



**SYRACUSE CITY**  
**Syracuse City Council Special Meeting Agenda**  
**January 7, 2016 – 11:00 a.m.**  
City Council Chambers  
Municipal Building, 1979 W. 1900 S.

1. Meeting called to order  
Invocation or thought  
Pledge of Allegiance  
Adopt agenda
2. Public Comment: This is an opportunity to address the Council regarding your concerns or ideas. Please limit your comments to three minutes.
3. Discussion regarding Internal Service Allocation and Interfund reimbursements.
4. Public Comment: This is an opportunity to address the Council regarding your concerns or ideas. Please limit your comments to three minutes.
5. Consideration of adjourning into Closed Executive Session pursuant to the provisions of Section 52-4-205 of the Open and Public Meetings Law for the purpose of discussing the character, professional competence, or physical or mental health of an individual; pending or reasonably imminent litigation; or the purchase, exchange, or lease of real property (roll call vote).
6. Adjourn.

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In compliance with the Americans Disabilities Act, persons needing auxiliary communicative aids and services for this meeting should contact the City Offices at 801-825-1477 at least 48 hours in advance of the meeting.

**CERTIFICATE OF POSTING**

The undersigned, duly appointed City Recorder, does hereby certify that the above notice and agenda was posted within the Syracuse City limits on this 4<sup>th</sup> day of January, 2016 at Syracuse City Hall on the City Hall Notice Board and at <http://www.syracuseut.com/>. A copy was also provided to the Standard-Examine on January 4, 2016.

CASSIE Z. BROWN, CMC  
SYRACUSE CITY RECORDER



# COUNCIL AGENDA

## January 7, 2016

### Agenda Item #3                      Internal Service Allocation & Interfund Reimbursements

#### ***Factual Summation***

- Any question regarding this agenda item may be directed at City Manager Brody Bovero or Finance Director Steve Marshall.
- Please see attached Memorandum and Supporting documentation provided by Brody Bovero and Steve Marshall.

#### Guiding Policies

- The National Advisory Council on State & Local Budgeting issues a series of recommended practices. Recommendation 4.2 provides guidance on establishing a policy on fees and charges for service. Attached is a copy of the guidance provided in recommendation 4.2, which recommends that governments establish a policy on how fees and charges will be set, and to include an explanation in that policy if the government chooses to subsidize the full cost of a service.
- The Government Finance Officers Association (GFOA) periodically issues Best Practice Statements that are nationally accepted as industry standards in government finance. Under the Pricing Internal Services statement (attached), the process for establishing the right price for internal services is outlined, and includes the following points that will be discussed at the Council meeting:
  - Identifying goals of internal service pricing
  - Developing the allocation strategy
  - Defining the level of costing detail
  - Determining the cost of the service
  - Deciding the basis of allocation
  - Consider potential drawbacks
- The GFOA Best Practice statement on Measuring the Full Cost of Government Service (attached) recommends that governments calculate the full cost of a service, which includes both the direct and indirect costs. This applies even if the government decides to subsidize a service because it still discloses the true cost. For example, if the City were to decide to subsidize some of the utility services with tax dollars, it is recommended that the full cost of providing utility services

still be calculated so the public knows what the true cost really is and to what extent is being subsidized.

- The GFOA Best Practice statement on Taking Advantage of Indirect Cost Allocation (attached) recommends that governments allocate their indirect costs (legal, finance, HR, facilities, maintenance, IT) to other service departments. It also explains that there is not a one-size-fits-all approach to the method of allocating indirect costs, so the City will need to decide what method fits the best.
- Finally, the State Auditor's office issued a state-wide statement on Enterprise Fund Transfers, Reimbursements, Loans, and Services (attached). The internal services allocation in the City's budget is known as an "Interfund Reimbursement". This is outlined on page 2 and page 4 of the State Auditor's statement. The interfund reimbursement is different from an interfund transfer. A transfer is a unilateral transfer of money from one fund to another, with no expectation of getting a good or service in return for that money. A reimbursement, on the other hand, is a repayment from one fund to another because a good or service was provided to that fund. The Auditor's statement indicates that interfund reimbursements must be included in the budget, and the reimbursement amount must be based on a reasonable methodology.

### **Current Methodology**

- Attached you will find an outline of the City's current methodology on calculating the interfund reimbursement (internal service allocation) from the utility funds to the general fund.
- This document provides a framework for the allocation of administrative costs charged in the general fund. Generally speaking, the general fund incurs the full cost of administrative staff's time, resources, etc when in practicality that time is spent proportionally administering and overseeing the utility funds. This document breaks down the cost estimates and determines a logical allocation for all funds so that the costs are distributed equally and fairly between the duties of the administrative staff.
- As a basis for allocation the administrative expenses, it makes sense to use employees as the barometer in determining a large portion of the expense allocation. Employees drive the costs of the different departments and determine how a lot of the other expenses are incurred. So where possible, we will identify employees as the cost driver for all of the other departmental expenses. For example, salaries and wages make up a lion's share of the departments budgets and the also incur costs such as travel and training, office supplies, vehicle expense, subscriptions, etc.
- The first step in this process is to directly identify which departments incur costs that directly benefit the utility funds. We then will identify all costs directly

related to the employee including wages, benefits, travel and training, office supplies, vehicle expense, subscriptions, etc. Next, we will determine a breakdown of time spent on projects directly related to utility funds and divide that by the employee's total time. This will give us a percentage breakdown that we can use to allocate all costs driven by employees.

