

## 7. Discretionary/Changes in Method for Internal Service Payments versus Transfer Out

*Assertion: The Interfund Service Fee - in FY 2014 it totaled \$572k and peaked at \$1,879k in FY 2020 (I don't have year-end to confirm). Today that budget is just under \$2.5 MIL and for the 2025-26 FY it will be budgeted at over \$3 MIL.*

*In 2019-2020 fiscal year we were charged \$156,000 per month -1.88 Mil Annually. Then in 2020-2021 fiscal year it dropped to \$114,000 per month - 1.38 Mil Annually. In prior years it was lower. We have continually asked for a breakdown of the charges included in this fee and were told to refer to the budget documents on the website or CAFR.*

The "Interfund Service Fee" is the account utilized to record the full cost allocation to certain funds, including the Building Fund, that receive the benefit of certain centralized services of the City. The cost of this benefit was previously recorded as a transfer out to the General Fund. This treatment was changed in October 2019 to better align with Generally Accepted Accounting Principles (GAAP). Under GAAP, a transfer out is a permanent, one-way movement of resources between funds with no expectation of repayment and no direct exchange of goods or services, and it is reported on the financial statements as another financing source. In recognition that the General Fund is actually providing services, recording this transaction as an internal service fee is more appropriate and is properly reflected as an expenditure on the financial statements. Ultimately, these accounting treatments produce the same bottom-line impact on the financial statements.

The methodology surrounding the full cost allocation for the Building Fund, is both well-documented and justified, which is further evidenced in the City's yearly Budget Book. The allocation process is based on established best practices for municipal cost accounting and is backed by an independent audit review.

The City's Cost Allocation Plan (CAP) uses a consistent and transparent methodology, consistent with generally accepted accounting principles, which is supported by Government Finance Officers Association (GFOA) best practices, and applicable federal cost allocation guidelines, in order to ensure all indirect central service costs are distributed fairly to operating funds like the Building Fund. The Cost Allocation Plan (CAP) is adopted each year and is included as an Appendix to the City's Adopted Budget. Allocation bases are grounded in actual activities or usage, such as the number of full-time employees, purchase orders processed, or accounting transactions related to the Building Fund. This means increases in allocated amounts reflect rising underlying costs, activity, or service needs, not arbitrary adjustments.

An independent audit of the CAP methodology was performed in 2023, and clearly established that the plan is reasonable, and confirmed compliance with regulations, including 2 CFR 200.416. The audit found no control deficiencies, and it verified that all bases for allocations are applied consistently and traceably. Any noted recommendations were only to improve transparency and completeness, not to suggest any legal impropriety or inaccuracy in the allocations themselves.

Additionally, see the email correspondence where a breakdown of charges was provided, along with reference to where the allocation methodology can be found. **Furthermore, City staff offered to meet and explain the details in May 2025; however, the offer was not accepted.**

## Full Cost Allocation

A cost allocation plan (CAP) is an accounting report that documents the value of indirect costs provided by central services to operating departments. The primary goal of a CAP is to accurately attribute costs to the specific activities, departments, products, or projects that generate those costs. This helps in understanding the true cost of each activity or output, aiding in decision-making processes such as pricing, budgeting, and performance evaluation.

### PURPOSE OF THE COST ALLOCATION PLAN

Reasons for compiling a cost allocation are:

- Recovering indirect costs associated with Federal programs
- Charging services provided by the General Fund to Special Revenue, Internal Service, and Enterprise Funds
- Determine the full cost of services when considering outsourcing options
- Identifying useful management information such as recognizing cost drivers and benchmarking

As the above indicates, most agencies prepare Cost Allocation Plans to measure and recover General Fund dollars. This has become increasingly important in view of the limitations on taxes and the general need for additional local revenues. However, in the process of preparing a CAP, considerable valuable management information is also developed. To manage programs better, more agencies are utilizing this information.

For the City of Cape Coral's cost allocation purposes, its departments and divisions are categorized into two main groups: central services agencies and receiving agencies. Central service agencies are those units of government that provide centralized services to other governmental entities. These services benefit other government agencies and may extend to the general public, but the focus remains on functions that support other agencies in delivering their services, as outlined in the CAP. Receiving agencies, on the other hand, are units of government that primarily deliver services directly to the public without providing central services.

Determining direct costs is typically straightforward as they can be readily linked to a specific service. However, the same does not apply to indirect costs. Therefore, to ascertain the total cost of delivering a particular service, it is necessary to establish a method for apportioning indirect costs to direct cost programs.

Indirect costs are:

1. Incurred for a common or joint purpose benefiting more than one cost objective, and
2. Not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

### METHODOLOGY

The costs associated with providing central services are extracted from the city's financial records. Expenditures of central service agencies undergo review to ensure compliance with federal standards and to pinpoint expenditures that disproportionately benefit other agencies. These expenditures are then grouped into cost pools designated as functions.

Each central service agency is assigned one or more functions or activities. Common examples of such functions include accounting, purchasing, personnel administration, and building maintenance. Identifying

## Full Cost Allocation

these activities within the city's units of government enables the utilization of various allocation bases to distribute the costs associated with providing each function accurately.

The city uses a complex sequential allocations software system to analyze and calculate the indirect costs based on the data entered and applied to the functions. This cost allocation method operates under the assumption that all indirect costs correlate proportionately with the direct costs of the program. However, this assumption may not always hold true, especially when certain support services derive benefits more closely tied to factors other than cost. For instance, if a program heavily relies on contracted services without direct City staffing involvement, distributing personnel costs to it might lead to an unfair cost allocation. To address this, the City's Cost Allocation Plan establishes distinct allocation bases for each major category of indirect costs. This ensures that indirect costs are distributed to each direct cost program equitably, conveniently, and consistently.

Indirect costs have been included in this allocation and details are provided in the tables to follow. Schedule A presents an overview of the main allocation methods utilized to distribute indirect costs to direct cost programs. Included in the allocation is the direct cost of the external auditing services, currently provided by CliftonLarsonAllen LLP.

### **Budgeted City expenditures were allocated for the following Central services:**

City Attorney	City Auditor	City Clerk
City Council	City Manager	Financial Services
Human Resources	Information Technology Services	Property Management
Public Works Administration	Risk Management	

Additionally, the General Fund receives reimbursement from other funds/agencies based on varying formulas as summarized below:

- **Road Impact Fees:** In accordance with Section 2-24.29 of the Code of Ordinances, an administrative charge of 3% of the road impact fees collected is charged by the General Fund



## Full Cost Allocation

### SCHEDULE A

#### Allocation Basis

Here we see the basis of indirect cost allocation used for each indirect cost agency.

Services Provided	Service Allocation Basis
City Council	Number of Council Agenda Items
City Attorney	Number of FTEs
City Auditor	Internal Audit Hours
City Manager	Number of FTEs
City Clerk	Number of FTEs
City Clerk – Records	Number of FTEs
Finance – Accounts Payable	Number of A/P Transactions
Finance – Administration	Number of FTEs
Finance – Accounting	Number of Accounting Transactions
Finance – Management/Budget	Budgeted Expenditures
Finance – Payroll	Number of FTEs
Finance – Procurement	Number of Purchase Orders Processed
Finance – Cashier	Number of Cashier Transactions Processed
Human Resources	Number of FTEs
Human Resources – Recruitment	Number of Personnel Requisitions
Human Resources – Retiree	Number of Retirees
Information Technology Services	Number of Devices
Energov	Number of Permits Processed
Public Works – Administration	Number of Public Works FTEs
Public Works – Real Estate	Number of Real Estate Transactions
Property Liability	Total Value of Assets
Property Management	Number of Labor Hours
Annual External Audit	Total Actual Expenditures

#### SUMMARY

The CAP helps make determining total program costs possible by establishing a reasonable method for identifying and allocating indirect costs to direct cost programs. Because of this, the CAP can be a valuable analytical tool for several situations, including establishing fees designed for full cost recovery, reimbursing support service costs provided by the General Fund to other funds, and recovering indirect costs associated with grant programs. Schedules B and C below are summaries of all indirect and direct costs in this plan.

## Full Cost Allocation

### Full Cost Allocation

Below is a summary of the central services recovered in this allocation and how much each chargeable fund is responsible for. The details on the statistical data for this allocation can be found in Exhibit A and Exhibit B in the pages to follow.

