Board of County Commissioners	Not allocated	See separate section of report

Since the last time the cost plan was updated in FY2018-19, this department has undergone several organizational changes. In 2018 this department was just two divisions – County Administration and Commissioners Office, and now it is made up of four divisions – Performance Clackamas, and Equity, Diversion & Inclusion have been added.

Office of County Administrator and Performance Clackamas:

It is widely understood that the Administration of the County, including the Commissioner's Office, is beneficial to the whole County. Thus, the allocation of these two offices is usually allocated countywide and the two most highly utilized methodologies to do this are FTE's and Operating Expenditures. It is also widely accepted in cost plans that a 50% split between the two methodologies be utilized to account for departments that have higher expenditures, but lower FTE counts and vice versa. Thus, it is recommended that the County use this methodology for the County Administration division, as well as the Performance Clackamas division as that division's services are also countywide in nature.

Equity, Diversity & Inclusion:

Much like County Administration and Office of Commissioners, this division is for the benefit of the whole County. In addition, like HR training there is a desire to not influence usage via allocations coming through the cost plan. Therefore, it is recommended that the allocation of this division be based on FTE's.

Office of Commissioners:

The allocation of the Office of Commissioners is detailed in its own section of this report.

County Clerk

The purpose of the Office of the Clerk program is to provide leadership and policy services to the department so our programs can professionally and effectively serve the public and other government agencies.

County Clerk's Office	Current Allocation Method	Proposed Allocation Method
Office of the Clerk	Not Allocated	FTE's of divisions supported
Board of Property Tax Appeals	Not Allocated	Not Allocated
Elections	Not Allocated	Not Allocated
Recording	Labor Hours / Not Allocated	FTE's / Not Allocated
Records Management	Square Ft of Storage	Square Ft of Storage

Records Management:

Based on discussions with this department there was some changes that were desired. To begin, it was felt that there has been some change in use based on the calculation of labor hours associated with the scanning and microfilming process, which is currently a decentralized process in the County. Based on the statutory requirements around record retention and destruction, there is a desire to make this a more centralized process so that conformity with these requirements can be more efficiently and accurately achieved. It is based on these considerations that the recommendation to allocate the personnel performing the internal support function of the Records Management program be based on FTE's. In addition, any revenue received from work done by the Records Management program needs to reduce the expenditures being allocated. Any work performed on behalf of the public or supported by fees should not be allocated.

County Council

The Mission of the Office of County Council is to provide comprehensive legal services easily accessible to Clackamas County (and its special districts) through its elected officials and departments so that they can effectively implement their policy objectives, achieve success for their operations, and minimize risk and adverse results.

County Council	Current Allocation Method	Proposed Allocation Method
Office of the County Council Administrator	Direct Bill	FTE's of divisions supported
	Direct Bill	Direct Bill
Legal Support - Regulatory	Direct Bill	Direct Bill
Legal Support - Transactional	Direct Bill	Direct Bill
Legal Support - Advisory	Direct Bill	Direct Bill
Litigation & Labor	Not Allocated	Not Allocated
Labor & Employment	Not Allocated	Direct Bill

Per discussion with this department, one significant issue of their hourly rates not having been updated for 15 years. Please reference the separate section regarding the calculation of hourly rates and the desire

to maintain a consistency of this calculation across all departments in the County. Specific to the County Counsel are two directly charged hourly rates as follows:

Staff Classification/Title	Hourly Rate Direct Charges to Departments
Paralegal	\$66.00
Attorney	\$124.00

MGT recommends finding the full-cost amount for the Attorney and Paralegal positions. Proposed calculations is as follows:

MGT recommends taking the total annual salary, plus other indirect costs and dividing the total annual costs for the attorney by the calculated remaining productive hours above. The result is a rate that captures time away from primary function and paid leave. The difference between using 1,674 productive hours and 2,800 is an hourly rate that is 24% higher and truly captures the county’s full cost.

The next table will capture the full cost of the County Counsel attorney positions’ labor, fringes, departmental indirect cost and countywide cost allocation plan charges:

Attorney Cost Item	Estimated Rates	Counsel 1	Counsel 2	Sr Legal Counsel	Average
Wages		\$110,691	\$141,273	\$163,542	\$138,502
Overtime			\$0		
Fringe Benefits	30%	\$33,207	\$42,382	\$49,063	\$41,551
Departmental Indirect	25%	\$27,673	\$35,318	\$40,886	\$34,626
Countywide CAP	10%	\$11,069	\$14,127	\$16,354	\$13,850
Total		\$182,640	\$233,100	\$269,844	\$228,528
Hourly		\$109.10	\$139.25	\$161.20	\$136.52

The resulting hourly rate for the Attorney/Counsel position is between \$136 and \$161/hour depending on which classification is doing the legal work. To keep things simple the County could adopt the average rate to ensure that it improves cost recovery but does not overcharge. Another option would be to charge by position to be more accurate and reduce any state/federal audit risks.