- All costs not associated directly with employees will be charged at the same percentage as employee allocations.
- Overall, this framework will help distribute the costs equally between the general fund, IT fund, and utility funds. See the other tabs for the calculations.

## 4.2 Develop Policy on Fees and Charges

*Principle:* Develop Approaches to Achieve Goals

*Element:* Adopt Financial Policies

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*Practice:* A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

*Rationale:* Policies that require identification of both the cost of the program and the portion of the cost that will be recovered through fees and charges allow governments and stakeholders to develop a better understanding of the cost of services and to consider the appropriateness of established fees and charges.

*Outputs:* Policies may address a requirement to review all fees and charges, the level of cost recovery for services and the reason for any subsidy, and the frequency with which cost-of-services studies will be undertaken. Stakeholders should be given an opportunity to provide input into formulation of these policies. Policies on fees and charges should be publicly available and summarized in materials used in budget preparation. They should also be identified in other government documents, including planning and management reports.

*Notes:* Costs of service include direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital (depreciation and debt service). A government may choose not to recover all costs, but it should identify such costs. Reasons for not recovering full costs should be identified and explained. State and local law may govern the establishment of fees and charges.



## GFOA Best Practice

### Pricing Internal Services

**Background.** Internal services are those responsibilities a government provides to support its own internal operations. Common examples of internal services include information technology, payroll, motor pool, budgeting, legal, accounting, and human resources. Certain management objectives are served by creating a system to assign prices for the use of these internal services, which are then assessed to the departments that use the services. However, there is a cost to develop and maintain internal pricing systems. Governments must weigh the benefits of an internal services costing system against the cost and complexity of system design choices. Please note that this best practice is intended to apply to internal service charges regardless of whether it is accounted for in an internal service fund or as a general fund overhead allocation.

**Recommendation.** GFOA recommends that governments follow these steps when considering an internal service pricing system:

1. Identify goals of internal service pricing;
2. Develop allocation strategy;
3. Define level of costing detail;
4. Determine cost of service;
5. Decide basis of allocation; and
6. Consider potential drawbacks.

**Identify goals of internal service pricing.** As a first step, GFOA recommends that governments identify the goals they hope to achieve through a pricing system for internal services. The goals will guide the design of the system. Potential goals for a pricing system include:

- Govern demand for a service. If the customers of an internal service are not charged based on their level of use they may have an incentive to over-use the service. Alternatively, charges may cause customers to limit their use of the service.
- Develop enterprise rate models. Government enterprises (e.g., a water utility) may use services provided by the general government. A pricing system could provide an input into the rate model used to calculate fees for the customers of the enterprise.
- Calculate indirect cost reimbursement for grants. Some grants may allow indirect costs to be reimbursed. An internal pricing system provides support for the reimbursement request.

- Provide input for full-costing model. A full costing model provides the total cost of a given service, which enables better informed budgeting and planning. The “full cost” of a program is equal to the direct cost of program plus the indirect costs. Internal service pricing is essential to calculating indirect costs.
- Promote discussion about the value of the service provided. Charging customer departments for use of a service will raise questions about the value received from the service and what the best service delivery model is (e.g., centralized, decentralized, outsourced, etc.). A pricing system can facilitate comparisons with alternative methods of service delivery, including outside providers.
- Examine value of a shared service model. Shared services are thought to deliver greater efficiency through economies of scale. A solid pricing model is important for determining if a shared service model is delivering on this promise.
- Promote competition in service delivery. Internal services could be run much like a private business, including service level agreements with customers and competition from outside providers (e.g., private firms). Accurate internal charges are essential for a level competitive field.<sup>1</sup>
- Ability to customize service levels for different customers. A detailed rate model makes it easier to provide a higher level of service to a customer that demands it because they can be charged a higher fee.

**Develop allocation strategy.** After the goals have been identified, the organization must decide which internal services will be priced and allocated to user departments. To make this decision, it may be useful to differentiate between “market” services and those that have more of a policy or regulatory character.

- Market services are those where the user departments play the role of consumer. Examples of market services include IT, fleet, and perhaps facilities.
  - The charges for market services have application to goals like promoting competition in service delivery, governing demand, and/or examining the value of a shared service model. Charging user departments for regulatory/policy services could be necessary for goals like developing a full costing system or calculating indirect cost reimbursement for grants.
- Policy or regulatory services are used to establish organization-wide policies or ensure compliance with standards. Users of these services cannot be as easily described as “customers,” but more accurately as “regulated.” Examples of policy/regulatory services include budgeting, internal auditors, or a chief executive.

**Define level of costing detail.** Governments need to determine the level of detail associated with costing services.

- A low level of detail might define internal services at the department level (e.g., finance department, IT department). A low level of detail might be sufficient for a costing system with limited goals, such as developing enterprise rate models or obtaining reimbursement for indirect costs under a grant.

- A high level of detail would define services at the level of programs or other subunits (e.g., the various subdivisions of finance and IT cited earlier). A high level of detail might be needed for goals like governing the demand for service or promoting discussions about the value of a service.

In summary, a higher level of detail will lead to a more accurate costing system since the activities represented by the internal service categories will be more specified. However, more detail also leads to a more complex internal services pricing system. The government must decide if greater complexity (and its associated costs) will be worth the benefits.

