

City of Cambridge

MASSACHUSETTS

In City Council

April 6

198 1

Agenda # 5 Transfer of \$40,000 to the Finance

	YEA	NAY	ABSENT	PRESENT
Mr. Kevin P. Crane	✓			
Mr. Thomas W. Danehy	✓		XO	
Ms. Sandra Graham	✓			
Mr. Leonard J. Russell			✓	
Mr. David E. Sullivan	✓			
Mr. Walter J. Sullivan	✓			
Mr. Alfred Vellucci	✓			
Mr. David A. Wylie	✓			
Mayor Francis H. Duehay	✓			

7 0 2
8 0 ✓

April 6, 1981.

INTRODUCED BY CITY MANAGER JAMES L. SULLIVAN

AN ORDER CONCERNING AN APPROPRIATION FOR THE FISCAL YEAR BEGINNING JULY 1, 1980

ORDERED: That the following transfer be made in the General Fund of the City of Cambridge:

<u>FROM</u>	<u>AMOUNT</u>	<u>TO</u>	<u>AMOUNT</u>
Reserve Extraordinary Expenditures	\$40,000.00	Finance Other Ordinary Maintenance	\$40,000.00

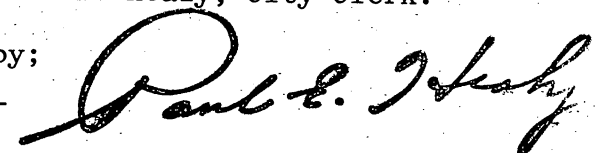
REASON(S)

To provide funds for an Indirect Cost Allocation Plan prepared by Peat, Marwick, Mitchell & Co.

In City Council April 6, 1981.
Adopted by a yeas and nays vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- Paul E. Healy, City Clerk.

A true copy;

ATTEST:-



**PROPOSAL TO PREPARE
AN INDIRECT COST ALLOCATION PLAN
FOR THE
CITY OF CAMBRIDGE, MASSACHUSETTS**

April, 1981



Peat, Marwick, Mitchell & Co.

One Boston Place
Boston, Massachusetts 02108
617-723-7700

April 3, 1981

Mr. James L. Sullivan
City Manager
City Hall
Cambridge, Massachusetts 02139

Dear Mr. Sullivan:

Peat, Marwick, Mitchell & Co. (PMM&Co.) is pleased to submit this proposal to assist the City in preparing its Central Services Cost Allocation Plan and Departmental Indirect Cost Proposals for FY 1980. This letter describes the project's background, objectives and scope, work plan, staffing, timing and fees.

BACKGROUND

The City of Cambridge is faced with a substantial revenue reduction for FY 1982 due primarily to the economic constraints imposed by Proposition 2-1/2. In its recent report, the 2-1/2 Citizens' Task Force has projected a \$14.7 million tax revenue loss due to Proposition 2-1/2 and a net \$5.3 million impact in other items for a total estimated shortfall of \$20 million. In order to meet this anticipated shortfall, the City must decrease expenditures and increase estimated receipts netting to the estimated \$20 million.

One approach identified by the 2-1/2 Citizen's Task Force to increase estimated receipts is to recover indirect costs for City operating departments and Federal and State programs. On Page 29 of its report, the Task Force stated:

"Indirect costs, such as administrative expenses and employee fringe benefits, should be established as a means for good cost control and as a basis for allocating and assessing costs to City departments, funds, and/or Federal and State programs.

...The City should move ahead immediately to implement cost overhead formulas that adequately reflect the cost of services provided."

The method to recover indirect costs for City operations and Federal and state programs is to prepare a City Cost Allocation Plan and Department Indirect Cost Proposals pursuant to Federal Management Circular (FMC) 74-4. It is only through these department indirect cost studies that the City is able to support total indirect costs claimed against Federal programs.



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PMM&Co., the City's public accounting firm and a recognized leader in the preparation of FMC 74-4 studies, having recently performed such reviews for the cities of Brockton and Portland, was, therefore, asked by the City to submit this proposal to describe how we can assist the City of Cambridge to maximize indirect cost reimbursements.