#### SCHEDULE B

#### Summary of Allocated Costs by Department

FY 2024 Central Services to be Allocated		General Fund Portion	All Hazards	Building	CRA	Economic & Dev	Fire Operations	Gas Tax	Solid Waste	Stormwater	Water & Sewer	Yacht Basin	Charter School
Human Resources	\$ 14,741,480	\$ 9,788,107	\$ 5,689	\$ 623,790	\$ 3,696	\$ -	\$ 2,214,302	\$ 948	\$ 3,696	\$ 444,319	\$ 1,642,133	\$ 14,800	\$ -
Financial Services	11,347,957	5,232,095	22,276	176,404	9,702	-	453,910	7,448	53,311	406,772	4,977,253	8,786	-
City Clerk	1,835,436	800,151	3,882	368,977	1,294	-	193,859	647	1,294	69,546	395,268	518	-
City Manager	3,397,704	1,938,765	10,793	208,109	3,598	-	489,287	1,799	3,598	193,376	546,940	1,439	-
Information Tech	12,169,664	7,963,477	55,464	1,059,952	-	-	1,085,145	-	23,770	444,825	1,537,031	-	-
City Auditor	1,454,530	369,413	-	642,186	1,039	-	-	-	-	441,892	-	-	-
City Council	1,384,830	1,105,972	-	18,905	2,363	-	59,080	4,726	7,090	33,085	151,245	2,363	-
City Attorney	3,757,066	2,143,822	11,935	230,120	3,978	-	541,037	1,989	3,977	213,829	604,788	1,591	-
Public Works	1,732,647	1,156,688	-	-	-	-	-	3,277	6,555	365,607	200,520	-	-
Property Mgmt.	7,203,194	5,031,740	-	21,827	82,626	2,400	815,834	-	12,301	159,312	452,133	118,809	506,212
	\$ 59,024,508	\$ 35,530,230	\$ 110,039	\$ 3,350,270	\$ 108,296	\$ 2,400	\$ 5,852,454	\$ 20,834	\$ 115,592	\$ 2,772,563	\$ 10,507,311	\$ 148,306	\$ 506,212

## Full Cost Allocation

### Full Cost Allocation

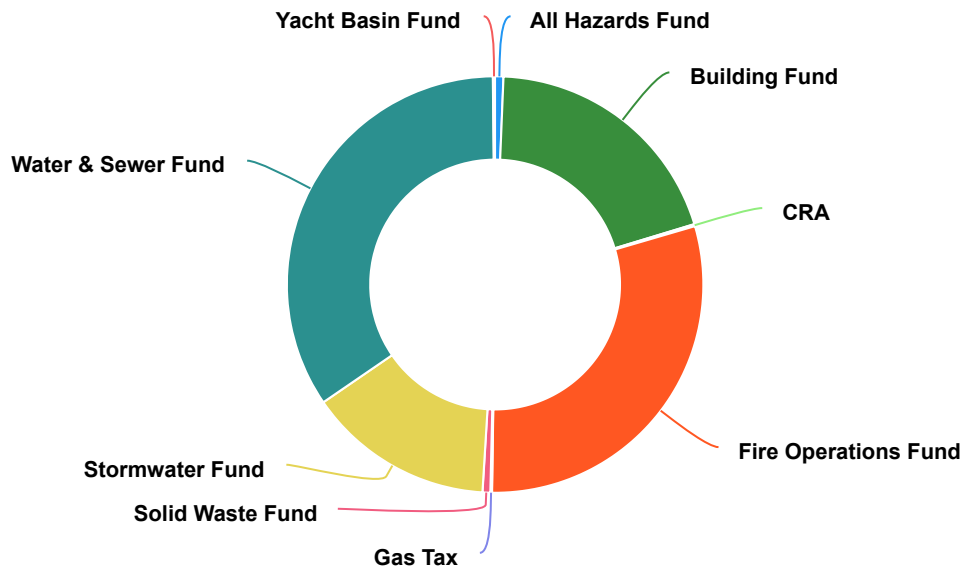
Central services provided by the General Fund are charged to Special Revenue, Internal Service and Enterprise Funds for reimbursement. Management determines which funds are charged for the centralized services. Below are the funds that reimburse the General Fund for the provided services.

#### SCHEDULE C

#### Central Service Reimbursement to the General Fund

Fund Name	FY 2023 Actual Allocation	FY 2024 Adopted Allocation	FY 2024 Estimated Allocation	FY 2025 Adopted Allocation	FY 2026 Forecast Allocation	FY 2027 Forecast Allocation
All Hazards Fund	\$ -	\$ 105,710	\$ 105,710	\$ 110,039	\$ 113,340	\$ 116,740
Building Fund	2,106,300	2,494,687	2,494,669	3,328,443	3,428,296	3,531,145
CDBG Fund	55,654	52,178	-	-	-	-
CRA	212,688	170,686	120,680	25,670	26,440	27,233
Fire Operations Fund	114,368	4,127,747	4,127,737	5,036,620	5,187,719	5,343,351
Gas Tax	-	19,630	19,630	20,834	21,459	22,103
Solid Waste Fund	77,280	89,357	89,357	103,291	106,390	109,582
Stormwater Fund	1,176,548	1,720,584	1,720,584	2,446,857	2,520,263	2,595,871
Water & Sewer Fund	5,066,192	5,421,302	5,421,300	5,817,482	5,992,006	6,171,766
Yacht Basin Fund	48,524	36,528	36,528	28,408	29,260	30,138
<b>Total Charge Back</b>	<b>\$ 8,857,554</b>	<b>\$ 14,238,409</b>	<b>\$ 14,136,195</b>	<b>\$ 16,917,644</b>	<b>\$ 17,425,173</b>	<b>\$ 17,947,929</b>

#### Central Service Reimbursement to the General Fund



## Full Cost Allocation

### Full Cost Allocation

Included in this allocation is the reimbursement to the Risk Management Fund for Property & Liability services. Prior to FY 2024, this allocation was done through the same methodology within the Financial Services Department. It is now illustrated here in the full cost allocation.

#### Central Service Reimbursement to the Risk Management Fund

Fund Name	FY 2023 Actual Allocation	FY 2024 Adopted Allocation	FY 2024 Estimated Allocation	FY 2025 Adopted Allocation	FY 2026 Forecast Allocation	FY 2027 Forecast Allocation
General Fund	\$ 1,380,136	\$ 1,701,616	\$ 1,701,616	\$ 1,968,874	\$ 2,027,940	\$ 2,088,778
Fleet Maint. Fund	1,648	-	-	-	-	-
Property Mgmt. Fund	935	-	-	-	-	-
Stormwater Fund	127,452	147,758	147,758	166,394	171,386	176,528
Water & Sewer Fund	3,294,981	3,767,857	3,767,857	4,237,696	4,364,827	4,495,772
Yacht Basin Fund	1,183	1,066	1,066	1,089	1,122	1,156
<b>Total Charge Back</b>	<b>\$ 4,806,335</b>	<b>\$ 5,618,297</b>	<b>\$ 5,618,297</b>	<b>\$ 6,374,053</b>	<b>\$ 6,565,275</b>	<b>\$ 6,762,234</b>

Also included in the full cost allocation is the reimbursement to the Property Management Fund for facilities maintenance services. Prior to FY 2024, this allocation was charged back on a department basis by labor rate through work orders.

