

To: Residents, Board of Trustees

From: Jessica Flintoft, Scio Township Clerk

Date: February 27, 2024

Re: Cost Allocation Plan: Methodology and Implementation

Purpose

Scio Township provides diverse services to our community: protection of open space, water and sewer services, tax collection, fire services, parks maintenance, elections administration, to name a few. Each service has both a direct cost as well as an indirect cost. Indirect costs are real costs of providing the service, such as the cost of information technology, facilities and grounds maintenance, and the costs of cash receipting, accounting, and auditing. Some of these indirect costs are covered by the tax collection 1% fee assessed under MCL211 .44(3), while most are borne by the General Fund year after year. The purpose of the Cost Allocation Plan is to define the indirect costs, set a legally justifiable basis for allocation of those costs, and use a standard method for budgeting these costs, and recovering these costs throughout the year.¹

Funds to which Cost Allocation Plan is Applied

The Cost Allocation Plan is applied to non-General Fund active funds, to recoup indirect costs incurred by the General Fund (Fund 101) in the course of carrying out the activities of another Fund.

The Cost Allocation Plan is not applied to Fiduciary Funds, e.g., Tax Collection Fund, OPEB Fund. The Cost Allocation Plan is applied to all Governmental Funds and Proprietary Funds of the Township, with the following exceptions:

- American Rescue Plan Act Fund (Fund 285) or Opioid Settlement Fund (Fund 284) because these funds were required to be established to record certain special revenue sources, and all activity is transferred out to other funds.
- Economic Development Corporation Fund (Fund 244) because it is an inactive subcomponent unit.
- The Cost Allocation Plan is applied to 7 of the Township's Road Special Assessment Funds, provided authorizing resolution establishing the special assessment permits collection of administrative costs related to the special assessment, and that sufficient funds are available. For FYE25, the Cost Allocation Plan is proposed for application to the following 7 Road Special Assessment Funds: Funds 807, 808, 810, 813, 814, 815, and 816. The East Delhi Bridge Maintenance Fund (Fund 403) is excluded because the Board implemented a Deficit Elimination Plan for FYE23 that relies on the General Fund. The Township Road Improvement Revolving Fund (Fund 446) is excluded because it is inactive, and internal review is underway to determine

¹ For background on the development of the Cost Allocation Plan for FYE22 forward, and how indirect costs were apportioned prior to implementation of the Cost Allocation Plan, see February 27, 2023 Memo on [Background to the Indirect Cost Allocation Plan](#).

proper potential uses of the existing fund balance². The Townshipwide Road SAD (Fund 806) is now inactive and will be closed by end of this fiscal year because this SAD's activities are done.

The indirect costs incurred by these excepted funds are included in the calculation of the Cost Allocation Plan, but these indirect costs are not recouped, and continue to be paid for by the General Fund.

Newly for FYE25, the Cost Allocation Plan is proposed for application to the Township's Downtown Development Authority (Fund 494). The DDA is an active subcomponent unit. Historically, the DDA has paid the Township a flat fee for the indirect costs incurred in providing administrative, financial, and auditing services for the DDA. The amount is far below actual estimated costs to the Township, resulting in loss to the General Fund. Therefore, proposed in FYE25 budget is the actual estimated costs to the Township. I recommend the Township enter into a written agreement with the DDA for the payment of this annual fee for the administrative and financial support provided by the Township to the DDA.

Indirect Costs included in Cost Allocation Plan

Only five indirect costs incurred with General Fund monies are included in the Cost Allocation Plan:

- 101-191 Accounting: accounting services provided by Finance staff and consultants, including budgeted expenditures for Finance Director salary and benefits, Finance Manager salary and benefits, Finance Assistant salary and benefits, and contracted financial consultants.
- 101-191 Auditing: auditing services provided by Township auditor for annual audit. Costs of single audit, if required, would be borne by Fund which had activity spurring requirement of a single audit.
- 101-228 Information Technology: salary and benefits of IT Director, and all operating costs of managing IT for the Township. Equipment costs are borne by Fund requiring the equipment.
- 101-253 Treasurer: salary and benefits of Deputy Treasurer and Treasurer's Assistant; excludes salary and benefits of elected Treasurer. Level of effort (calculated at 30%) related to collection of monies that are not covered by the 1% Administrative Fee—mainly the receipting of special assessments, and water and sewer payments.
- 101-265 Buildings and Grounds: salary and benefits of Facilities Manager, and all operating, maintenance, and capital improvement costs related to Township Hall.

In future years, additional areas of indirect costs that could appropriately be considered for inclusion include:

- 101-172 Administrator: costs related to having a position such as Manager.
- 101-270 Human Resources: costs related to operating a human resources department.

² Once internal research is complete, I will propose the Township take appropriate steps to use the Revolving Fund, in accordance with the Uniform Chart of Accounts which the Township implemented on July 18, 2023.

Which Funds incur which Indirect Costs

The following are activities for which Indirect costs are incurred:

- Accounting: processing accounts payable or payroll,
- Auditing: auditing and review by Township's auditor,
- Information Technology: information technology operating costs required to support network users
- Building and Grounds: building and grounds costs for those funds which have staff or equipment regularly sited in Township Hall, or
- Treasury: treasury receipting costs when receipts are processed for non-millage fund activities (such as water and sewer payments or special assessment payments).