**Determine cost of service.** With the internal services identified at either a high or low level of detail, the next step is to determine the cost of the service. The elements of the cost that should be considered include:

- Direct costs. Direct costs are the most essential cost element. This includes the service's personnel, materials, supplies, and contractors.
- Interest costs from internal loans. If the internal service takes loans from other parts of the government then a market interest rate may be applied.<sup>2</sup>
- Services used from other support services. A cost model can be designed such that the cost of the internal service reflects not only its direct costs, but also the indirect cost from other support services that it uses (e.g., an IT service uses payroll). This aspect of costing can be performed at varying levels of complexity - methods that fully reflect how each internal service uses the services of other internal providers can become much more complex than those that provide less precise estimates.<sup>3</sup>

**Decide basis of allocation.** With cost of the service decided, the bases for allocating costs from the internal service to customers must be decided. Table 1 provides examples of internal services and cost allocation bases. Below are general principles that should be observed when determining bases.

- Cause-and-effect relationship. Costs should be allocated based on usage or causal factors relating to costs incurred by service provider. See Table 1 for examples of how cost bases for internal services can be related to the usage of various internal services.
- Benefit received. The basis for allocation should bear a relationship to the benefit the customer receives from the service. For example, while "miles driven" might be a good barometer of the benefit that police patrol receives from its vehicles, "hours used" might be a better measure for public works.
- Fairness. The method of cost allocation that will be used must be seen as fair and legitimate by the users of the costing system. The fee should be charged equitably based on use and other considerations.<sup>4</sup> Users must understand how the costs are calculated and should have a role in determining how the price system will be structured.<sup>5</sup>
- Legal constraints. State laws may place constraints on how charges are developed. For example, if the charge for providing a service exceeds the true cost of the service, it could be construed as a tax under the law. Also, federal regulations on grants may place limits on internal charges against grant programs.<sup>6</sup>

**Table 1 – Examples of Internal Services Cost Allocation Bases**

| Internal Service       | Allocation Basis                                                                 |
|------------------------|----------------------------------------------------------------------------------|
| Payroll processing     | Number of employees, number of checks                                            |
| Budgeting              | Labor hours, size of budget                                                      |
| Insurance              | Number of employees, experience                                                  |
| Legal services         | Direct labor hours                                                               |
| Office space / rent    | Square feet of space occupied                                                    |
| Procurement services   | Number of P.O.s, dollar volumes, direct labor                                    |
| Vehicle costs          | Miles driven, hours used                                                         |
| Information technology | Number of devices, server time, number of calls to help desk, direct labor hours |

A government might also consider the accounting mechanism for the internal charge. An internal service fund provides the most detailed accounting, but also entails the most administrative effort. If the goals of the internal charge are modest (e.g., not charging back to federal grants, full cost recovery is not a goal), then it may be easier to simply recognize the charge as a general revenue in the general fund (or some other fund as may be appropriate to the circumstances).

Governments should also regularly review their internal charge rates against actual experience for appropriate adjustments. Governments should also develop guidelines to determine what will happen to excess funds should an internal charge generate cost recovery proceeds in excess of actual costs.

**Consider potential drawbacks of internal costing systems.** Finally, governments should be aware of the drawbacks of internal costing systems below and should consider mitigating strategies.

- Diminished trust between providers and customers. A charge system could create a suspicion among customers about how charges are developed and/or administered, especially if the basis of the charges is not adequately communicated to customers.
- Subverting processes or not using shared services. If customers perceive charges to be too high or unfair, they may respond by developing their own service capabilities. This can lead to duplication of resources and wasted effort.
- Acrimony and debate over the charge system. Even if users do not subvert the system, a costing system that is viewed negatively by users could

generate a great deal of debate and discussion – energy that could be better spent on other pursuits.

- Costs exceed the benefits of the system. A precise internal costing system can be relatively complex. Complexity entails cost, such as training managers to use cost information. Whether this complexity and cost is worth it should be seriously considered in light of the goals for the system and system design choices.
- Unmet expectations. Managers can become frustrated with the system if they do not understand what it can and cannot accomplish. For example, if internal charges cause users to lower their consumption of a service they may see their per unit cost rise as the fixed cost of service is now allocated over a lower volume.

#### Notes.

- 1 However, it should be noted that comparing internal charges to a potential external service provider's proposed fee cannot be the basis for a sound outsourcing decision because the external provider's proposed cost must be compared to the internal costs the government will avoid (i.e., no longer have to incur) by using the external provider (known as "avoidable costs"). For example, there may be overhead costs included in an internal charge that will not be eliminated (avoided) by using an external provider.
- 2 If used, the interest rate should be consistent with any governing laws/regulations.
- 3 For example, "single step allocations" are the least complex, but is less precise, while "reciprocal allocations" are more precise, but much more complex. For a complete explanation of these methods please consult. R. Gregory Michel. *Cost Analysis and Activity-Based Costing for Government*. (Chicago, Illinois: GFOA) 2004
- 4 For example, the customer may provide value back to the internal service in some way that justifies a lower charge.
- 5 IT governance systems are on example of a means for giving customer departments input into rate modeling decisions. See GFOA's publication *IT Budgeting and Decision Making* (2009).
- 6 For example, the Federal Office of Management and Budget circular A-87 outlines standards for determining costs which can be charged to Federal grants and reimbursement contracts.