#### Central Service Reimbursement to the Property Management Fund

Fund Name	FY 2023 Actual Allocation	FY 2024 Adopted Allocation	FY 2024 Estimated Allocation	FY 2025 Adopted Allocation	FY 2026 Forecast Allocation	FY 2027 Forecast Allocation
All Hazards	\$ 1,926	\$ 56	\$ 90	\$ -	\$ -	\$ -
Building Fund	34,138	41,160	65,765	21,827	22,482	23,156
Capital Improv Fund	31,584	-	-	-	-	-
Charter School Fund	-	-	-	506,212	521,398	537,040
CRA Fund	63,082	92,616	147,981	82,626	85,105	87,658
Economic & Dev. Fund	1,123	-	-	2,400	2,472	2,546
Fire Operations Fund	590,681	905,220	1,446,352	815,834	840,309	865,518
Fleet Maint. Fund	41,230	-	-	-	-	-
General Fund	3,320,963	4,332,626	6,932,805	5,031,741	5,182,693	5,338,174
Golf Course Fund <sup>1</sup>	52,267	-	-	-	-	-
Lot Mowing Fund <sup>1</sup>	25,668	-	-	-	-	-
Self-Insured Fund <sup>1</sup>	4,949	-	-	-	-	-
Solid Waste Fund	9,641	20,131	32,166	12,301	12,670	13,050
Stormwater Fund	98,804	96,564	154,289	159,312	164,091	169,014
Water & Sewer Fund	286,661	389,844	622,889	452,133	465,697	479,668
Yacht Basin Fund	52,267	63,030	100,709	118,809	122,373	126,044
<b>Total Charge Back</b>	<b>\$ 4,614,984</b>	<b>\$ 5,941,247</b>	<b>\$ 9,503,046</b>	<b>\$ 7,203,195</b>	<b>\$ 7,419,290</b>	<b>\$ 7,641,868</b>

<sup>1</sup> These Funds are now included in the overall General Fund Reimbursement totals

## Full Cost Allocation

### Exhibit A

#### Detailed Allocation Results - Indirect Costs

Central Services Provided		All Hazards	Building Code	CDBG/SHIP/NSP	Charter School <sup>3</sup>	CRA	Economic & Dev <sup>2</sup>	Fire Operations	Gas Tax	General Fund <sup>1</sup>	Lot Mowing	Parks Impact	Public Safety Impact	Road Impact	Solid Waste	Stormwater	Water & Sewer	Yacht Basin	All Others
City Manager Administration	\$ 1,659,696	\$ 5,272	\$ 101,656	\$ 879	\$ -	\$ 1,757	\$ 3,515	\$ 239,005	\$ 879	\$ 846,868	\$ 2,636	\$ -	\$ -	\$ -	\$ 1,758	\$ 94,460	\$ 267,167	\$ 703	\$ 93,142
Office of Communications	1,738,008	5,521	106,453	920	-	1,840	3,681	250,282	920	886,827	2,760	-	-	-	1,840	98,916	279,773	736	97,536
City Council	1,384,830	-	18,905	14,179	-	2,363	11,816	59,080	4,726	810,575	4,726	7,090	-	-	7,090	33,085	151,245	2,363	257,588
City Auditor	1,454,530	-	642,186	-	-	1,039	-	-	-	369,413	-	-	-	-	-	441,892	-	-	-
Finance Administration	1,038,426	3,299	63,603	550	-	1,100	2,199	149,539	550	529,862	1,649	-	-	-	1,100	59,101	167,159	440	58,276
Accounting	901,673	3,811	19,528	9,005	-	3,359	3,410	54,190	3,103	384,568	15,756	1,503	3,100	1,408	11,064	49,170	139,379	4,330	194,991
Accounts Payable	416,005	2,322	13,828	4,100	-	721	1,429	37,015	116	196,874	3,630	595	555	42	2,147	31,888	23,646	857	96,242
Cashier	719,329	2	28,440	2	-	18	992	563	-	4,803	15	540	1,601	547	475	2,156	219,509	54	459,610
Payroll	247,308	861	16,601	143	-	287	574	39,030	143	138,295	430	-	-	-	287	15,425	19,905	115	15,210
Budget	809,448	1,928	27,460	7,622	-	2,352	2,391	87,343	3,225	438,722	12,811	142	180	420	36,269	30,091	49,626	970	107,897
Procurement	841,715	10,053	6,944	622	-	1,866	1,866	86,230	311	306,573	3,213	-	1,451	-	1,969	52,547	120,333	933	246,805
Risk Mgmt	6,374,053	-	-	-	-	-	-	-	-	1,962,303	-	-	-	-	-	166,394	4,237,696	1,089	6,571
City Clerk Administration	1,173,886	3,729	71,900	622	-	1,243	2,486	169,046	622	598,981	1,864	-	-	-	1,243	66,811	188,965	497	65,878
Communications	48,061	153	2,944	25	-	51	102	6,921	25	24,523	76	-	-	-	51	2,735	7,737	20	2,697
Records Management	613,489	-	294,133	-	-	-	5,114	17,892	-	87,607	-	-	-	-	-	-	198,566	-	10,175
HR Administration	550,513	1,749	33,719	291	-	583	1,166	79,277	291	280,903	874	-	-	-	583	31,332	88,617	233	30,895
Comp & Classification	538,146	1,709	32,961	285	-	570	1,140	77,496	285	274,592	855	-	-	-	570	30,628	86,627	228	30,201
Employee Benefits	175,660	558	10,759	93	-	186	372	25,296	93	89,631	279	-	-	-	186	9,997	28,277	74	9,858
Employee Development	253,468	805	15,525	134	-	268	537	36,500	134	129,333	403	-	-	-	268	14,426	40,802	107	14,225
Employee/Labor Relations	273,170	868	16,732	145	-	289	578	39,338	145	139,386	434	-	-	-	289	15,547	43,973	116	15,330
Recruitment	790,773	-	64,773	-	-	1,799	4,498	46,781	-	433,621	900	-	-	-	1,799	5,398	132,245	-	98,959
City Attorney	3,757,066	11,935	230,120	1,989	-	3,978	7,956	541,037	1,989	1,917,062	5,967	-	-	-	3,978	213,829	604,788	1,591	210,845
ITS Administration	448,541	2,072	31,087	296	-	-	296	39,969	-	269,125	592	-	-	-	888	15,692	62,470	-	26,054
Business Application	2,774,059	12,817	192,262	1,831	-	-	1,831	247,193	-	1,664,435	3,662	-	-	-	5,493	97,046	386,354	-	161,133
GIS	706,930	3,266	48,995	467	-	-	467	62,995	-	424,158	933	-	-	-	1,400	24,731	98,457	-	41,063
Network Administration	2,324,074	10,740	161,073	1,533	-	-	1,533	207,096	-	1,394,445	3,070	-	-	-	4,602	81,304	323,683	-	134,997
Systems	4,443,910	19,030	513,443	2,719	-	-	2,719	382,489	-	2,499,264	5,437	-	-	-	8,156	168,968	598,407	-	243,278
Security	1,472,150	7,539	113,092	1,077	-	-	1,077	145,403	-	979,050	2,154	-	-	-	3,231	57,084	67,660	-	94,781
Retirement Costs	12,159,750	-	449,321	-	-	-	-	1,909,614	-	8,172,026	-	-	-	-	-	336,991	1,221,592	14,041	56,165
PW Administration	953,697	-	-	-	-	-	-	-	3,277	314,622	6,555	-	-	-	6,555	349,034	1,639	-	272,017
PW Real Estate	778,950	-	-	-	-	-	-	-	-	281,748	-	-	-	-	-	16,573	198,881	-	281,748
Facilities Mgmt Fund	7,203,194	-	21,827	-	506,212	82,626	2,400	815,834	-	4,010,617	-	-	-	-	12,301	159,312	452,133	118,809	1,021,124
\$ 59,024,508		\$ 110,039	\$ 3,350,270	\$ 49,529	\$ 506,212	\$ 108,295	\$ 66,145	\$ 5,852,454	\$ 20,834	\$ 30,860,812	\$ 81,681	\$ 9,870	\$ 6,887	\$ 2,417	\$ 115,592	\$ 2,772,563	\$ 10,507,311	\$ 148,306	\$ 4,455,291

<sup>1</sup> General Fund includes totals from the Golf Course Fund, Alarm Fee Fund, Waterpark Fund, and Parks and Rec Program Fund

<sup>2</sup> All Economic & Development costs rolled into General Fund except for the reimbursement to the Property Management Fund

<sup>3</sup> The Charter School Maintenance Fund is only calculated to cost out the reimbursement to the Property Management Fund with the rest of their costs are under All Others