OBJECTIVES AND SCOPE

The overall objectives of the project are two fold:

- To receive maximum recovery of indirect costs from existing and future grants.
- To charge indirect costs to Enterprise Funds as these funds are established in the future.

The scope of the project is to prepare a Cost Allocation Plan and four Departmental Indirect Cost Proposals for FY 1980. We will assume primary responsibility for the preparation of these documents in accordance with Federal guidelines as set forth in Federal Management Circular 74-4.

We will provide City staff with on-the-job training and instruction and a work program to aid in updating the plan. The scope of our services includes negotiations of the Plan and Proposals with cognizant agencies in order to obtain appropriate approvals where necessary. We will provide implementation instructions and follow-up review to help City personnel implement the Plan.

WORK PLAN

Our proposed assistance is based on the defined scope and objectives plus Federal requirements as previously outlined. The objectives and overall output of this project are quite specific. However, the manner of approach and the personnel who undertake the tasks will have a direct bearing on the project's outcome.

We are recommending an approach geared to the required output which documents:

- A City-wide Cost Allocation Plan for FY 1980 and
- Four Departmental Indirect Cost Proposals.

Accordingly, we have developed a proposed project workplan based on the required output and the specifications of desired assistance. It consists of three major phases.



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Phase I - Develop Indirect Cost Documentation

- City Wide Cost Allocation Plan
- Departmental Indirect Cost Rates
- Departmental Indirect Cost Proposals

Phase II - Provide Technical Assistance

Phase III - Negotiate and Obtain Plan Acceptance.

The steps and description of each task follow.

Phase I - Develop Indirect Cost Documentation

Tasks 1 through 5 described below will guide the overall project:

Task 1 - Organize Project Team

A joint City/PMM&Co. Project Team will be organized and will be composed of our staff and City personnel. This Team will:

- Review the general Federal requirements and work program specifications.
- Identify key personnel who will be involved in the project.
- Determine specific responsibilities of Project Team members.

Task 2 - Review Organization and Systems

To develop the Plan in an efficient manner, the Project Team will first review, on a limited basis, City departmental relationships and operations. Briefly, but comprehensively, they will:

- Review the existing organization to identify the departments responsible for Federal program/project management and those which provide indirect support services.
- Review the existing accounting and reporting system to determine the availability and level of detail of budgeting/accounting and related statistical data and to what extent City personnel can supply the data.

The Project Team will interview knowledgeable City officials. The output of these interviews will validate the categorization of City departments in the manner stipulated by Circular 74-4 (i.e., those providing central services and those which are considered operating departments). This process will also verify the means for allocating such items as employee benefits plus building and equipment depreciation or use charges.



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Task 3 - Determine Processing Procedures

PMM&Co. has developed a computerized cost allocation step-down procedure and has successfully used this program in the preparation of approximately 200 plans. Use of this program eliminates numerous calculations and typing of plan schedules. We will discuss the detail requirements for using this program in the initial stages of the project.

Task 4 - Orient City Staff

Training will be provided for City staff to prepare subsequent Plans and Proposals. We have found that this is most successful when client personnel actually participate in the initial engagement. In this manner, they receive on-the-job training and practical experience in various situations. Therefore, their training will include actual work experience plus instruction on technical methodologies.

Task 5 - Provide Overall Supervision and Review

Supervision of the project will be assumed by PMM&Co. members of the Project Team. In addition, PMM&Co. will assume primary responsibility for the successful completion of this project.

The following tasks will begin once the Project Team is organized and briefed as to their responsibilities.

Task 6 - Develop General Cost Allocation Plan Approach

Based on the review of organization and systems, the Project Team will then:

- Develop and analyze a cost allocation approach which will form the basis for the step-down allocation of costs. This includes specifying the sequence of allocation, which can be a key factor toward maximizing indirect cost reimbursement,
- Develop a cost allocation plan prototype,
- Identify data required, and
- Identify data sources.