## GFOA Best Practice

### Measuring the Full Cost of Government Service

**Background.** Measuring the cost of government services is useful for a variety of purposes, including performance measurement and benchmarking; setting user fees and charges; privatization; competition initiatives or “managed competition”; and activity-based costing and activity-based management. The full cost of a service encompasses all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities and rent, training and travel. Likewise, they include costs that may not be fully funded in the current period such as compensated absences, interest expense, depreciation or a use allowance, and pensions. Indirect costs include shared administrative expenses within the work unit and in one or more support functions outside the work unit (e.g., legal, finance, human resources, facilities, maintenance, technology). These shared costs should be apportioned by some systematic and rational allocation methodology and that methodology should be disclosed.

The National Advisory Council on State and Local Budgeting acknowledged the importance of measuring the cost of government services in two of its recommended practices: developing a policy on cost recovery through fees and charges (4.2) and assessing how a service could be alternatively provided more efficiently (6.1). Several factors must be considered to ensure that cost data are used appropriately.

**Recommendation.** GFOA recommends that governments calculate the full cost of the different services they provide.

Cost data can be extremely useful in identifying situations where a government should explore alternative service delivery options. Still, cost should not be the sole factor used to determine how a government will provide services. Efficiency and effectiveness also should be essential components of any service-delivery decision. It is important that full cost data be used appropriately in decision making. For example, in considering privatization or other forms of external competition, a jurisdiction should distinguish avoidable costs from unavoidable costs, because only the former are relevant to a privatization decision. The concept of avoidable cost, for this purpose, encompasses not only those costs that can be eliminated immediately, but also costs that can be eliminated after a transition period. Furthermore, decisions involving privatization or other forms of external competition should take into account the cost of transition, as well as any

monitoring or oversight costs that are expected to result from a change in service provider. Offsetting revenues are also a factor to be considered.

Care must be taken when comparing full cost information between governments to ensure that such comparisons are valid. The use of historical cost depreciation, for example, may significantly distort the costs reported for capital-intensive activities. For instance, activities using older assets may appear more efficient than activities that use newer assets.

Furthermore, it is important to bear in mind that the accrual basis of accounting recognizes revenues and expenses when the underlying events occur, regardless of the timing of related cash flows. Thus, rates set to recover cost on an accrual basis may not provide adequate resources on a timely basis to meet a government's financing requirement. For example, rates set to recover the cost of a debt-financed capital asset through the funding of depreciation expense may not be adequate to make timely debt service payments if the service life of the asset is longer than the maturity of the debt.

#### **References.**

Cost Analysis and Activity-Based Costing for Government, GFOA, 2004.

*Approved by the GFOA's Executive Board, January, 2002.*



## GFOA Best Practice

### Taking Advantage of Indirect Cost Allocations

**Background.** In addition to the direct cost of providing services, governments also incur indirect costs. Such 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). Certain important management objectives can be served by allocating these indirect costs (measuring the cost of government services, establishing fees and charges, charging back the cost of internal services to departments/agencies, and requesting reimbursements under federal and state grants, when allowed). Regardless of the purpose of an indirect cost allocation, a systematic and rational methodology should be used to calculate the amounts allocated.

**Recommendation.** The Government Finance Officers Association (GFOA) encourages governments to allocate their indirect costs. There are a number of issues a government needs to address in connection with indirect cost allocation. Because of the varied reasons for which indirect cost allocations are performed, a one-size-fits-all approach typically is not possible. Therefore, the GFOA recommends that governments considering the allocation of indirect costs consider the following:

1. Who should perform the allocation? An indirect cost allocation can be performed either by the government's own staff or by an external party. Specific factors that should be considered in choosing between the two include:
  - In certain political environments, a government's constituents may be more accepting of an externally prepared cost allocation;
  - The optimal choice may depend on the purpose of the cost allocation (for example, departmental chargebacks vs. grant reimbursement);
  - Regardless of who prepares the cost allocation, management needs to be involved in the process and knowledgeable about the methodology used;
2. What factors need to be considered if an external party is selected to perform the allocation? If an external party is engaged to perform a cost allocation, the government should consider the following:
  - The need for independence may prevent the financial statement auditor from serving in this role;
  - The selected preparer should have knowledge and experience that is specifically relevant to the purpose for which the cost allocation will be used;

- The government should obtain ownership of the final work product;
  - The government's staff should obtain at least a basic understanding of the process used to prepare the cost allocation;
  - The contract for services with the preparer should state whether the preparer will assist in negotiating with a grant provider, if necessary, and which party (the government or the preparer) would be responsible for any indirect costs that are ultimately disallowed; and
  - The government is responsible for having a system in place that ensures that data are appropriately classified in the accounting system.
3. How often should an externally performed cost allocation take place? An indirect cost allocation should be used for a maximum of three years (unless a law or regulation requires a shorter period). Moreover, an even shorter interval may be necessary based on the following considerations:
- Complexity of the calculation;
  - Changes in grant requirements;
  - Purpose for which the allocation is to be used<sup>1</sup>;
  - Implementation of a new enterprise resource planning (ERP) system;
  - A change in the government's administration; or
  - A structural change in the government.
4. What factors need to be considered if a cost allocation is to be performed by the government's own staff? If indirect cost allocation is to be performed by the government's own staff, a team approach normally is preferable. That team should consist of stakeholders from the government's departments/agencies and should have a designated team leader to make decisions when there are differing positions on the team and it is not possible to reach consensus. In addition:
- The internal staff that works on the project should have knowledge and experience that is specifically relevant to the purpose for which the indirect cost allocation will be used. Likewise, it is important that internal staff be aware of all applicable laws and regulations if the cost allocation is to be used as the basis for requesting reimbursement under a grant;
  - The government should develop an educational process to ensure that the staff involved remain knowledgeable;
  - Agencies/departments of the government should be responsible for using classifications that identify direct costs to the greatest extent possible to maximize the amount recovered from grant providers, when applicable (as should also be true for externally prepared cost allocations); and
  - Data should be captured and documented contemporaneously to avoid audit problems that could otherwise arise as a result of subsequent data changes.
5. Should the government use an indirect cost allocation plan or an overhead percentage rate? There are pros and cons to using either an indirect cost allocation plan or an overhead percentage rate for recouping indirect costs,

regardless of whether cost allocations are performed by an external party or by the government's own staff. Since an indirect cost allocation plan involves a greater level of detail and more complex calculations, a government should consider whether increased cost recovery from grantors would justify the extra effort.