Full Cost Allocation

Exhibit B

FY 2023 Data for Allocation Basis

Service Allocation Basis	FTEs	Public Works FTEs	Retirees	Accounting Transactions	Actual Expenditures	A/P Transactions	Purchase Orders	Cashier Transactions	Council Agenda Items	Real Estate Items	Internal Audit Hours	Files Images	Devices	Personnel Requisitions	Property Liability	Permits Reviewed	Work Orders	Budgeted Expenditures
General Fund	963	96	574	44,100	\$ 237,095,664	69,501	2,946	39,415	338	17	-	451,233	909	482	\$ 506,404,950	7,838	13,367	\$ 261,301,432
5 Cent Gas Tax Fund	-	-	-	132	501,235	21	2	-	1	-	-	-	-	-	-	-	-	960,758
6 Cent Gas Tax Fund	1	1	-	275	501,235	20	1	-	1	-	-	-	-	-	-	-	-	960,758
Road Impact Fee Fund	-	-	-	195	232,303	15	-	4,648	-	-	-	-	-	-	-	-	-	249,951
Park Impact Fee Fund	-	-	-	144	1,627,115	211	-	4,593	3	-	-	-	-	-	-	-	-	84,698
Police Impact Fee Fund	-	-	-	152	295,462	161	10	4,654	-	-	-	-	-	-	-	-	-	35,717
ALS Impact Fund	-	-	-	104	295,462	18	3	4,643	-	-	-	-	-	-	-	-	-	35,717
Fire Impact Fee Fund	-	-	-	156	295,462	18	1	4,300	-	-	-	-	-	-	-	-	-	35,717
Alarm Fee Fund	1	-	-	324	66,924	92	-	511	-	-	-	-	-	-	-	-	-	108,968
All Hazards Fund	6	-	-	505	1,121,228	824	97	18	-	-	-	1	7	-	-	-	-	1,149,024
Fire Operations	272	-	136	5,528	51,468,531	13,135	832	4,779	25	-	-	92,157	135	52	-	4,324	2,719	52,042,994
Lot Mowing Fund	3	2	-	2,133	3,664,585	1,288	31	130	2	-	-	-	2	1	-	-	-	7,633,138
Economic Development	4	-	-	455	934,769	507	18	8,427	5	-	-	26,343	1	5	-	-	8	1,424,826
Building Code Fund	116	-	32	2,240	13,216,181	4,907	67	241,574	8	-	1,236	1,514,981	105	72	-	63,690	73	16,362,115
CDBG Fund	1	-	-	913	1,277,814	892	3	9	6	-	-	-	1	-	-	-	-	4,541,822
HUD NSP Fund	-	-	-	37	-	-	-	6	-	-	-	-	-	-	-	-	-	-
SHIP Fund	-	-	-	247	1,284,771	563	3	6	-	-	-	-	-	-	-	-	-	-
CRA Fund	2	-	-	491	-	256	18	155	1	-	2	-	-	2	-	-	275	1,401,312
Waterpark Fund	-	-	-	18	-	14	-	-	4	-	-	-	-	-	-	-	-	-
PR Program Fund	-	-	-	625	-	165	-	871	-	-	-	-	-	-	-	-	-	-
Golf Course Fund	-	-	8	122	-	92	12	-	1	-	711	-	-	-	-	-	-	-
Solid Waste Fund	2	2	-	630	21,227,020	762	19	4,036	3	-	-	-	3	2	-	-	41	21,610,439
W&S Fund	304	1	87	11,792	109,534,923	33,658	1,750	4,883,938	64	12	-	1,022,754	211	147	1,093,608,157	6,923	1,507	81,953,270
W&S Debt Fund	-	-	-	683	-	-	-	-	-	-	-	-	-	-	-	-	-	-
W&S Reserve Fund	-	-	-	276	-	-	-	-	-	-	-	-	-	-	-	-	-	-
W&S Cap Proj Fund	-	-	-	251	-	2,439	46	3	-	-	-	-	-	-	-	-	-	-
Water Impact Fund	-	-	-	1,213	-	50	-	1,736	-	-	-	-	-	-	-	-	-	-
Sewer Impact Fund	-	-	-	1,315	-	54	-	1,883	-	-	-	-	-	-	-	-	-	-
Irrigation Impact Fund	-	-	-	1,220	-	71	3	1,512	-	-	-	-	-	-	-	-	-	-
Water CIAC Fund	-	-	-	163	-	-	-	524	-	-	-	-	-	-	-	-	-	-
Sewer CIAC Fund	-	-	-	163	-	-	-	1,031	-	-	-	-	-	-	-	-	-	-
Irrigation CIAC Fund	-	-	-	123	-	14	2	30	-	-	-	-	-	-	-	-	-	-
Stormwater Fund	108	107	24	6,409	16,753,154	11,316	507	18,316	14	1	851	-	53	6	42,940,755	6,951	531	17,929,786
Yacht Basin Fund	1	-	1	613	431,232	304	9	458	1	-	-	-	-	-	280,999	-	396	577,332
Charter School Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,687	-
All Other	104	83	-	24,973	18,072,412	32,433	2,369	3,901,796	108	17	-	14,043	87	110	1,695,819	1,129	3,404	19,461,685
	1,888	292	862	108,720	\$ 479,897,482	173,801	8,749	9,134,002	585	47	2,800	3,121,512	1,514	879	\$ 1,644,930,680	90,855	24,008	\$ 489,861,459



**City Auditor's Office**

# **Financial Services-Full Cost Allocation Audit**

**Report Issued: August 30, 2023**

Audit Report No. 23-04

Auditor-In-Charge: Andrea R. Russell, CPA, CFE, CIA, CGMA

Auditor: Philip Toby, CGFM



TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor *ARR*

DATE: August 30, 2023

SUBJECT: Financial Services-Full Cost Allocation Audit

The City Auditor's Office has completed the audit of Financial Services Full Cost Allocation process. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to the Financial Services Department and the Office of Management and Budget management and staff for the courtesy, cooperation and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380.

C: Michael Ilczyszyn, Interim City Manager  
Connie Barron, Assistant City Manager  
Aleksandr Boksner, City Attorney  
Kimberly Bruns, City Clerk  
Mark Mason, Financial Services Director  
Nicole Reitler, Management Budget Administrator  
Audit Committee

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## EXECUTIVE SUMMARY

The City Auditor's Office conducted a performance audit of the Financial Services full cost allocation process. This audit is included in the City Auditor's FY23 approved Audit Plan.

Based on the test work performed and the audit recommendations noted below, we concluded overall that policies and procedures are in place and operating effectively to provide for accurate cost allocation of certain central services expenditures. There are additional central services expenditures the City currently tracks but does not allocate. Although this is not a control weakness, allocating the maximum expenditures possible is important when considering limitations on taxes, combined with increasing costs, and the need for additional local revenue sources. Preparing and publishing a formal cost allocation plan would improve transparency by documenting the methodology for allocation. For further details on this finding and recommendations, see the Finding and Recommendations section. We noted no control deficiencies.

## BACKGROUND

The City utilizes a Cost Allocation Plan (CAP) to allocate certain central services overhead costs to operating departments. Cost allocation plans can assist management in many ways including recovering indirect costs from federal or state funding; more accurately determining fees-for-services; and recognizing cost drivers and benchmarking. The CAP is prepared in accordance with *2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Special Considerations for States, Local Governments, and Indian Tribes - Section 200.416 Cost allocation plans and indirect cost proposals*.

Budgeted expenditures for City Council, City Attorney, City Auditor, City Manager, City Clerk, Financial Services, Human Resources, and Information Technology Services are allocated to various funds. Central services provided by the General Fund are charged to the City's Special Revenue, Internal Service, and Enterprise Funds for reimbursement. These funds include Building, Community Development Block Grant, Golf Course, Stormwater, Water and Sewer, and Yacht Basin funds. Management determines which funds are charged for centralized services.

## AUDIT OBJECTIVE

To determine whether the full cost allocation budgeted and charged to departments was adequately supported, the basis for calculation was reasonable, and the allocation followed applicable regulations, policies, and procedures.

## STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **FINDING AND RECOMMENDATIONS**

### **FINDING 2023-01: Financial Services Should Develop a Full Cost Allocation Plan** **Rank: Medium**

#### **Condition:**

Financial Services determines the allocation bases for costs. For example, to allocate Financial Services procurement costs to the Building Fund, the number of purchase orders processed by Finance for the Building Division is used to determine a percentage of total expenditures to allocate. The allocation bases utilized in the CAP include: the number of full-time equivalents; number of devices (Information Technology); number of retirees; number of accounting transactions; number of accounts payable transactions; budgeted expenditures; files imaged; number of complaints or inquiries; number of internal audit hours; number of council agenda items; number of real estate items for council action; and the number of personnel requisitions.