Task 7 - Design Plan Procedures

Once the general approach is determined, the Project Team will:

- Finalize the preliminary identification of central service activities (i.e., data processing, finance, etc.) and other City-wide indirect costs (i.e., depreciation, insurance, etc.),



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- Determine allowable activities with full description and justification in writing,
- Identify allowable (salaries, supplies, etc.) and unallowable (entertainment, fines, interest, etc.) costs within each of the foregoing activities,
- Establish cost allocation criteria and the basis for allocating costs with descriptions and justifications for each of the foregoing activities based on available information, and
- Document the foregoing methods and techniques in general instructions which will be incorporated in the workpapers which you may copy for utilization during Plan updates.

A basis for beginning this task is contained in the City's FY 1980 financial report and budget which identifies departmental activities and describes the services performed. These will be reviewed by the Project Team and modified to meet Federal requirements, where necessary.

Task 8 - Coordinate Plan Data Collection

Once the general procedures are complete, the Project Team will:

- Meet with central service department and division heads to explain the project, Federal guidelines and their role in the project's success,
- Request department and division heads to review the descriptive activities for their responsibilities, the criteria developed for allowable costs and the basis developed for allocating costs,
- Request each department to provide data necessary to allocate costs,
- Provide technical guidance to each department with this data collection activity as needed, and
- Meet with each department to review the above when completed and prior to preparing the actual Plan.

This task will involve a considerable amount of time. However, by delegating responsibilities for data collection and documentation to individual central service departments, the workload is more evenly distributed and the result is improved.



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Task 9 - Prepare Plan Documentation

After all descriptions are prepared and allocation data is reviewed, the Project Team will:

- Calculate cost allocations for each sub-activity for all central service departments and costs in a step-down procedure,
- Review calculations,
- Assemble narrative materials and cost allocation schedules for final review,
- Type, review, edit and correct the Plan, and
- Reproduce the Plan in the required quantity.

Once Tasks 6 through 9 are underway, the Project Team will begin the following tasks.

Task 10 - Review Major Funding Sources

The Project Team will review major outside funding sources to:

- Determine grant accounting and allowability requirements for direct and indirect costs,
- Determine department(s) responsible for or participating in each grant, and
- Identify four departments for which Indirect Cost Proposals will be prepared.

Other departments may also develop formal indirect cost proposals. This will be determined at that time and will be separately negotiated.

Task 11 - Identify Proposal Content

We will identify direct and indirect costs chargeable to Federally funded programs, projects and activities. Specifically, for the departments identified in Task 10, the Project Team will:

- Identify direct and indirect costs incurred by the respective departments,
- Identify costs allowed by various Federal funding and other special funding sources,
- Determine allowable activities within each identified department with full description and justification in writing,



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- Identify allowable (salaries, supplies, etc.) and unallowable (entertainment, fines, etc.) costs within each of the foregoing activities, and
- Establish cost allocation criteria and basis for allocation of costs with descriptions and justifications for each of the foregoing activities based on available information. To carry out this step, it will be necessary to:
 - Identify data required.
 - Identify data sources.

Task 12 - Coordinate Proposal Requirements

Once the general proposal content is identified, the Project Team will:

- Meet with department heads administering or participating in Federally funded programs to explain the project, Federal guidelines and their role in the project's success,
- Request department heads to review the descriptive activities they are responsible for, the criteria developed for allowable costs and the basis developed for allocating those costs,
- Request each department to provide data necessary to allocate costs,
- Provide technical guidance to each department with data collection activity, as needed, and
- Meet with each department to review the foregoing prior to preparing the Proposal.

As in Task 8, this task will require participation and cooperation of City personnel. Some of the data gathering responsibilities (which are minimal) will be delegated to participating departments to more evenly distribute the required workload.

Task 13 - Prepare Proposal Documentation

After the descriptions are prepared and allocation data is reviewed, the Project Team will:

- Determine whether each department will use the multiple or overall direct cost rate method,
- Calculate cost allocations for each sub-activity for the selected departments considering:



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- Direct department charges.
 - Direct charges (incurred/not billed) by other departments.
 - Indirect department charges.
 - Indirect City-wide costs.
- Review calculations,
 - Type, review, edit and correct the Proposal, and
 - Reproduce the Proposal in required quantity.