**Notes:**

- I* For example, a cost allocation used to chargeback costs to governmental departments/agencies may need to take place more frequently.

*Approved by the GFOA's Executive Board, February, 2014.*



OFFICE OF THE  
UTAH STATE AUDITOR

**ENTERPRISE FUND TRANSFERS, REIMBURSEMENTS, LOANS, AND SERVICES**

***Two Required Provisions***

The treatment of enterprise fund transfers, reimbursements, loans, and services are subject to the following two provisions: **(1) Utah Code and (2) Accounting standards.**

Therefore, requirements not specifically stated in *Utah Code*, but required by accounting standards must be followed.

***Objective of Governmental Fund Accounting – Accountability*** (GASB Codification 1300.101)

A governmental entity organizes their accounting systems on a fund basis. GASB Codification 1300, states, “A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts ... segregated for the purpose of carrying on specific activities for attaining certain objectives in accordance with **regulations, restrictions, or limitations.**”

Unlike a private business, which is accounted for as a single entity and the accounting system is designed to measure profitability, governmental accounting systems are designed to **measure accountability**. To measure accountability, a governmental unit is accounted for through several separate fund entities. Therefore, GASB Codification 1300.101 states that, “... a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently.”

An enterprise fund is a separate distinct fiscal entity designed to account for the restricted activity of the fund. The restriction imposed on enterprise fund proceeds is created through an implied agreement with rate payers when the government imposes a fee. The implied agreement is that the government will use the fee solely for enterprise fund activities.

***Materiality***

All accounting standards are subject to the principle of materiality. Therefore, if a government determines that amounts related to financial reporting requirements are not material, then the requirement is not applicable. However, the determination of materiality must be based upon an evaluation/estimate of relevant factors. A simple guess or “gut feel” is not a sufficient evaluation.

***Requirement to Estimate the Value of Goods or Services***

In order to complete accounting entries for interfund transfers, reimbursements, loans, or services the amount/value of the goods or services provided to another fund must be determined. Additionally, *Utah Code* 10-6-135(3)(f)(i)(B) requires that the amount/value being transferred be included in the

public notice. This is why the audit guide requires that the amounts be estimated or calculated at the same rate as other customers of the utility.

**Accounting Treatment**

The audit guide focuses on state legal compliance issues and generally does not include audit steps regarding appropriate accounting treatment. However, when concerns are raised about the appropriate accounting treatment for certain transactions we will include the treatment in the audit guide. The accounting treatment noted below may not be included in suggested audit procedures; however, the auditor should consider this guidance when conducting their audit.

GASB Codification 1800.102.b. provides guidance for nonreciprocal interfund activity which includes interfund transfers and interfund reimbursements:

**“Nonreciprocal interfund activity** is the internal counterpart to nonexchange transactions and includes:

- **Interfund transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.” For example, these transfers include water, electricity, or garbage services provided by an enterprise fund utility to general government activities, such as water provided to city offices or parks, accounted for in the general fund. Sometimes these transfers are referred to as subsidy transfers.

The accounting entry for a transfer of goods or services from the enterprise fund to the general fund is as follows:

|                                  |          |
|----------------------------------|----------|
| <u>General Fund</u>              |          |
| Utility Expense                  | \$xx,xxx |
| Other Financing Sources Transfer | \$xx,xxx |
| <u>Enterprise Fund</u>           |          |
| Other Non-Operating Transfer out | \$xx,xxx |
| Charges for Services             | \$xx,xxx |

Examples also include transfers of cash from a utility enterprise fund to the general fund or other funds for activities unrelated to the utility enterprise fund. Sometimes these transfers are referred to as subsidy transfers. The accounting entry for this is as follows:

|                                  |          |
|----------------------------------|----------|
| <u>General Fund</u>              |          |
| Cash                             | \$xx,xxx |
| Other Financing Sources Transfer | \$xx,xxx |
| <u>Enterprise Fund</u>           |          |
| Other Non-Operating Transfer out | \$xx,xxx |
| Cash                             | \$xx,xxx |

- **“Interfund reimbursements** – **repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.**” For example, the general fund may provide accounting, payroll, or human resource services to an enterprise fund for which the enterprise fund reimburses the general fund. The key difference between interfund reimbursements and interfund services discussed below, is that the general fund is not in the business of providing these services to customers outside of the primary government. In these instances, **cash is actually transferred between funds or is required to be paid.** Note that for interfund reimbursements, neither fund recognizes revenue.

