



The City of Miami Cost Allocation Plan is a governmental accounting report that documents the value of indirect costs provided by the City's central service departments to other City departments and government agencies. Indirect costs are costs:

- a) "incurred for a common or joint purpose benefiting more than one cost objective, and
- b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved."¹

The City of Miami Cost Allocation Plan complies with Office of Management and Budget (OMB) Circular A-87², Cost Principle for State, Local and Indian Tribal Governments, which establishes the principles and standards for determining both direct and indirect costs applicable to Federal awards to government units. Circular A-87 is a directive to the heads of Federal agencies instructing them concerning the costs principles to be applied in cost-based awards to government units. When the City prepares a cost allocation plan in conformance with Circular A-87, Federal agencies must accept the cost allocation plan as documentation of indirect costs, unless specific federal legislation exists to the contrary. Moreover, when the City of Miami acts as a pass-through agent for Federal awards, federal agencies must also accept the cost allocation plan as documentation of the City's indirect costs.

What is a Cost Allocation Plan?

A cost allocation plan is an important management tool, which goes beyond budget and year-end accounting documents to determine the actual cost of providing services to the public. For example, the City's Fire Rescue Department expends City resources (tax dollars) to complete the services it's required to provide. This Department often benefits from other City departments, such as the Finance Department, when it requests a vendor be paid for goods or services provided to the Fire Rescue Department. The cost of processing the payment to the vendor is not a budgeted cost of the Fire Rescue Department; rather, it's a cost of the Finance Department. The cost allocation plan documents the value of the services provided to the Fire Rescue Department. When the entire value of all central services are accumulated and added to the department's year-end expenditures, the actual cost of providing the service is the result³.

A cost allocation plan is composed of five primary components:

- 1. Central Service Departments
- 2. Receiving Departments/Agencies
- 3. Expenditures of Central Service Agencies
- 4. Functions or activities carried out by Central Service Agencies
- 5. Means of allocating the functions or activities of Central Service Agencies

For the purpose of cost allocation, a central service department provides centralized services to other government agencies. These departments carry out services that benefit other City departments and/or governmental agencies. Receiving departments are those City departments/government agencies that do not provide central services but only deliver services to the public.



Expenditures of central service departments are analyzed to ensure expenditures are allowable in accordance with federal standards and to identify expenses that may benefit another department/agency disproportionately to others. After analyzing the expenditures, they are distributed into cost pools called functions or activities.

One or more function or activity is identified for each central service department. Examples of functions are payroll services, administration coordination, banking services, building operations, and legal services. The purpose of identifying the various activities within a unit of government is to allow for different allocation bases to be used to distribute the costs of providing the function.

An allocation base is a reasonable and measurable means of distributing costs to those departments/agencies that benefit from the service. Different allocation bases are required to recognize that the value of providing a service is proportionate to the service received. It is reasonable to allocate payroll services based upon the number of payroll checks issued. It is most likely not reasonable to allocate payroll based upon square footage of occupied space. The allocation base must reflect the service provided and those who benefit from the service.

After all of the above is completed, the information is entered into a cost allocation computer, which performs mathematical functions of allocating indirect costs from central service departments to receiving departments/agencies. The result documents indirect costs eligible for recovery from certain Federal programs and provides management information. The indirect cost rate is the maximum rate the City of Miami can recover during the fiscal year.

FY 2009 Indirect Cost Rate

The FY'09 budget includes the various indirect cost rates City receiving departments should be able to apply to applicable government awards. The central service indirect cost amount is based on anticipated costs related to all City central services as determined by its applicable allocation base. In FY'09, the composite indirect cost rate based on actual costs in FY'05 is 49.46%. This rate is expected to be updated in FY'09 based on FY'08 actual costs.

¹Office of Management and Budget (OMB) Circular A-87 (Revised 5/10/04), Attachment A, F.1.

²Office of Management and Budget (OMB) relocated Circular A-87, "Cost Principles for State, Local and Indian Tribe Governments," to Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225. Some federal agencies are now referring to A-87 as "2 CFR Part 225." Codifying the document did not change the substance of the document.

³There could be additional costs of providing the service that are not allocated in the cost allocation plan because the costs do not meet federal standards. These additional costs can only be identified if a cost allocation plan is prepared in accordance to Generally Accepted Accounting Standards, not standards identified in OMB Circular A-87.



Receiving Department (All Funds) ²	Central Service Indirect Cost	Indirect Cost Rate Base ¹	FY 2009 Indirect Cost Rate	FY 2002 Indirect Cost Rate
Fire Rescue	14,950,765	47,414,521	31.53%	21.40%
Police	37,875,236	82,541,865	45.89%	25.84%
Public Works	4,174,706	4,219,321	98.94%	121.98%
Solid Waste	6,228,433	9,019,957	69.05%	93.57%
Building	3,425,771	5,007,851	68.41%	52.25%
Parks and Recreation	8,522,465	7,614,524	111.92%	26.63%
NET Offices	1,995,150	2,405,816	82.93%	65.24%
Community Development	2,797,801	3,478,644	80.43%	62.66%
Composite Rate	79,970,327	161,702,499	49.46%	41.98%

- 1. Indirect Cost Rate Base equals Total Salary and Wages w/No Benefits
- 2. Includes General Fund and Special Revenue Fund costs, where applicable.

Source: City of Miami Citywide Cost Allocation Plan, Public Resource Management Group



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