



*No Hidden Fees, Just Smooth Seas*

# NAVIGATING INDIRECT COST ALLOCATIONS

GFOAT Spring 2025 Conference (April 2025)



# WELCOME ABOARD!

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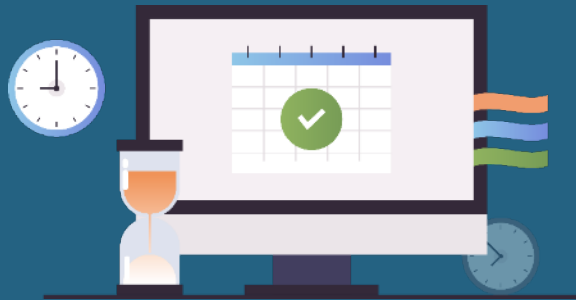


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## TODAY'S TOPICS



What is an Indirect Cost Allocation Plan (ICAP)?



When should I have one or update my current plan?



Why are indirect cost allocation plans essential?



What types of cost allocation methods are available?



What are the key considerations and challenges?

# UNDERSTANDING INDIRECT COST ALLOCATION PLANS

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## **GFOA Definition of Indirect Costs:**

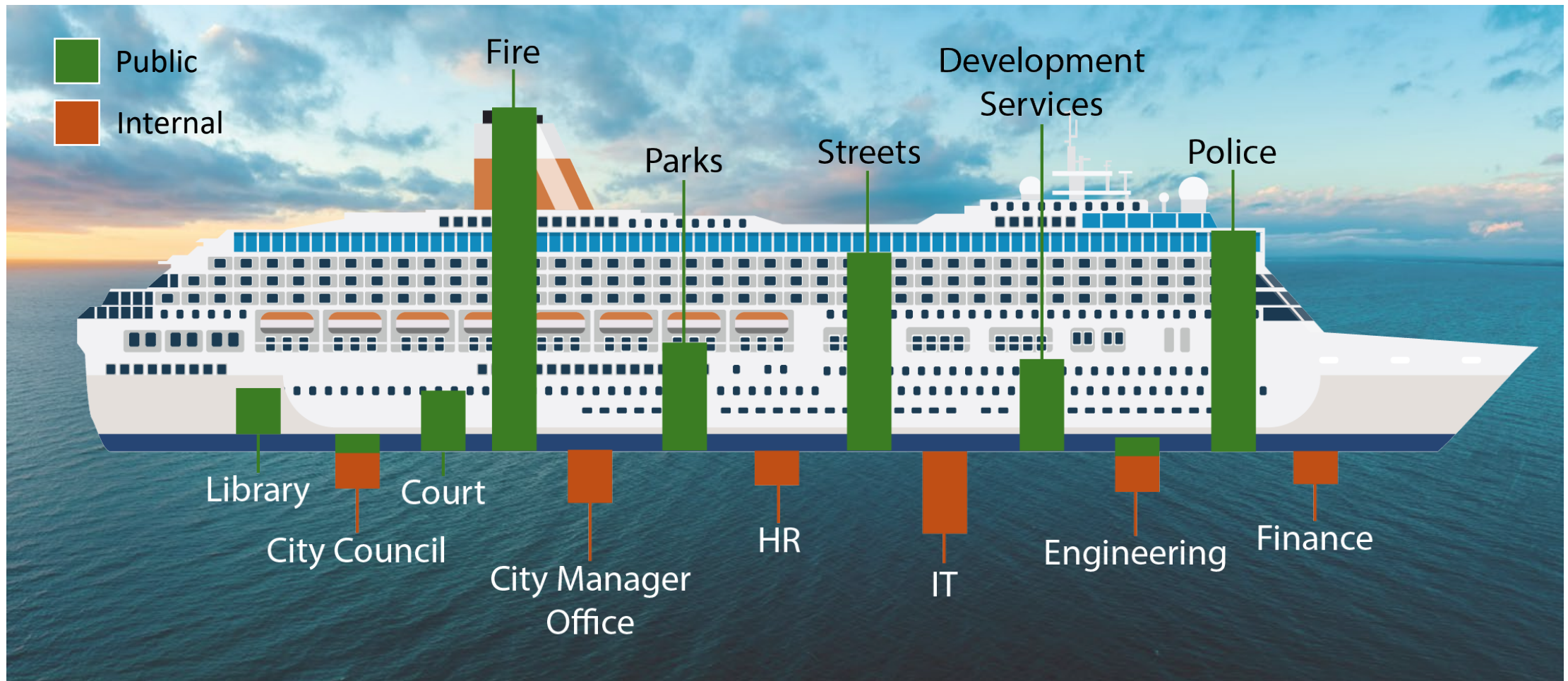
"Indirect costs include shared administrative expenses where a department or agency incurs costs for support that it provides to other departments/agencies (e.g., legal, finance, human resources, facilities, maintenance, technology)"