The following Funds are included in the Cost Allocation Plan, and incur the following indirect costs.

FUND	INDIRECT COSTS INCURRED BY THE GENERAL FUND	RECOVERED THROUGH CAP?
Fire (Fire Operating Fund 206 and Fire Capital Fund 431)	Accounting, Auditing, Information Technology	Yes
Parks and Pathways (Fund 208)	Accounting, Auditing, Information Technology, Building and Grounds	Yes
Bus (Fund 230)	Accounting, Auditing	Yes
Tree Mitigation (Fund 232)	Accounting, Auditing	Yes
Open Space (Fund 233)	Accounting, Auditing, Information Technology	Yes
Economic Development Corporation (Fund 244)	Auditing	No
Opioid Settlement (Fund 284)	Auditing	No
American Rescue Plan Act (Fund 285)	Auditing	No
3 Road or Bridge Special Assessment Funds (Fund 403, 446, 806)	Accounting, Auditing, Treasury	No
7 Road Special Assessment Funds (Funds 807, 808, 810, 813, 814, 815, 816)	Accounting, Auditing, Treasury	Yes

Public Improvement (Fund 445)	Accounting, Auditing	Yes
Downtown Development Authority (Fund 494)	Accounting, Auditing, Information Technology	Yes
Sewer (Fund 590)	Accounting, Auditing, Information Technology, Treasury, Building and Grounds	Yes
Water (Fund 591)	Accounting, Auditing, Information Technology, Treasury, Building and Grounds	Yes

Method of Allocating Indirect Costs across Funds

The method of allocation has remained largely the same since implementation of the Cost Allocation Plan beginning in FYE22. The Plan was originally created by The WoodHill Group for FYE22, was verified by Maner Costerisan for FYE24, and has been reviewed by Plante Moran GAP with one minor change to Method of Allocation for Auditing for FYE25. The Clerk prepares and maintains the Cost Allocation Plan, and could delegate this to a Finance Director once someone is hired. The bases of allocation are updated annually around calendar year end, to prepare the next fiscal year's Cost Allocation Plan. Further, each February, actual expenditures are reviewed to true up the budgeted allocation to actuals, with adjustments in final proposed budget amendments, as needed.

The method of allocation derives a proportionate share of indirect costs for each Fund by considering annual measures of the workload. The level of effort reflects how much of the indirect cost allocation unit is allocated across Funds.

INDIRECT COST ACTIVITY	INDIRECT COST ALLOCATION UNIT	LEVEL OF EFFORT	METHOD OF ALLOCATION
Accounting	Finance Director and Financial Consultants	75%	# of employees by Fund
Accounting	Finance Director and Financial Consultants	25%	relative amount of \$ spent, averaged over past 2 CYs, by Fund
Accounting	Finance Manager	75%	relative amount of \$ spent, averaged over past 2 CYs, by Fund
Accounting	Finance Manager	25%	# of cash disbursements by Fund

Accounting	Finance Assistant	50%	# of cash disbursements by Fund
Accounting	Finance Assistant	50%	½ to Sewer Fund and ½ to Water Fund for Utility Billing activities
Auditing	Annual Audit	100%	relative size of Unassigned fund balance
Auditing	Single Audit	100%	to the Fund(s) requiring a Single Audit
Information Technology	all IT operating costs	100%	# of IT users by Fund
Treasury	Deputy Treasurer	30%	# of cash receipts by Fund, excluding funds covered by 1% admin fee
Treasury	Treasurer's Assistant	30%	# of cash receipts by Fund, excluding funds covered by 1% admin fee
Building and Grounds	all Township Hall costs	100%	# of square feet at Township Hall, by Fund

Data Used for each Method of Allocation

The data sources and period of measurement (prior calendar year) are consistent year over year in the calculation of each allocation. When data that better reflects the distribution of indirect costs becomes available, it is used. For example, for # of IT users, beginning this year we now have a list of Network Users instead of a list of Computers. The Cost Allocation workbook is maintained, and data sources are noted each year.

METHOD OF ALLOCATION	DATA SOURCES USED EACH YEAR
# of employees by Fund	Payroll Employee GL Distribution Report (excluding committee members and counting authorized and filled full time positions as of 12/31/21; 12/31/22; 1/29/24).
relative amount of \$ spent, averaged over past 2 CYs, by Fund	General Ledger GL Activity Report Expenditures only for CY2021; CY2022; CY2023.
# of cash disbursements by Fund	Accounts Payable GL Distribution Cash Disbursements for Posted Journal Entries for CY2021; CY2022; CY2023.
relative size of unassigned fund balance	General Ledger Balance Sheet Report as of 12/31/21, 12/31/22, 12/31/23 (using absolute value of unassigned fund balance).
# of IT users by Fund	NetSmart Computer Worksheets dated 12/31/21 and 2/10/23; Chris Bailey IT Users Report dated 1/25/24.
# of cash receipts by Fund, excluding funds covered by 1% admin fee	Cash Receipts Receipt Items Report post date within CY2021, CY2022, and CY2023 (completed receipts only; no voided receipts; print totals only).
# of square feet at Township Hall, by Fund	Floor Plan square footage calculations dated 10/12/22.