The accounting entry for reimbursing the general fund for services provided to the enterprise fund is as follows:

General Fund

|                                                |          |
|------------------------------------------------|----------|
| Cash or Due from Other Funds – Enterprise Fund | \$xx,xxx |
| Expenditure                                    | \$xx,xxx |

Enterprise Fund

|                                           |          |
|-------------------------------------------|----------|
| Expense                                   | \$xx,xxx |
| Cash or Due to Other Funds – General Fund | \$xx,xxx |

GASB Codification 1800.102.a. provides guidance for reciprocal interfund activity which includes Interfund loans and services provided and used.

**“Reciprocal interfund activity** is the internal counterpart to exchange and exchange like transactions it includes:”

- **“Interfund loans** – amounts loaned from one fund to another with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds.”
- **“Interfund services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds.” **Cash is actually transferred between funds or is required to be paid for the services or goods provided.** For example, when an enterprise fund provides utility services such as water, electricity, or garbage to customers outside of the primary government, services provided to city offices, or parks, should be treated like any other customer of the utility and should be charged at the same rate as other customers.

The accounting entry is as follows:

General Fund

|                                |          |
|--------------------------------|----------|
| Utility Expense                | \$xx,xxx |
| Cash or Due to Enterprise Fund | \$xx,xxx |

Enterprise Fund

|                             |          |
|-----------------------------|----------|
| Cash or Due to General Fund | \$xx,xxx |
| Charges for Services        | \$xx,xxx |

**Public Notice and Hearing Requirements**

**1. Interfund Transfers and Subsidy Transfers**

*(Utah Code 10-5-107, 10-6-135, 17B-1-629, 17-36-32)*

- a. *For counties and districts:* The entity must include any interfund transfers or subsidy transfers in an original budget or in a subsequent budget amendment approved by the governing body for the fiscal year under audit. If the entity did not, proceed to step b.

*For municipal interfund transfers or subsidy transfers made **before** May 13, 2014,* the entity must include any interfund transfers or subsidy transfers in an original budget or in a subsequent budget amendment approved by the governing body for the fiscal year under audit. If the entity did not, proceed to step b.

For municipal interfund transfers or subsidy transfers made on or **after** May 13, 2014, proceed to step b.

- b. For the applicable entities noted in a. above, the governing body must hold a public hearing and provide written notice of the:
  - Date, time, and place of hearing
  - Purpose of the hearing
  - The enterprise fund from which the cash or goods would be transferred
  - The fund to which the cash or goods would be transferred
  - The amount/value of cash or goods transferred.

The notice must be:

- Mailed to each enterprise fund customer
- At least seven days before the hearing
- Included as a separate notification mailed or transmitted with the customers' utility bill.

## **2. Interfund Reimbursements**

*(Utah Code 10-5-114, 10-6-117, 17B-1-638, 17-36-36)*

- a. The reimbursements must be included in the original budget or in subsequent budget amendments of the enterprise fund
- b. For services the general fund provides to the enterprise fund, the reimbursement amount must be based on a reasonable methodology

## **3. Interfund Loans**

*(Utah Code 10-5-120, 10-6-132, 17B-1-626, 17-36-30)*

For utility enterprise funds loaned to another fund:

*For loans issued before May 13, 2014*

- a. Rates and repayment terms must be established
- b. Payments must be made according to established terms
- c. If repayment is not expected within a reasonable period of time, the transfer of funds is not considered a loan, but instead should be recorded as an interfund transfer.

*For loans issued on or after May 13, 2014*

**Note – not applicable to loans from the general fund to any other fund or short-term advances from a cash and investment pool to individual funds that are repaid by the end of the fiscal year.**

- a. The loan must be in writing and contain the following terms and conditions:
  - i. Effective date of the loan
  - ii. Name of the fund loaning the money
  - iii. Name of the fund receiving the money
  - iv. Amount of the loan
  - v. Term of and repayment schedule of the loan (not to exceed 10 years)
  - vi. Interest rate of the loan (if less than one year, the interest rate cannot be less than the rate offered by the PTIF, if greater than one year the rate cannot be less than the greater of the PTIF rate or the rate of a US Treasury not of a comparable term.)
  - vii. Method of calculating interest applicable to the loan

- viii. Procedures for applying interest and paying interest
- b. The governing body must hold a public hearing and provide written notice of the:
  - i. Date, time, and place of the hearing
  - ii. Purpose of the hearing and
  - iii. The proposed terms and condition of the interfund loan
- c. The notice must be provided in the same manner as if the hearing were a budget hearing.  
***Notice and hearing requirements outlined in b & c above are satisfied if the loan is included in an original or subsequently amended budget.***
- d. The governing body authorized the loan by ordinance or resolution at a public meeting.

#### **4. Interfund Services Provided**

The entity must include expenses associated with interfund services provided in an original budget or subsequent budget amendment approved by the governing body for the fiscal year and comply with notice and hearing requirements for adopting or amending the budget.



## CITY COUNCIL ALLOCATION

All costs in the city council budget are directly driven by employees. The best way to determine the allocation for the city council is to compare the time directly spent on agenda items of utility to the time spent on general fund items. We looked at the last 9 months of council agendas (July 2014 to March 2015) and determined the topics discussed can be broken down into the following areas:

|               | # Topics  |        |
|---------------|-----------|--------|
| General Fund  | 67        | 72.04% |
| Utility Funds | 24        | 25.81% |
| RDA& Other    | 2         | 2.15%  |
| <u>Total</u>  | <u>93</u> |        |

Based on the breakdown above we have determined that the time spent by the City Council on utility funds is approximately 24.43% of their total time. This percentage will be used to allocate the total City Council budget on the Summary Tab. It is also provided below:

### Summary

|                     | <u>Total Cost</u> | <u>Alloc %</u> | <u>Amount allocated to Utility Funds</u> |
|---------------------|-------------------|----------------|------------------------------------------|
| City Council Budget | \$ 64,641.00      | 25.81%         | \$16,681.55                              |

## ADMINISTRATION BUDGET

The Administration staff's time is charged completely to the general fund when in actuality they spend a good portion of their time supporting activities and functions of the utility funds. The best way to estimate the breakdown is by total expenses of the utility funds to total expenses for the entire government. See the **budget worksheet in excel** below for breakdown of costs.