The City only allocates the selected central service expenditures to the above noted funds but could include additional funds, such as the Parks and Recreation or Transportation Capital Projects funds, as well as additional central service expenditures, such as the Communications Office or Facilities Management expenditures. Best practices recommend a formal documented CAP to facilitate transparency. The only documentation Financial Services currently has is the detailed procedural “how to” document and a general overview of the process in the budget document. The methodology is described in sufficient detail in internal documentation and applied fairly and consistently. A stand-alone CAP can communicate details such as types of expenditures, allocation bases, and the time period used for expenditures in the plan. This information is included in the internal documents used for the allocation, but would provide more transparency if details were provided in a stand-alone CAP.

#### **Criteria:**

- 2 CFR 200; 200.416
- Formal documented Full Cost Allocation Plan

#### **Cause:**

- No formal CAP document
- Incomplete allocation of costs

#### **Effect:**

- Lack of transparency regarding cost allocation
- Understated cost allocation

#### **RECOMMENDATIONS:**

**2023-01a:** Develop a formal, Cost Allocation Plan to be included in the City’s annual budget.

**2023-01b:** Analyze unallocated costs and determine if any additional amounts can be incorporated into future full cost allocations.

**Management Response and Corrective Action Plan:**

**2023-01a:** Select one of these boxes: ☒ **Agree** ☐ **Partially agree\*** ☐ **Disagree\***

**\*For partially agree or disagree a reason must be provided as part of your response:**

**2023-01a:** We agree that a more detailed and formal plan should be developed, maintained, and updated annually in the City's Annual Budget to create the necessary transparency to understand what the Full Cost Allocation is, why it is necessary, when it is updated and why, and how the calculations work. The City has purchased a Cost Allocation Software and are in the process of implementation. Once the implementation is complete and a full analysis of the process is analyzed, a more detailed and thorough Cost Allocation Plan will be developed and included within our Budget Book.

**2023-01a: Management Action Plan Coordinator:** Financial Services Director

**2023-01a: Anticipated Completion Date:** 1/4/2023

**2023-01b:** Select one of these boxes: ☒ **Agree** ☐ **Partially agree\*** ☐ **Disagree\***

**\*For partially agree or disagree a reason must be provided as part of your response:**

**2023-01b:** The City has implemented this recommendation and will do so one more time with the implementation of the new software for full cost allocations. The city has purchased a Full Cost Allocation Software and is currently in the process of implementation. In FY 2023 the City evaluated the Full-Cost Allocation process and made some changes to the Fund allocations in preparation of the implementation. Included in the changes, the Parks and Recreation Fund and the Golf Course Fund moved out of Special Revenue Funds and into the General Fund. The Fire Operations moved out of the General Fund and into the Special Revenue Fund. Also, within our Capital Transportation Fund, the sidewalk crew was moved out and reallocated to the General Fund. Due to these changes, we re-evaluated the Funds receiving the allocation and expanded the scope of allocation to also include the Solid Waste Fund and the Gas Tax Fund as well as the new Fire Operations Fund and removing the Parks and Recreation and Golf Course Funds. The expenditures included are also being re-evaluated and in FY 2024 the facilities costs are being included as a part of the total expenditures for allocation. Throughout the implementation process, we will continue to evaluate potential costs for allocation and will document any changes in the updated Cost Allocation Plan.

**2023-01b: Management Action Plan Coordinator:** Financial Services Director

**2023-01b: Anticipated Completion Date:** 10/2/2023

## SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk, the audit covers the full cost allocation process used for FY22 and FY23<sup>1</sup>. We performed testing using applicable policies and procedures as well as federal regulations for cost principles that were in place during the scope.

Original files were used as support for testing evidence and verified through physical examination. Sample size and selection were based on the CAO Sample Methodology. To gain a better understanding of the process for allocation and to ensure compliance with budget policies and procedures, we conducted walkthroughs with the Office of Management and Budget and Financial Services personnel. We utilized judgmental sampling to select allocation bases to trace to source reports, documents and to recalculate amounts used in selected allocations.

To achieve the audit objective, we used data from the City's financial accounting system. The information is tested by the external auditors as part of the Annual Comprehensive Financial Report. Based on the results of their procedures, no additional data reliance testing was deemed necessary.

Unless specifically stated otherwise, based on our selection methods, and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions for testing, findings, and recommendations on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

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<sup>1</sup> Full cost allocations are determined at the beginning of the fiscal year for inclusion in the current (FY24) budget.

## APPENDIX A

### Finding Classification

Findings are grouped into one of three classifications: High, Medium or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

**High:** A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

**Medium:** A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

**Low:** A "Low" finding is one that warrants communication to management but is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.

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This content is from the eCFR and is authoritative but unofficial.

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## **Title 2 — Federal Financial Assistance**

### **Subtitle A — Office of Management and Budget Guidance for Federal Financial Assistance**

#### **Chapter II — Office of Management and Budget Guidance**

#### **Part 200 — Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards**

#### **Subpart E — Cost Principles**

#### **Special Considerations for States, Local Governments and Indian Tribes**

**Authority:** 31 U.S.C. 503; 31 U.S.C. 6101-6106; 31 U.S.C. 6307; 31 U.S.C. 7501-7507.

**Source:** 89 FR 30136, Apr. 22, 2024, unless otherwise noted.

#### **§ 200.416 Cost allocation plans and indirect cost proposals.**

- (a) Awards to states, local governments, and Indian Tribes are often implemented at the level of department within the State, local government, or Indian Tribe. A central service cost allocation plan is established to allow such department to claim a portion of centralized service costs that are incurred in proportion to the award's activities. Examples of centralized service costs may include motor pools, computer centers, purchasing, and accounting. Since Federal awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan establishes this process.
- (b) Individual departments typically charge Federal awards for indirect costs through an indirect cost rate. A separate indirect cost rate proposal for each operating department is usually necessary to claim indirect costs under Federal awards. Indirect costs include:
  - (1) The indirect costs originating in each operating department of the State, local government, or Indian Tribe carrying out Federal awards; and
  - (2) The costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.
- (c) The requirements for developing and submitting cost allocation plans (for central service costs and public assistance programs) and indirect cost rate proposals are contained in appendices V, VI, and VII of this part.

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This content is from the eCFR and is authoritative but unofficial.

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## Title 2 — Federal Financial Assistance

### Subtitle A — Office of Management and Budget Guidance for Federal Financial Assistance

#### Chapter II — Office of Management and Budget Guidance

#### Part 200 — Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

**Authority:** 31 U.S.C. 503; 31 U.S.C. 6101-6106; 31 U.S.C. 6307; 31 U.S.C. 7501-7507.

**Source:** 89 FR 30136, Apr. 22, 2024, unless otherwise noted.

### Appendix V to Part 200—State/Local Governmentwide Central Service Cost Allocation Plans

#### A. General

1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.
2. Guidelines and illustrations of central service cost allocation plans are provided in a brochure published by the Department of Health and Human Services entitled “*A Guide for State, Local and Indian Tribal Governments: Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*.” A copy of this brochure may be obtained from the HHS Cost Allocation Services or at their website.

#### B. Definitions

1. **Agency or operating agency** means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of Federal awards or activities of the governmental unit.
2. **Allocated central services** means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.
3. **Billed central services** means central services that are billed to benefitted agencies or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.
4. **Cognizant agency for indirect costs** is defined in § 200.1. The determination of cognizant agency for indirect costs for states and local governments is described in section F.1.
5. **Major local government** means local government that receives more than \$100 million in direct Federal awards subject to this Part.

## C. Scope of the Central Service Cost Allocation Plans

The central service cost allocation plan will include all central service costs that will be claimed (either as a billed or an allocated cost) under Federal awards and will be documented as described in section E. omitted from the plan will not be reimbursed.

## D. Submission Requirements

1. Each state will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include
  - (a) a projection of the next year's allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and
  - (b) a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year or the year immediately preceding the most recently completed year.
2. Each major local government is also required to submit a plan to its cognizant agency for indirect costs annually.
3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Part and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a local government only receives funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient's plan.
4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency for indirect costs on a case-by-case basis.

## E. Documentation Requirements for Submitted Plans

The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency for indirect costs on a case-by-case basis. For example, the requirements may be reduced for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (\*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.

### 1. General

All proposed plans must be accompanied by the following: an organization chart sufficiently detailed to show operations including the central service activities of the state/local government whether or not they are shown as benefitting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification

(see subsection 4.) that the plan was prepared in accordance with this Part, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.

## 2. Allocated Central Services

For each allocated central service\*, the plan must also include the following: a brief description of the service, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. must also be included.