The next table will capture the full cost of the paralegal positions labor, fringes, departmental indirect costs and the countywide cost allocation plan charges, divided by the standard productive hours:

Paralegal Cost Item	Estimated Rates	Minimum	Midrange	Top Step	Average
Wages		\$54,629	\$64,190	\$73,750	\$64,190
Overtime			\$0		
Fringe Benefits	30%	\$16,389	\$19,257	\$22,125	\$19,257
Departmental Indirect	25%	\$13,657	\$16,048	\$18,438	\$16,047
Countywide CAP	10%	\$5,463	\$6,419	\$7,375	\$6,419
Total		\$90,138	\$105,914	\$121,688	\$105,913
Hourly		\$53.85	\$63.27	\$72.69	\$63.27

MGT recommends raising the charged paralegal rate from \$66 to \$73 per hour. Most staff that have been with the county more than a couple of years will be near the maximum salary range for this position. The department did not have documentation for the prior rate of \$66/hour and this new amount can be defended with the calculations above.

The counselors in this department track their time and that is considered the gold standard for the allocation of this department, so there should be no change regarding this as an allocation statistic, just updated for a more current rate. It should be noted that even the best calculated rate is not going to be 100% accurate as actual charges, especially indirect charges, are impossible to perfectly forecast. However, the closer the rate is to actuals, the less allocation dollars that will flow through the cost plan after being offset by amounts paid by the receiving department, which is what is desired. Furthermore, vendor charges are paid directly by the dept receiving that service, which is an optimal way to handle these types of costs.

Administration:

Countywide, administrative programs are allocated on FTE count of the supported programs. Therefore, County Counsel administration is recommended to be allocated based on FTE count of the supported programs for consistency.

Labor & Employment:

This division of the department has previously not been allocated within the cost plan. The services provided by this division are for the benefit of County departments and should be allocated as part of calculating the full cost of a single department's cost of services. Similar to the other divisions, these costs should be allocated based on staff effort in hours.

Facilities

Facilities	Current Allocation Method	Proposed Allocation Method
Administration – (744-150501)	100% of Director and 60% of project Coordinators based on FTE's of divisions supported / 40% of project coordinators are Direct Charged	FTE's of divisions supported
Construction – (744-150502)	80% Direct Charge / 20% Square Footage	Direct Charge
Maintenance – (744-150503)	Square Footage	Square Footage
Utilities – (744-150504)	Square Footage	Direct Charges
Capital Projects – (744-150505)	Not Allocated	Not Allocated

Confusion exists regarding costs included in the lease fees, allocations, and direct charges. Much of this confusion countywide can be rectified by providing more detailed cost plan narratives. The narratives should also include when janitorial and maintenance are included for leased buildings (many other local governments call out the specific buildings where it is included), confirm that these types of costs are directly charged to buildings and thus would not result in an allocation of these charges within the cost plan.

Administration:

To be consistent Countywide, it is recommended that this division be allocated based on the FTE's of divisions supported.

Construction:

This division of the department is one of the largest and it is currently being allocated 80% of workorder hours times a rate per hour and 20% based on the same square footage utilized by the maintenance division. Please see the separate section on the calculation of hourly rates within the report. The 20% that is currently allocated by square footage relates to costs for these personnel to attend training, safety meetings and doing administrative paperwork. These costs are representative of administrative costs and should be spread across the work that these personnel perform, thus it is recommended that 100% of this division be allocated based on work order hours.

Maintenance:

These costs are allocated based on the square footage of buildings/departments serviced and direct costs are assigned to each specific building and may include but are not limited to: contracted services such as janitorial, landscaping, and elevator and alarm maintenance. This allocation methodology is sound.