## **GFOA Definition of Indirect Cost Allocation:**

"Indirect cost allocation is an accounting function by which estimates are made to distribute indirect costs to programs or functions, in order to approximate their full cost"



# THE HULL SUPPORTS THE WHOLE SHIP TO KEEP IT AFLOAT!



# PURPOSE AND BENEFITS OF AN INDIRECT COST ALLOCATION PLAN



- 01 Measure the full cost of government service
- 02 Establish Fees and Charges
- 03 Charge back costs of internal services to departments/agencies
- 04 Full utilization of restricted funds
- 05 Request/justify reimbursement from federal and state agencies

# TRANSFERS

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## Cost Reimbursement

General and Administrative Indirect Costs

Is the General Fund paying for its use of the utility?

## Payment in Lieu of Tax (PILOT)

Texas Water Code 13.192  
Caution regarding PILOT to school or hospital district

## Standard Franchise/ "Street Rental"

Right-of-way management

## Explanations to the Council and Residents

Increased State scrutiny, especially Electricity

## QUESTION



### What best describes the way Internal Services or General Fund Transfers are set each year?

- A. Based on cost allocation study updated annually
- B. Used the same number (maybe plus inflation) for years
- C. Plugs any gaps during budget
- D. Not sure

# WHO SHOULD PREPARE THE INDIRECT COST ALLOCATION PLAN?

## Internal Resources



Knowledge of the organization and activities

Readily available cost information



Time

External knowledge on plan preparation

Credibility with Directors

## External Services



Timing

Expertise

Independence

Federal/State compliance



Requires external provider selection

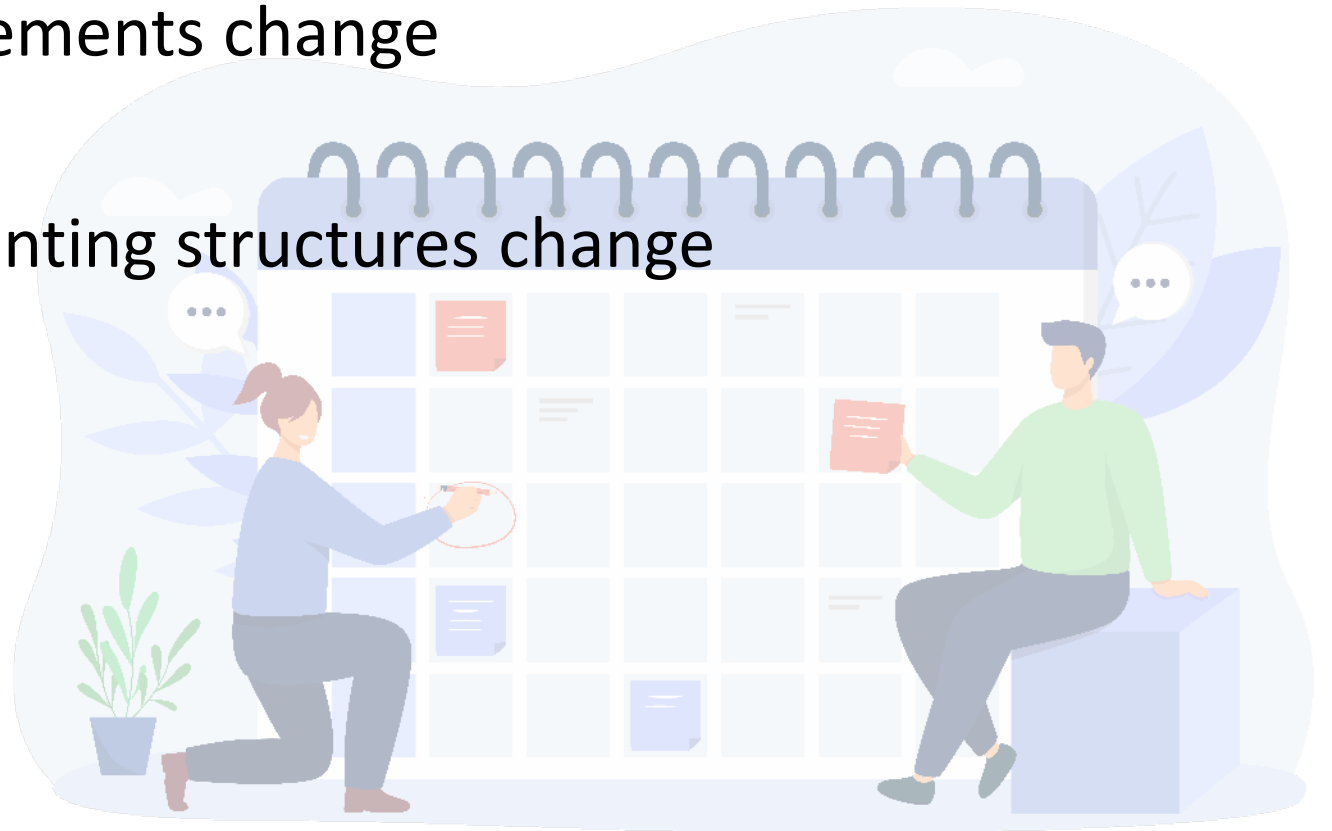
Cost

Still requires staff's time

# FREQUENCY OF PERFORMING A STUDY

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- Annual evaluation
- When Federal/State requirements change
- Dependent on purpose
- When organizational/accounting structures change
- Significant changes in cost



# KEY STAKEHOLDERS INVOLVED IN COST ALLOCATION

- Management
- Line-level employees
- Departmental employees responsible for record-keeping/  
data management
- Policymakers?



# UNDERSTANDING EXPENSES

- Must Identify Direct and Indirect Costs
  - Should be consistent
- Know your major cost drivers/indices
  - Personnel
  - Contracts
  - Fixed vs. Variable Costs
- Visit with operations and management



# CHOOSING THE RIGHT COURSE: ALLOCATION METHODS



## Activity-based Costing



Pros: Accuracy, better decision-making, enhanced cost control, performance measurement, resource optimization/efficiency



Cons: Complexity, cost, data requirements, internal resistance, overly burdensome/unnecessary