## 3. Billed Services

- a. **General.** The information described in this section must be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.
- b. Internal service funds.
  - (1) For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan must include: A brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by GAAP) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this part, with an explanation of how variances will be handled.
  - (2) Revenues must consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users must be provided. Expenses must be broken out by object cost categories (e.g., salaries, supplies, etc.).
- c. **Self-insurance funds.** For each self-insurance fund, the plan must include: the fund balance sheet; a statement of revenue and expenses including a summary of billings and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefitted activities. Reserve levels in excess of claims
  - (1) submitted and adjudicated but not paid,

- (2) submitted but not adjudicated, and
  - (3) incurred but not submitted must be identified and explained.
- d. **Fringe benefits.** For fringe benefit costs, the plan must include: a listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information must be provided: the governmental unit's funding policies, e.g., legislative bills, trust agreements, or state-mandated contribution rules, if different from actuarially determined rates; the pension plan's costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee's report; and, a schedule from the activity showing the value of the interest cost associated with late funding.

## 4. Required Certification

Each central service cost allocation plan will be accompanied by a certification in the following form:

### CERTIFICATE OF COST ALLOCATION PLAN

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of this Part and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the Federal awards to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit: \_\_\_\_\_

Signature: \_\_\_\_\_

Name of Official: \_\_\_\_\_

Title: \_\_\_\_\_

Date of Execution: \_\_\_\_\_

## F. Negotiation and Approval of Central Service Plans

## 1. Federal Cognizant Agency for Indirect Costs Assignments for Cost Negotiation

In general, unless different arrangements are agreed to by the concerned Federal agencies, for central service cost allocation plans, the cognizant agency responsible for review and approval is the Federal agency with the largest dollar value of total Federal awards with a governmental unit. For indirect cost rates and departmental indirect cost allocation plans, the cognizant agency is the Federal agency with the largest dollar value of direct Federal awards with a governmental unit or component, as appropriate. Once designated as the cognizant agency for indirect costs, the Federal agency must remain so for a period of five years. In addition, the following Federal agencies continue to be responsible for the indicated governmental entities:

*Department of Health and Human Services* —Public assistance and state-wide cost allocation plans for all states (including the District of Columbia and Puerto Rico), state and local hospitals, libraries and health districts.

*Department of the Interior* —Indian tribal governments, territorial governments, and state and local park and recreational districts.

*Department of Labor* —State and local labor departments.

*Department of Education* —School districts and state and local education agencies.

*Department of Agriculture* —State and local agriculture departments.

*Department of Transportation* —State and local airport and port authorities and transit districts.

*Department of Commerce* —State and local economic development districts.

*Department of Housing and Urban Development* —State and local housing and development districts.

*Environmental Protection Agency* —State and local water and sewer districts.

## 2. Review

All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the cognizant agency for indirect costs on a timely basis. The cognizant agency for indirect costs will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal awarding agency has reason to believe that special operating factors affecting its Federal awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency for indirect costs.

## 3. Agreement

The results of each negotiation must be formalized in a written agreement between the cognizant agency for indirect costs and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation must be made available to all Federal agencies for their use.

## **4. Adjustments**

Negotiated cost allocation plans based on a proposal later found to have included costs that: (a) are unallowable (i) as specified by law or regulation, (ii) as identified in subpart F, General Provisions for selected Items of Cost of this Part, or (iii) by the terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards, must be adjusted, or a refund must be made at the option of the cognizant agency for indirect costs, including earned or imputed interest from the date of transfer and debt interest, if applicable, chargeable in accordance with applicable Federal cognizant agency for indirect costs regulations. Adjustments or cash refunds may include, at the option of the cognizant agency for indirect costs, earned or imputed interest from the date of expenditure and delinquent debt interest, if applicable, chargeable in accordance with applicable cognizant agency claims collection regulations. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.

## **G. Other Policies**

### **1. Billed Central Service Activities**

Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.

### **2. Working Capital Reserves**

Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 calendar days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 calendar days may be approved by the cognizant agency for indirect costs in exceptional cases.

### **3. Carry-Forward Adjustments of Allocated Central Service Costs**

Allocated central service costs are usually negotiated and approved for a future fiscal year on a “fixed with carry-forward” basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This “carry-forward” procedure applies to all central services whose costs were fixed in

the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.

#### 4. Adjustments of Billed Central Services

Billing rates used to charge Federal awards must be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: (a) a cash refund including earned or imputed interest from the date of transfer and debt interest, if applicable, chargeable in accordance with applicable Federal cognizant agency for indirect costs regulations to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000. Adjustment methods may include, at the option of the cognizant agency, earned or imputed interest from the date of expenditure and delinquent debt interest, if applicable, chargeable in accordance with applicable cognizant agency claims collection regulations.

#### 5. Records Retention

All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in subpart D of this part.

#### 6. Appeals

If a dispute arises in the negotiation of a plan between the cognizant agency for indirect costs and the governmental unit, the dispute must be resolved in accordance with the appeals procedures of the cognizant agency for indirect costs.

#### 7. OMB Assistance

To the extent that problems are encountered among the Federal agencies or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

*[78 FR 78608, Dec. 26, 2013, as amended at 80 FR 54410, Sept. 10, 2015; 85 FR 49581, Aug. 13, 2020]*

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This content is from the eCFR and is authoritative but unofficial.

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## Title 2 — Federal Financial Assistance

### Subtitle A — Office of Management and Budget Guidance for Federal Financial Assistance

#### Chapter II — Office of Management and Budget Guidance

#### Part 200 — Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

**Authority:** 31 U.S.C. 503; 31 U.S.C. 6101-6106; 31 U.S.C. 6307; 31 U.S.C. 7501-7507.

**Source:** 89 FR 30136, Apr. 22, 2024, unless otherwise noted.

### Appendix VI to Part 200—Public Assistance Cost Allocation Plans

#### A. General

Federally-financed programs administered by state public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR Part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan. This Appendix extends these requirements to all Federal awarding agencies whose programs are administered by a state public assistance agency. Major federally-financed programs typically administered by state public assistance agencies include: Temporary Aid to Needy Families (TANF), Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance and Foster Care, and Social Services Block Grant.

#### B. Definitions

1. **State public assistance agency** means a state agency administering or supervising the administration of one or more public assistance programs operated by the state as identified in Subpart E of 45 CFR Part 95. For the purpose of this Appendix, these programs include all programs administered by the state public assistance agency.
2. **State public assistance agency costs** means all costs incurred by, or allocable to, the state public assistance agency, except expenditures for financial assistance, medical contractor payments, food stamps, and payments for services and goods provided directly to program recipients.

#### C. Policy

State public assistance agencies will develop, document and implement, and the Federal Government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR Part 95. The plan will include all programs administered by the state public assistance agency. Where a letter of approval or disapproval is transmitted to a state public assistance agency in accordance with Subpart E, the letter will apply to all Federal agencies and programs. The remaining sections of this Appendix (except for the requirement for certification) summarize the provisions of Subpart E of 45 CFR Part 95.

## D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans

1. State public assistance agencies are required to promptly submit amendments to the cost allocation plan to HHS for review and approval.
2. Under the coordination process outlined in section E, affected Federal agencies will review all new plans and plan amendments and provide comments, as appropriate, to HHS. The effective date of the plan or plan amendment will be the first day of the calendar quarter following the event that required the amendment, unless another date is specifically approved by HHS. HHS, as the cognizant agency for indirect costs acting on behalf of all affected Federal agencies, will, as necessary, conduct negotiations with the state public assistance agency and will inform the state agency of the action taken on the plan or plan amendment.

## E. Review of Implementation of Approved Plans

1. Since public assistance cost allocation plans are of a narrative nature, the review during the plan approval process consists of evaluating the appropriateness of the proposed groupings of costs (cost centers) and the related allocation bases. As such, the Federal Government needs some assurance that the cost allocation plan has been implemented as approved. This is accomplished by reviews by the Federal awarding agencies, single audits, or audits conducted by the cognizant agency for indirect costs.
2. Where inappropriate charges affecting more than one Federal awarding agency are identified, the cognizant HHS cost negotiation office will be advised and will take the lead in resolving the issue(s) as provided for in Subpart E of 45 CFR Part 95.
3. If a dispute arises in the negotiation of a plan or from a disallowance involving two or more Federal awarding agencies, the dispute must be resolved in accordance with the appeals procedures set out in 45 CFR Part 16. Disputes involving only one Federal awarding agency will be resolved in accordance with the Federal awarding agency's appeal process.
4. To the extent that problems are encountered among the Federal awarding agencies or governmental units in connection with the negotiation and approval process, the Office of Management and Budget will lend assistance, as required, to resolve such problems in a timely manner.