Utilities:

Per discussion with the department, historically these costs were budgeted and paid out the budget of the ultimate consumer; however, this resulted in a lot of unpaid utility bills and unnecessary shut offs. Due to the Facilities department needing the billings to optimize County sustainability, it was decided to move this function under the Facilities department. However, Facilities paying the monthly utility bills disassociates the user from their costs, resulting in higher utility bills. It was noted that this function is also highly administrative in nature. Furthermore, the variance (increases) in utility costs result in eating away at the Facilities budget. In addition, there was some concern that there is a possibility that utility costs are being budgeted for in both Facilities and the departments themselves. It is recommended that

the County further investigate this issue to determine its accuracy, and rectify any double budgeting, if applicable.

It is recommended that the administration of the utility billings continue to be with the Facilities department, but that the budgeting of the costs is included in the department of the resource user. This could be achieved by setting up a separate fund that would include the journals receiving the bills in and turning around and charging them out directly to the user dept (a net negative fund). This would result in the ultimate consumer holding the risk/reward causes of their usage decisions, while also, not causing the Facilities department to have costs not under their control affecting their budgets.

Building Depreciation & Debt Service Costs

Depreciation and debt service costs are costs associated with the cost of buildings owned by the County. Generally, depreciation costs are equal to the cost of the building spread over a useful life of 50 years. Debt service costs are the principal and interest costs associated with the debt related to the building.

Depreciation Orgs & Functions	Current Allocation Method	Proposed Allocation Method
Building Depreciation	Not allocated	Square Footage
Building Debt Service	Allocated same as non-labor exp's for each CSD dept in the PSB building	Square Footage

2 CFR designates that depreciation is an allowable cost for allocation. The cost of housing is a necessary component of each central service department within the County to perform its services. Thus, it is considered an integral part of the full cost of services of a central service department. Debt service costs are the principal and interest payments on the funding associated with the purchase of a building. Per 2 CFR 200, the costs associated with interest are allowable, but principal costs are not allowed to be allocated

Therefore, it is recommended that the depreciation associated with the Public Service Building is included in the cost plan and allocated based on the square footage by departments residing in the building.

Currently, both principal and interest costs related to the PSB's debt is being allocated through the cost plan for the Central Service Departments. It is recommended that only the interest portion of the debt service costs are allocated within the cost plan to be in conformity with 2 CFR. This might require adjustment of how journal entries are entered to ensure this can most easily be accomplished to ensure compliance. Similar to depreciation, these costs should be allocated based on square footage by department of occupants of the building.

Board of County Commissioners

The mission of the Board of County Commissioners is to set County policy and provide direction to County Administration and County departments so the public can experience responsive and effective government.

Board of County Commissioners Orgs & Functions	Current Allocation Method	Proposed Allocation Method
Commissioners Office	Not allocated	50% FTE's / 50% Operating Expenditures

Currently, the County does not include the BOCC Office in its allocation. Per 2 CFR Part 200 guidelines, this department is not allocable within a 2 CFR Part 200, however, as it has been recommended that the County prepare both a 2 CFR plan and a Full Cost plan, the allocation of the BOCC's should be included in the Full Cost Plan, as this department provides support to the other county departments. The typical allocation methodology for this department is 50% based on FTE's and 50% based on operating expenditures.

Equipment Depreciation:

It is recommended to add allocations for equipment depreciation associated with just the central service departments, especially Information Technology (see reserve discussion in their section of the report). Depending on how equipment depreciation is recorded, this could include the allocation ERP systems and Facilities equipment. MGT saw no evidence that these costs were centralized or being allocated to the rest of the County; however, additional research needs to be done to ensure that specifically Facilities and Technological Services are not including any depreciation in their direct charges to ensure there is no duplication in allocation/charges.

Grants:

When utilizing a cost plan to receive reimbursement from any federal or state agency, the cost plan must be in conformity with 2 CFR Part 200 principles. Please reference the General MGT Recommendations within this report to prepare a 2 CFR compliant plan. In addition, within the Departmental MGT Recommendations section there are additional recommendations regarding areas that need to be changed to be in conformity.

The MGT work with this group is not yet completed. There is a section of tasks related to preparing and submitting rates to the County's cognizant agency that will be completed after this report reviewing the County's CAP and charge backs is finalized. Additional detailed discussions with departments that work closely with grant reimbursements will need to be held to provide recommendations of ways to best apply indirect cost rates within County systems in simple ways that will provide optimal reimbursements. This might include the production of departmental cost allocation plans. Based on what MGT has reviewed to date, the County does not meet the requirements or dollar thresholds needed that would then require a Negotiated Indirect Cost Rate (NICRA). After additional meetings with grant and program managers, MGT will assist the county to determine whether a County or if specific departments are required to independently submit rates for federal approval and/or negotiation.