## Proportional Allocation



Pros: Equity, simple, transparent, flexible



Cons: Data requirements, potential for inaccuracy/oversimplification

## Step-Down (Sequential) Method



Pros: Recognizes interdependencies, systematic approach

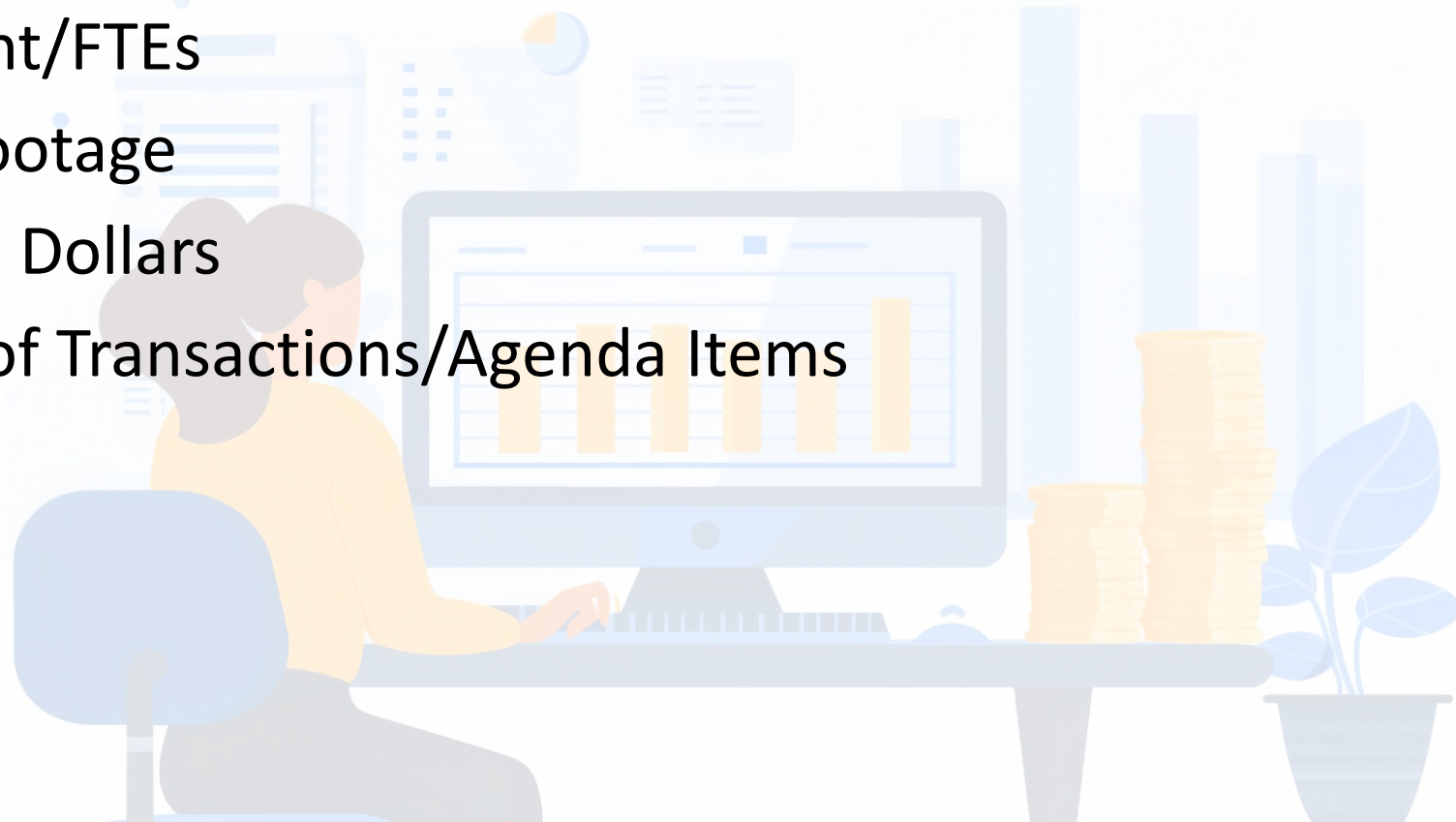


Cons: Complexity, dependent on ranking

# COMMON ALLOCATION FACTORS

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- Personnel Effort
- Headcount/FTEs
- Square Footage
- Budgeted Dollars
- Number of Transactions/Agenda Items



# STEP DOWN EXAMPLES

## Single Step-Down Allocation Method - Sequential

Dep	Dept Name	FY20	5111		5112		5113		5114		5131a		5131b		5131c		5131d		5131e		5131f		5132		5153		5154		5155		Total Aft Indirect	
			City Council	City Manager	City Secretary	City Attorney	Count of Line Items	Count of Transactions	Count of Purchase Order	Budgeted Dollars	Count of Paychecks	100% Utility Billing	Square Footage	Full-Time Equivalents	Count of Purchase Order	Count of Computers																
5111	CITY COUNCIL	114,462	(114,462)																													
5112	CITY MANAGER	883,328		(883,578)																												
5113	CITY SECRETARY	361,422	8,542	3,917	(379,861)																											
5114	CITY ATTORNEY	155,000				(155,000)																										
