



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER

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CFO DIRECTIVE
No. 2018-101-041

SUBJECT: Cost Allocation
ISSUANCE DATE: December 21, 2018
EFFECTIVE DATE: December 21, 2018

1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 117.4s (2), as amended by Public Act 182 of 2014, states the chief financial officer shall supervise all financial and budget activities of the city and coordinate the city's activities relating to budgets, financial plans, financial management, financial reporting, financial analysis, and compliance with the budget and financial plan of the city.
- 1.2. State of Michigan Public Act 2 of 1968, as amended, provides for the formulation and establishment of uniform charts of accounts and reports in local units of government and provides for annual financial reports from local units of government.
- 1.3. The Federal Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (2 CFR Part 200) establish uniform requirements for federal awards administered by non-federal entities, including principles for determining costs for federal awards carried out through grants, cost reimbursement contracts and other agreements with state and local governments.

2. OBJECTIVES

- 2.1. To provide for predictable, equitable, efficient and appropriate allocation of the City's central service function costs to the applicable funds that benefit from those services.
- 2.2. To ensure the City's cost allocation practices comply with all applicable laws and regulations.
- 2.3. To ensure the City's cost allocation plan and City's budget are synchronized.

3. PURPOSE

- 3.1. To establish the City's cost allocation policy.

4. SCOPE

- 4.1. This Directive relates to all General Fund direct and indirect costs incurred by the City's central service departments, divisions and agencies to the benefit of other City departments, divisions and agencies.

5. RESPONSIBILITIES

- 5.1. The Deputy CFO-Controller/Chief Accounting Officer shall be responsible for administration and oversight of this Directive.

- 5.2. The Deputy CFO – Budget Director shall ensure the Cost Allocation Plan is incorporated into the City’s Annual Budget and uploaded into Oracle Cloud.

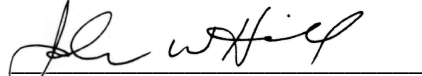
6. POLICY

- 6.1. The City shall establish and maintain a consistent methodology for allocating the costs of the City’s central service functions and activities that benefit or are used by City departments, divisions, and agencies. Such methodology shall comply with all applicable laws and regulations. Direct billings should not be included in the central services cost allocation.
- 6.2. Each fiscal year, the Office of the Controller, in coordination with the Office of Budget, shall prepare a Cost Allocation Plan document based on actuals for the preceding 1 or 2 years or budgeted expenses prior to the start of the upcoming fiscal year. Then, after year end, the City will prepare a reconciliation of the cost allocation plan based on actual expenses and will “true up” all allocated costs on this basis. The City of Detroit’s Cost Allocation Plan complies with 2 CFR, Part 225 (formerly the Office of Management and Budget Circular A-87, Cost Principles 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. As defined in Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A Chapter II, Part 225, the 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.
- 6.3. The Office of Departmental Financial Services shall be responsible for the billing and payment of cost allocation charges each fiscal year in accordance with the approved cost allocation plan.
- 6.4. The City’s cost allocation plan must be certified by the Chief Accounting Officer to acknowledge that the costs included in the proposed plan are (1) allowable in accordance with Federal Cost Regulations (2 CFR Part 225), that unallowable costs have been adjusted for; and (2) all costs are properly allocated to federal awards on the basis of a beneficial or casual relation between the expenses incurred and the related agreements, indirect costs have not been claimed as direct costs, and similar types of costs have been accounted for consistently.
- 6.5. The Federal Government is to be notified by the Office of the Controller/Chief Accounting Officer, or their designee, of any accounting changes that would affect any of the predetermined indirect or direct costs rates established by the Cost Allocation Plan.
- 6.6. Central Service Departments shall prepare all necessary documentation that is required to allocate the indirect and direct costs to their respective agencies. This includes documentation to establish central service functions, allocation methodology and basis, as well as cost identification and classification. The Central Service Department shall establish a primary contact to communicate with the Office of the Controller to facilitate timely completion of the cost allocation plan.
- 6.7. In no case shall costs charged as direct costs to programs be included as indirect costs.

7. DEFINITIONS

- 7.1. *Central Service /Agency/Cost Center*: a City Agency or Cost Center which exists primarily to provide services to support other City departments/agencies. A listing of the current central services and their corresponding cost centers shall be identified in the procedures implementing this Directive.
- 7.2. *Central Service Indirect Cost Rates*: the Central Service Cost Allocation Plan identifies and distributes the cost of services provided by city support organizations to those city departments awarded federal grants or state contracts. A list of these divisions and/or similar departments will be approved and distributed by the Controller/Chief Accounting Officer.
- 7.3. *Cost Allocation Plan*: an accounting report that calculates and distributes agency-wide indirect cost to departments (e.g., Police, Fire) and funds that receive a service from other departments (e.g., Payroll, AP).
- 7.4. *Direct costs*: an expense that can be traced directly to (or identified with) a specific cost center or cost object such as a department, process or product.
- 7.5. *Indirect costs*: an expense that has been incurred for common or shared services City-wide. Examples include Accounts Payable and Payroll.
- 7.6. *Receiving/Grantee Department/Agency*: a City department/agency which receives support services from the central service departments/agencies that is not a central service department itself.

APPROVED



John W. Hill

Chief Financial Officer, City of Detroit