**Summary:**

|                             |                  |         |
|-----------------------------|------------------|---------|
| Total General Fund Expenses | \$ 9,268,747.00  | 41.81%  |
| Total Utility Fund Expenses | \$ 8,594,629.00  | 38.77%  |
| Total Other Funds           | \$ 4,303,313.00  | 19.41%  |
| Total Government Expenses   | \$ 22,166,689.00 | 100.00% |

## GENERAL BUILDING

Our building maintenance workers salary, benefits, travel, training, uniforms, and vehicle usage is completely charged to the general fund, when a portion of his time is spent on the utility funds. He spends approximately 15% of his time on Public Works Projects, Buildings, etc.

|          |                               | Budget     | % Allocation | \$ Allocation |        |
|----------|-------------------------------|------------|--------------|---------------|--------|
| 10-51-10 | OVERTIME                      | 2,000.00   |              |               |        |
| 10-51-11 | PERMANENT EMPLOYEE WAGES      | 35,748.00  | 15%          | 5,362.20      |        |
| 10-51-12 | PART-TIME WAGES               | 17,601.00  |              | -             |        |
| 10-51-13 | EMPLOYEE BENEFITS             | 32,232.00  | 15%          | 4,834.80      |        |
| 10-15-15 | UNIFORMS                      | 1,000.00   | 15%          | 150.00        |        |
| 10-51-23 | TRAVEL & TRAINING             | 3,500.00   | 15%          | 525.00        |        |
| 10-51-26 | VEHICLE MAINTENANCE           | 3,000.00   | 15%          | 450.00        |        |
| 10-51-27 | UTILITIES                     | 140,000.00 | 11.76%       | 16,457.68     |        |
| 10-51-28 | COMMUNICATIONS                | 52,000.00  | 10%          | 5,200.00      |        |
| 10-51-30 | BUILDING & GROUND MAINTENANCE | 117,250.00 | 15%          | 17,587.50     |        |
| 10-51-37 | PROFESSIONAL & TECH SERVICES  | 38,650.00  | 15%          | 5,797.50      |        |
| 10-51-60 | SUNDRY                        | 500.00     | 15%          | 75.00         |        |
|          |                               | 443,481    |              | 56,440        | 12.73% |

**Community Development**

The Community Development department is 100% charged to the general fund when in actuality a portion of their time is spent on plan reviews, subdivision reviews, and taking utility payments, etc. The department has a total of 8 employees. I have allocated their estimated time breakdown on utilities below. The average time spent would be 16.60% as shown below. We will allocate the remaining charges with this same percentage as the charges will closely follow the employee time allocation.

|            | % Allocation | Dollar Amount | \$ Allocation |        |
|------------|--------------|---------------|---------------|--------|
| Sherrie C. | 5%           | 87,918.50     | 4,395.93      |        |
| Brian L.   | 15%          | 51,334.00     | 7,700.10      |        |
| Scott      | 15%          | 38,854.00     | 5,828.10      |        |
| Jenny S.   | 10%          | 42,432.00     | 4,243.20      |        |
| Noah S.    | 10%          | 42,432.00     | 4,243.20      |        |
| Brenda L.  | 25%          | 42,452.00     | 10,613.00     |        |
| Jackie M   | 20%          | 34,320.00     | 6,864.00      |        |
| Debbie     | 41.1900%     | 40,310.00     | 16,603.69     |        |
|            |              | 380,052.50    | 60,491.21     | 15.92% |

**ACCOUNTS PAYABLE BUDGET ALLOCATION**

Debbie Rainford acts as both a Business License Clerk and also an Accounts Payable Clerk. All of her salary is charged to the Economic Development budget. Therefore, we allocated her time directly spent on Accounts Payable as follows:

|                     |                 |            |        |
|---------------------|-----------------|------------|--------|
| Monday              | DCED duties     | 10 Hours   |        |
| Tuesday             | DCED / AP split | 5/ 5 hours |        |
| Wednesday           | DCED / AP split | 3/ 7 hours |        |
| Thursday            | DCED duties     | 10 Hours   |        |
| Friday              | off             |            |        |
| DCED Hours per week |                 | 28         | 70.00% |
| A/P Hours per week  |                 | 12         | 30.00% |
| <b>Total</b>        |                 | <b>40</b>  |        |

**Breakdown between Utility Funds vs Other Funds**

I broke down the invoice amounts by account number and then calculated a certain percentage to the total to determine how much time Debbie spends on

checks and for what fund. See results below. This was data from 7/14 to 3/15

|               |                       |
|---------------|-----------------------|
| General Func  | 30.73%                |
| Utility Funds | 53.98%                |
| Other         | <u>15.30%</u>         |
| Total         | <u><u>100.00%</u></u> |

### **Total Time Spent on Utility Funds**

If we then take the total percentage of time spent per week on AP and multiply it by the amount she spends on utility fund expenses then we can determine an estimated allocation of Debbie's payroll, benefits, and indirect expenses such as office

|                 |                      |
|-----------------|----------------------|
| A/P Hours sp    | 30.00%               |
| Utility invoice | <u>53.98%</u>        |
| Total           | <u><u>16.19%</u></u> |

## Fire Department

The fire department spends a small portion of its time in reviewing subdivision plans, testing and flushing secondary water hydrants, etc. Based on discussions with Eric, the following information was gathered.