5131a	FINANCE Budget	156,363	10,250	5,667	40,701	16,607	(229,535)																									
5131b	FINANCE Accounting	337,244	1,708	8,500	6,784	2,768	2,167	(353,171)																								
5131c	FINANCE Accounts Payable	210,048		5,667			1,379	1,424	(218,518)																							
5131d	FINANCE Investments	29,173	1,708	2,833	6,784	2,768	197	712	1,730	(45,905)																						
5131e	FINANCE Payroll	156,363		2,833			385	712	3,195																							
5131f	FINANCE Utility Billing	277,730					1,839																									
5132	FACILITIES	737,142		5,667			6,854	11,020	6,332	464																						
5153	HUMAN RESOURCES	430,119		11,333			6,282	4,638	3,137	270																						
5154	PURCHASING	162,787	5,125	5,667	20,351	8,304	4,283	799	2,814	102																						
5155	INFORMATION TECHNOLOGY	1,248,123		11,333			6,568	5,675	3,166	785																						
5152	MUNICIPAL COURT	458,048	3,417	11,333	13,567	5,536	5,140	2,709	2,081	288																						
5211	POLICE	8,518,304	1,708	201,166	6,784	2,768	10,851	50,675	22,368	5,357																						
5231	FIRE	8,141,806	8,542	154,416	33,918	13,839	12,273	51,841	20,404	15,287																						
5251	ANIMAL CONTROL	582,434	3,417	19,833	13,567	5,536	8,853	8,082	264	366																						