## F. Unallowable Costs

Claims developed under approved cost allocation plans will be based on allowable costs as identified in this Part. Where unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods: (a) a cash refund, (b) offset to a subsequent claim, or (c) credits to the amounts charged to individual Federal awards. Cash refunds, offsets, and credits may include at the option of the cognizant agency for indirect cost, earned or imputed interest from the date of expenditure and delinquent debt interest, if applicable, chargeable in accordance with applicable cognizant agency for indirect cost claims collection regulations.

[78 FR 78608, Dec. 26, 2013, as amended at 85 FR 49581, Aug. 13, 2020]

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This content is from the eCFR and is authoritative but unofficial.

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## Title 2 — Federal Financial Assistance

### Subtitle A — Office of Management and Budget Guidance for Federal Financial Assistance

#### Chapter II — Office of Management and Budget Guidance

#### Part 200 — Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

**Authority:** 31 U.S.C. 503; 31 U.S.C. 6101-6106; 31 U.S.C. 6307; 31 U.S.C. 7501-7507.

**Source:** 89 FR 30136, Apr. 22, 2024, unless otherwise noted.

### Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals

#### A. General

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.
2. Indirect costs include
  - (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and
  - (b) the costs of central governmental services distributed through the central service cost allocation plan (as described in Appendix V to this part) and not otherwise treated as direct costs.
3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled “A Guide for States and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government.” A copy of this brochure may be obtained from HHS Cost Allocation Services or at their website.
4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain state/local-wide central service costs, general administration of the non-Federal entity accounting and personnel services performed within the non-Federal entity, depreciation on buildings and equipment, the costs of operating and maintaining facilities.
5. This Appendix does not apply to state public assistance agencies. These agencies should refer instead to Appendix VI to this part.

## B. Definitions

1. **Base** means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each Federal award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.
2. **Base period** for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year, but in any event, must be so selected as to avoid inequities in the allocation of costs.
3. **Cognizant agency for indirect costs** means the Federal agency responsible for reviewing and approving the governmental unit's indirect cost rate(s) on the behalf of the Federal Government. The cognizant agency for indirect costs assignment is described in Appendix V, section F.
4. **Final rate** means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.
5. **Fixed rate** means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
6. **Indirect cost pool** is the accumulated costs that jointly benefit two or more programs or other cost objectives.
7. **Indirect cost rate** is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.
8. **Indirect cost rate proposal** means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.
9. **Predetermined rate** means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency for indirect costs. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.
10. **Provisional rate** means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.

## C. Allocation of Indirect Costs and Determination of Indirect Cost Rates

## 1. General

- a. Where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures as described in subsection 2.
- b. Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual Federal awards and other activities included in that function by means of an indirect cost rate(s).
- c. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in subsections 2, 3 and 4.

## 2. Simplified Method

- a. Where a non-Federal entity's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by
  - (1) classifying the non-Federal entity's total costs for the base period as either direct or indirect, and
  - (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a governmental unit's department or agency has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or agency is relatively small.
- b. Both the direct costs and the indirect costs must exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.
- c. The distribution base may be
  - (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, subcontracts in excess of \$50,000, and participant support costs),
  - (2) direct salaries and wages, or
  - (3) another base which results in an equitable distribution.

## 3. Multiple Allocation Base Method

- a. Where a non-Federal entity's indirect costs benefit its major functions in varying degrees, such costs must be accumulated into separate cost groupings. Each grouping must then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.
- b. The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.
- c. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation must be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal Government and the governmental unit. In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided that:
  - (1) it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and
  - (2) it is common to the benefitted functions during the base period.
- d. Except where a special indirect cost rate(s) is required in accordance with paragraph (C)(4) of this Appendix, the separate groupings of indirect costs allocated to each major function must be aggregated and treated as a common pool for that function. The costs in the common pool must then be distributed to individual Federal awards included in that function by use of a single indirect cost rate.
- e. The distribution base used in computing the indirect cost rate for each function may be
  - (1) total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, subawards in excess of \$50,000, and participant support costs),
  - (2) direct salaries and wages, or
  - (3) another base which results in an equitable distribution. An indirect cost rate should be developed for each separate indirect cost pool developed. The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool.

#### 4. Special Indirect Cost Rates

- a. In some instances, a single indirect cost rate for all activities of a non-Federal entity or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed,

the organizational arrangements used, or any combination thereof. When a particular Federal award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that Federal award. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that:

- (1) The rate differs significantly from the rate which would have been developed under paragraphs (C)(2) and (C)(3) of this Appendix, and
  - (2) the Federal award to which the rate would apply is material in amount.
- b. Where Federal statutes restrict the reimbursement of certain indirect costs, it may be necessary to develop a special rate for the affected Federal award. Where a “restricted rate” is required, the same procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.

## D. Submission and Documentation of Proposals

### 1. Submission of Indirect Cost Rate Proposals

- a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in § 200.334.
- b. A governmental department or agency (such as a state or local Department of Health, Department of Transportation, or Department of Housing) that receives more than \$35 million in direct Federal funding during its fiscal year must submit its indirect cost rate proposal to its cognizant agency for indirect costs.
- c. If a governmental department or agency (such as a state or local Department of Health, Department of Transportation, or Department of Housing) receives \$35 million or less in direct Federal funding during its fiscal year, it must develop an indirect cost proposal in accordance with the requirements of this part and maintain the proposal and related supporting documentation for audit. This established rate must be accepted by any Federal agency to which the governmental department or agency applies for funding. Federal agencies must not compel the governmental department or agency to accept the de minimis rate or some other rate established by the Federal agency. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by an awarding Federal agency. The Federal agency's review should be limited to ensuring the proposal is consistent with the principles of this part. Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs.
- c. Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant agency for indirect costs).

- d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant agency for indirect costs. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

## 2. Documentation of Proposals

The following must be included with each indirect cost proposal:

- a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency for indirect costs and is available to the funding agency.
- b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency for indirect costs in a subsequent proposal.
- c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.
- d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

## 3. Required certification.

Each indirect cost rate proposal must be accompanied by a certification in the following form:

### Certificate of Indirect Costs

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and the provisions of this Part. Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost proposal

- (2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: \_\_\_\_\_

Signature: \_\_\_\_\_

Name of Official: \_\_\_\_\_

Title: \_\_\_\_\_

Date of Execution: \_\_\_\_\_

## E. Negotiation and Approval of Rates

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal awarding agency has reason to believe that special operating factors affecting its Federal awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant agency for indirect costs.
2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency for indirect costs has reasonable assurance based on past experience and reliable projection of the non-Federal entity's costs, that the rate is not likely to exceed a rate based on actual costs. Long-term agreements utilizing predetermined rates extending over two or more years are encouraged, where appropriate.
3. The results of each negotiation must be formalized in a written agreement between the cognizant agency for indirect costs and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates must be made available to all Federal agencies for their use.
4. Refunds must be made if proposals are later found to have included costs that
  - (a) are unallowable
    - (i) as specified by law or regulation,
    - (ii) as identified in § 200.420, or
    - (iii) by the terms and conditions of Federal awards, or
  - (b) are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

## **F. Other Policies**

### **1. Fringe Benefit Rates**

If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual recipient agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the recipient agency level (i.e., the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should so advise the cognizant agency for indirect costs.

### **2. Billed Services Provided by the Recipient Agency**

In some cases, governmental departments or agencies (components of the governmental unit) provide and bill for services similar to those covered by central service cost allocation plans (e.g., computer centers). Where this occurs, the governmental departments or agencies (components of the governmental unit) should be guided by the requirements in Appendix V relating to the development of billing rates and documentation requirements, and should advise the cognizant agency for indirect costs of any billed services. Reviews of these types of services (including reviews of costing/billing methodology, profits or losses, etc.) will be made on a case-by-case basis as warranted by the circumstances involved.

### **3. Indirect Cost Allocations Not Using Rates**

In certain situations, governmental departments or agencies (components of the governmental unit), because of the nature of their Federal awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for indirect costs for review, negotiation, and approval.