- 1) Time allocated to hydrant testing/flows/rehab-paint, North Davis SD training & orientation – 60 hours
- 2) Time allocated to utility plans reviews/inspections, including contractor/planning commission correlation and sprinkler plans reviews – 80 hours

| <u>Hours Spent on Utilites</u> | <u>Total Hours</u> | <u>% Spent on Utilities</u> |
|--------------------------------|--------------------|-----------------------------|
| 140 per person per year        | 2912               | 2.06%                       |

Based on the 2.06% of time spent for all fire employees on utilities the same percentage was used for all expenses in the fire department.



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# Interfund Reimbursement and Internal Service Allocation

January 7, 2016



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# FACTS

## Two different allocations

- Interfund Service Allocation – a charge from an internal service fund or enterprise fund to the general fund to pay for the services in that fund. (i.e. information technology internal service fund)
- Interfund Reimbursement – reimbursement of expense incurred in one fund and charged to another fund. (i.e. salaries of admin staff)



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# Interfund Service Allocation

- Sales and purchases of goods and services between funds for a price approximating their external exchange value.
- Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds.
- Internal service funds should operate with a net zero balance. No profit or loss.



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# Interfund Service Allocation

- Our Information technology fund (Internal Service Fund) charges the General Fund and utility funds for service provided.
  - Equipment, supplies
  - Salaries and benefits
  - IT Contracts, software
- The various funds show an expense for these services.



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# Interfund Service Allocation

## INTERNAL SERVICE ALLOCATION

### Information Technology Internal Service Allocation

|                          |         |
|--------------------------|---------|
| Wages & benefits         | 149,334 |
| Operations               | 70,666  |
| Addition to Fund balance | 20,000  |
|                          | 240,000 |

|                 |     |        |
|-----------------|-----|--------|
| General Fund    | 40% | 96,000 |
| Storm Water     | 5%  | 12,000 |
| Culinary Water  | 30% | 72,000 |
| Sewer           | 5%  | 12,000 |
| Garbage         | 5%  | 12,000 |
| Secondary Water | 15% | 36,000 |

1.00 240,000



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# Interfund Reimbursement

- Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.
- For example, the general fund may provide accounting, payroll, human resource, or legal services to an enterprise fund for which the enterprise fund reimburses the general fund.



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# Interfund Reimbursement

- The key difference between interfund reimbursements and interfund services discussed above, is that the general fund is not in the business of providing these services to customers outside of the primary government.
- Shown as a reimbursement of expense rather than a revenue to the general fund.



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# Interfund Reimbursement

## City Council Allocation

- Based on topics discussed in City Council Meeting.
- 25.81% of topics on utility funds X \$64,641 = \$16,682.00



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# Interfund Reimbursement

## Administration Allocation

- Based on breakdown of total expenses between funds. Expenses approximate staff time spent on utility funds.
- 38.77% of expenses on utility funds X \$1,059,002 = \$410,604.



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# Interfund Reimbursement

## General Building Allocation

- Based on estimated time spent on utility funds. Also includes breakdown of utility expenses.
- 12.73% of expenses on utility funds X \$440,720 = \$56,088.



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# Interfund Reimbursement

## Community Development Allocation

- Based on estimated time spent on utility funds for various employees.
- 15.92% of expenses on utility funds X \$724,633 = \$115,337.



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# Interfund Reimbursement

## Fire Dept. Allocation

- Based on estimated time spent on utility funds for plan reviews and flushing fire hydrants.
- 2.06% of expenses on utility funds X  
 $\$1,750,014 = \$36,058.$



# Interfund Reimbursement

## INTERFUND REIMBURSEMENTS

| INTERFUND REIMBURSEMENTS |                    |           |            |            |
|--------------------------|--------------------|-----------|------------|------------|
|                          | Includes:          |           |            |            |
| City Council             | wages & operations | 64,641    | 25.81%     | 16,682     |
| Administration           | wages & operations | 1,059,002 | 38.77%     | 410,604    |
| General Building         | wages & operations | 440,720   | 12.73%     | 56,088     |
| Community Development    | wages & operations | 724,633   | 15.92%     | 115,337    |
| Fire Department          | wages & operations | 1,750,014 | 2.06%      | 36,058     |
|                          |                    |           |            | 634,769    |
|                          |                    |           |            |            |
|                          |                    |           | FY2016     | FY2015     |
|                          | Storm Water        | 10%       | 63,477     | 96,267     |
|                          | Culinary Water     | 40%       | 253,908    | 256,713    |
|                          | Sewer              | 10%       | 63,477     | 64,178     |
|                          | Garbage            | 5%        | 31,738     | 32,089     |
|                          | Secondary Water    | 35%       | 222,169    | 192,535    |
|                          |                    | 1.00      | 634,769.00 | 641,782.00 |



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# Interfund Reimbursement

## **Allocation between utility funds**

- Based on estimated time spent on each utility fund for HR, legal, payroll, plan reviews, building repairs, etc.