Creates a stair step of ordered allocation steps

## Double Step-Down Allocation Method – Reciprocal in Step 1 and Non-Reciprocal for Service Providers in Step 2

Dept Div	Department Division Name	FY 2024 Budget - W/ Exclusions	Indirect Cost Allocation Steps				Total Indirect Cost Allocations		Net Budget After Step 2	Difference in Budget
			Step 1 Allocations To Departments	Step 1 Allocations From Department s	Step 2 Allocations To Departments	Step 2 Allocations From Department s	Total Allocations To Departments	Total Allocations From Departments		
00180	NON-DEPARTMENTAL-COMBINED SERVICES	\$ 8,392,267	\$ (575,222)	\$ -	\$ -	\$ -	\$ (575,222)	\$ -	7,817,045	\$ (575,222)
01100	MAYOR & COUNCIL-ADMINISTRATION	585,836	(585,836)	111,774	(111,774)	-	(697,610)	111,774	-	(585,836)
02100	CITY MANAGEMENT-ADMINISTRATION	1,411,299	(1,411,299)	188,918	(188,918)	-	(1,600,217)	188,918	-	(1,411,299)
02110	CITY MANAGEMENT-CITY SECRETARY	466,082	(466,082)	90,041	(90,041)	-	(556,123)	90,041	-	(466,082)
02120	CITY MANAGEMENT-LEGAL SERVICES	445,000	(445,000)	65,578	(65,578)	-	(510,578)	65,578	-	(445,000)
02140	CITY MANAGEMENT-COMMUNITY INFORMATION SERVICE	784,757	(784,757)	120,913	(120,913)	-	(663,844)	120,913	-	(784,757)
03100	PUBLIC WORKS-ADMINISTRATION	1,856,471	(1,856,471)	637,783	(637,783)	-	(2,494,254)	637,783	-	(1,856,471)
03310	PUBLIC WORKS-FLEET MAINTENANCE	1,576,412	(1,576,412)	579,676	(579,676)	-	(2,156,088)	579,676	-	(1,576,412)
03320	PUBLIC WORKS-FACILITIES MANAGEMENT	2,655,139	(2,655,139)	521,610	(521,610)	-	(3,176,749)	521,610	-	(2,655,139)
03330	PUBLIC WORKS-STREETS	1,129,819	-	612,752	-	233,948	-	846,699	1,976,518	846,699
03340	PUBLIC WORKS-TRAFFIC CONTROLS	1,431,424	-	486,465	-	170,061	-	656,526	2,087,950	656,526
04100	FIRE & LIFE SERVICES-ADMINISTRATION	16,549,194	-	2,179,190	-	437,366	-	2,616,555	19,165,749	2,616,555
04225	FIRE & LIFE SERVICES-EMERGENCY MANAGEMENT	445,378	-	144,494	-	32,669	-	177,162	622,540	177,162
04240	FIRE & LIFE SERVICES-LIFE SAFETY PARK	755,642	-	519,076	-	79,264	-	598,340	1,353,982	598,340

Service Providers make and receive allocations in Step 1

Service Providers only make and do not receive allocations in Step 2

# NAVIGATING CHALLENGES AND ROUGH WATERS

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- Common pitfalls in cost allocation:
  - Availability of data/information
  - Ability to accurately quantify
  - Unnecessary complexity
  - Overlooking potential regulatory requirements
  - Ineffective communication within the organization
  - Failure to regularly update
- If needed, ensure compliance with federal/state regulations:
  - 2 CFR Part 200 requirements



## 2 CFR PART 200 REQUIREMENTS

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- Federal regulations outlining allowable and reasonable costs for federal grants, which are pertinent to single audit recipients
- Allowable indirect costs are:
  - The 15% de minimus rate OR
  - A Negotiated Indirect Cost Rate based on actual expenditures
    - Some expense types are ineligible

# BEST PRACTICES FOR A STRONG ICAP

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Regular reviews and plan updates



Documentation and preparedness for regular updating



Leverage software and technology for accuracy

**THANK YOU  
&  
HAPPY SAILING!**



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# ADDITIONAL RESOURCES

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## **GFOA Best Practices**

<https://www.gfoa.org/materials/indirect-cost-allocation>

<https://www.gfoa.org/materials/measuring-the-full-cost-of-government-service>

## **Code of Federal Regulations**

[2 CFR Part 200 -- Uniform Administrative Requirements](#)