Fleet:

A few years ago, Fleet was moved under the Transportation department. Since then, there has been a desire to revise the chargeback model. The current model does not meet the equivalent of today's values, providing inadequate collections to cover the cost of services. A couple of the issues discussed were struggles of complexity; in that there are too many rates being charged out. Because of charges or unclear methods, it sounds like some departments are purchasing materials from other places than the Fleet department. MGT recommends that a policy be put in place that does not allow departments to delay or circumvent routine maintenance. This cost avoidance behavior costs the County more, long term and makes management of the fleet and corresponding maintenance costs near impossible.

Departmental personnel discussed various changes they wanted to incorporate into their new model to encourage certain desired behaviors, such as preventive maintenance. Most of their changes are consistent with industry practices.

One of the current methods utilized by Fleet is to send some specific vendor expenditures to the department that received the service for them to pay the vendor directly. During the discussion it was questioned as to whether these vendor billings were being expensed on both Fleet's departmental expenditures as well as the receiving departments expenditures – in other words, double expensed countywide.

Because fleet functions are rarely allocated in central service cost allocation plans, and this project did not include a fleet study, MGT recommends that the County change some procedures to avoid the optics of double charging for fleet services or routine maintenance. The County should investigate any occurrences of double charging and develop a clear process and make that even more formal by establishing of a policy. This policy will need to be communicated to all departments within the County, regardless of whether they are within the cost plan or considered a central service department, as there is a possibility of this occurring anytime this type of transaction occurs.

Estimated Additional funding based on Recommendations and Budgeted 2023 Expenditures versus Actual 2018 Expenditures:

As the County has put a hold on cost plan allocations since FY2018-19, updating the plan to a Full Cost Plan utilizing budgeted FY2023-24 expenditures is going to result in a significant increase in allocations to any one department just based on the fact of the growth of expenditures between those two periods. This combined with many recommendations within this report to include additional costs be allocated out that weren't in FY2018-19 will result in even more increases in allocations.

The estimate to determine the amount of additional revenue is just that, a calculated estimate. That estimate will be validated once a new cost allocation plan with these report recommendations is completed. The reason an accurate estimate is so challenging is that a cost plan, although transparent and logical in nature, does include multiple layers of allocations. One, for instance, is the allocation of the administrative sections of a department to the divisions they support and then the further allocation of those divisions to all their clients, the other departments within the County. Another is the allocation of countywide overhead for a central service department to its client. This is often referred to as a double or multiple step-down method. It would be impossible to calculate the effects of these intricacies of the cost plan, until those calculations are actually made.

Below is a calculation of estimated increases in costs to specific departments, taking into consideration the increase of costs from actual fiscal year end FY2018-19 expenditures to budgeted year end FY2023-24 expenditures based on FY2018-19 allocations to JUST the departments listed below.

1. Health, Housing and Human Services (H3S)
2. Transportation (DTD)
3. Water Environmental Services (WES)
4. Housing Authority (HACC)
5. Parks & Recreation (NCPRD)
6. Development Agency (CCDAG)
7. Service District 5 (SSCD5)
8. Law Enforcement (LEDIS)

For County Counsel, Facilities, and Information Technology the increase in allocation is based on 10% of the difference between budgeted and actual expenditures as these departments are mostly directly billed and it would require substantial calculation to come up with a more accurate estimate.

Departments	FY18 Actual Exp's	BY23 Budgeted Exp's	Increase in Allocations to Specific Dept's
Finance	\$4,419,546	\$8,493,517	\$1,252,293
Human Resources	\$3,516,608	\$5,213,903	\$470,990
Public and Government Affairs	\$1,197,780	\$3,399,511	\$594,556
County Clerk	\$383,080	\$2,734,265	\$276,621
County Administration (excl. BOCC)	\$1,040,412	\$6,535,114	\$1,363,847
Board of County Commissioners	\$0	\$958,590	\$237,933
Building Depreciation	\$514,248	\$530,468	-\$29,619
Equipment Depreciation	\$0	\$0	\$0
County Counsel (FY19 Actuals)	\$1,336,975	\$1,617,948	\$28,097
Facilities (FY19 Actuals)	\$11,314,906	\$17,726,651	\$641,175
Information Technology (FY19 Actuals)	\$17,039,763	\$19,175,083	<u>\$213,532</u>
			\$5,049,425