### **4. Appeals**

If a dispute arises in a negotiation of an indirect cost rate (or other rate) between the cognizant agency for indirect costs and the governmental unit, the dispute must be resolved in accordance with the appeals procedures of the cognizant agency for indirect costs.

### **5. Collection of Unallowable Costs and Erroneous Payments**

Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded (including interest chargeable in accordance with applicable Federal cognizant agency for indirect costs regulations).

### **6. OMB Assistance**

To the extent that problems are encountered among the Federal agencies or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

*[78 FR 78608, Dec. 26, 2013, as amended at 79 FR 75889, Dec. 19, 2014; 85 FR 49581, Aug. 13, 2020; 89 FR 30207, Apr. 22, 2024]*

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**RE: breakdown for the Interfund Svc budget line**

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**From** Rhonda Moen <rmoen@capecoral.gov>

**Date** Thu 5/22/2025 1:32 PM

**To** Annette Carrasquillo <annettec@laidesignassoc.com>; Crystal Feast <cfeast@capecoral.gov>; Lynn Boldissar <lynn@cccia.org>

**Cc** Matt Grambow <mgrambow@capecoral.gov>; Brett Limbaugh <blimbaugh@capecoral.gov>; brian@premiercape.com <brian@premiercape.com>; Julio Barina <jbarina@markham-norton.com>; Justin Einstein <jeinstein@teamaubuchon.com>; Michael Lilly <mlilly@holidaybuilders.com>; nancy@capecoralbuilder.com <nancy@capecoralbuilder.com>

An additional bit of guidance for you: If you look at page 437, it will explain the detail of what the building fund is paying for and then on pages 440-441, it explains how the building fund's portion of each of those items was determined.

If it would be helpful, I would be happy to meet with you one-on-one.

Please let me know if I can help you any further.



**Rhonda Moen, CPA, CPFO, Controller**

FINANCIAL SERVICES DEPARTMENT  
1015 Cultural Park Boulevard Cape Coral, Florida 33990  
Tel: 4435 (574-0435)  
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---

**From:** Annette Carrasquillo <annettec@laidesignassoc.com>

**Sent:** Thursday, May 22, 2025 12:47 PM

**To:** Rhonda Moen <rmoen@capecoral.gov>; Crystal Feast <cfeast@capecoral.gov>; Lynn Boldissar <lynn@cccia.org>

**Cc:** Matt Grambow <mgrambow@capecoral.gov>; Brett Limbaugh <blimbaugh@capecoral.gov>; brian@premiercape.com; Julio Barina <jbarina@markham-norton.com>; Justin Einstein <jeinstein@teamaubuchon.com>; Michael Lilly <mlilly@holidaybuilders.com>; nancy@capecoralbuilder.com

**Subject:** RE: breakdown for the Interfund Svc budget line

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**This Message Is From an External Sender**

This message came from outside your organization.

Thank you Rhonda. I have looked at this before and I do not believe it provides the detail we are looking for, but we will review it again.

*Regards,*



**LAI Construction Management, Inc.**

**Annette M. Carrasquillo**

Chief Financial Officer

Human Resource Manager

o: 239-405-6888

c: 239-691-2618

e: [annettec@laidesignassoc.com](mailto:annettec@laidesignassoc.com)

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**From:** Rhonda Moen <[rmoen@capecoral.gov](mailto:rmoen@capecoral.gov)>

**Sent:** Thursday, May 22, 2025 12:17 PM

**To:** Annette Carrasquillo <[annettec@laidesignassoc.com](mailto:annettec@laidesignassoc.com)>; Crystal Feast <[cfeast@capecoral.gov](mailto:cfeast@capecoral.gov)>; Lynn Boldissar <[lynn@cccia.org](mailto:lynn@cccia.org)>

**Cc:** Matt Grambow <[mgrambow@capecoral.gov](mailto:mgrambow@capecoral.gov)>; Brett Limbaugh <[blimbaugh@capecoral.gov](mailto:blimbaugh@capecoral.gov)>;

[brian@premiercape.com](mailto:brian@premiercape.com); Julio Barina <[jbarina@markham-norton.com](mailto:jbarina@markham-norton.com)>; Justin Einstein

<[jeinstein@teamaubuchon.com](mailto:jeinstein@teamaubuchon.com)>; Michael Lilly <[mlilly@holidaybuilders.com](mailto:mlilly@holidaybuilders.com)>; [nancy@capecoralbuilder.com](mailto:nancy@capecoralbuilder.com)

**Subject:** RE: breakdown for the Interfund Svc budget line

Annette,

Thank you for clarifying your request. The information you are looking for can be found in the city's annual budget documents found with the following link:

[https://www.capecoral.gov/departments/financial\\_services/office\\_of\\_management\\_and\\_budget.php](https://www.capecoral.gov/departments/financial_services/office_of_management_and_budget.php)

In looking at the 2025 adopted budget, this information can be found on pages 434-441. This opens with an introduction explaining the full cost allocation purpose and methodology. This is followed by very detailed explanation of what is included in the full cost allocation and the basis used to allocate costs to the individual funds.

Once you have had an opportunity to review this, please reach out if you have further questions.



**Rhonda Moen, CPA, CPFO, Controller**

FINANCIAL SERVICES DEPARTMENT

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**From:** Annette Carrasquillo <[annettec@laidesignassoc.com](mailto:annettec@laidesignassoc.com)>  
**Sent:** Thursday, May 22, 2025 8:39 AM  
**To:** Crystal Feast <[cfeast@capecoral.gov](mailto:cfeast@capecoral.gov)>; Lynn Boldissar <[lynn@cccia.org](mailto:lynn@cccia.org)>  
**Cc:** Matt Grambow <[mgrambow@capecoral.gov](mailto:mgrambow@capecoral.gov)>; Brett Limbaugh <[blimbaugh@capecoral.gov](mailto:blimbaugh@capecoral.gov)>; [brian@premiercape.com](mailto:brian@premiercape.com); Julio Barina <[jbarina@markham-norton.com](mailto:jbarina@markham-norton.com)>; Justin Einstein <[jeinstein@teamaubuchon.com](mailto:jeinstein@teamaubuchon.com)>; Michael Lilly <[mlilly@holidaybuilders.com](mailto:mlilly@holidaybuilders.com)>; [nancy@capecoralbuilder.com](mailto:nancy@capecoralbuilder.com); Rhonda Moen <[rmoen@capecoral.gov](mailto:rmoen@capecoral.gov)>  
**Subject:** RE: breakdown for the Interfund Svc budget line

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Hi Crystal,

To clarify our request, we have been asking for a complete breakdown of what is being charged to the building fund? We have the cost but want to get the detail as to what we are paying for exactly, broken down by items (i.e., utilities, city attorney, city manager, etc.) and how those allocations are determined.

This is something that our BIOC has requested now for a few years and the CAFR does not provide this detail.

Thank you.

*Regards,*



**LAI Construction Management, Inc.**  
**Annette M. Carrasquillo**  
Chief Financial Officer  
Human Resource Manager

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**From:** Crystal Feast <[cfeast@capecoral.gov](mailto:cfeast@capecoral.gov)>  
**Sent:** Thursday, May 22, 2025 8:29 AM  
**To:** Lynn Boldissar <[lynn@cccia.org](mailto:lynn@cccia.org)>  
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**Subject:** RE: breakdown for the Interfund Svc budget line

Good afternoon,

Please find the download from the financial software, which provides the monthly allocations recorded to the two line items requested. These charges represent the Building Fund's share of the full cost allocation for central services provided by the General Fund. Please let me know if there is anything else you need.



**Crystal S. Feast, MBA, Interim Financial Services Director**

FINANCIAL SERVICES DEPARTMENT  
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**From:** Lynn Boldissar <[lynn@cccia.org](mailto:lynn@cccia.org)>  
**Sent:** Tuesday, May 20, 2025 8:43 AM  
**To:** Crystal Feast <[cfeast@capecoral.gov](mailto:cfeast@capecoral.gov)>  
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**Subject:** breakdown for the Interfund Svc budget line

Crystal,  
Can you provide a complete breakdown of expenses charged in Interfund Svc budget line?

Thank you,



**Lynn Boldissar**  
**Executive Director**

**2023 CCCIA President's Award Winner**

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