Completion of Tasks 10 through 13 will enable each department administering Federal grants to properly charge indirect costs to all Federal and special programs.

Task 14 - Compute Indirect Cost and Fringe Benefit Rates

We will calculate a central service indirect cost rate and a fringe benefit rate for all operating City departments, including those for which a formal Indirect Cost Proposal is prepared.

Phase II- Provide Technical Assistance

During the project up through the preparation of the City-wide Allocation Plan and Department Indirect Cost Proposals, we will provide technical assistance to City personnel for claiming indirect costs for the appropriate Federal grants. This will also entail training appropriate personnel in the procedures and calculations involved in the claiming process. Instructions will be provided for including reimbursable indirect costs in new grant applications, so that the indirect reimbursement will be received along with the reimbursement for the direct costs of the grant.

Phase III - Negotiate and Obtain Plan Approval

According to Federal guidelines for local governments, negotiation and approval of the Plan is not necessary prior to implementation. However, we will submit the Plan and Indirect Cost Proposals to the respective Federal and/or State departments for review and request approval. We will provide technical support, and as needed, answer questions.

Progress Meetings and Report

We anticipate periodic and informal meetings of the Project Team members as the project progresses. At the conclusion of the project, we will meet with City officials to discuss the project and our recommendations for improving cost allocation information.

We will provide computer printouts of the City-wide Cost Allocation Plan which can be used directly for reproduction along with other required documentation for the Plan and each Proposal. We will also present a brief final report to conclude the project.



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Joint Participation

As described in the work plan and in accordance with your intentions, this project will be conducted on a joint basis by establishing a City/PMM&Co. Project Team. This provides for:

- Improved understanding of the project by City staff,
- Improved documentation since City staff are more aware of City activities than an outside consultant, and
- Improved ability of City staff to prepare future plans.

As indicated, this Team will include a budget analyst and George O'Brien. Mr. O'Brien will serve as the City's project manager.

STAFFING

Realizing the importance of quickly obtaining additional monies under the weight of Proposition 2-1/2, we have assembled a project team experienced in the City of Cambridge cost allocation plans and indirect cost proposals.

Robert A. Nielsen, CPA and Partner-in-charge of the Firm's New England State and Local Government Consulting practice will be engagement partner and will be responsible for the successful completion of the project. Mark D. Abrahams will be project manager, responsible for the day-to-day tasks and for preparing the cost allocation plans and indirect cost studies. Peter C. McKenzie will be technical consultant. Messrs. Nielsen, Abrahams and McKenzie have significant experience in cost accounting and indirect cost studies, having performed similar projects for the cities of Portland and Brockton. I, as audit partner for the City of Cambridge, will provide additional technical support.

The project team will be assisted by Alan P. Riendeau, Supervisor for the City of Cambridge's audit and other accountants and auditors as needed.

TIMING AND FEES

We are prepared to commence work immediately upon receipt of your written authorization to proceed. We anticipate completing Phase I within twelve weeks after start-up.

Our fee for professional services is based on the actual time spent on an engagement and the experience level of the personnel assigned. In addition, we are reimbursed for out-of-pocket expenses, such as travel, typing, computer use charges and similar expenditures.



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Based on past experience, we are prepared to enter into a contract for fees and expenses not to exceed \$40,000. This includes the preparation of four Departmental Indirect Cost Proposals in addition to the City-wide Cost Allocation Plan.

It is our practice to submit periodic progress bills.

* * * * *

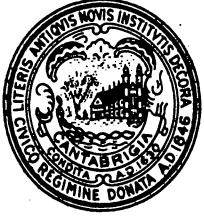
Mr. Sullivan, we are enthusiastic to serve the City of Cambridge in this important project and look forward to working with you and members of your staff. Should you have any questions pertaining to this proposal, please do not hesitate to contact Mark Abrahams or me at 723-7700.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

Howard F. Crossman, Jr., Partner

HFC:nl



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
Tel. 498-9011

EXECUTIVE DEPARTMENT
JAMES L. SULLIVAN
City Manager

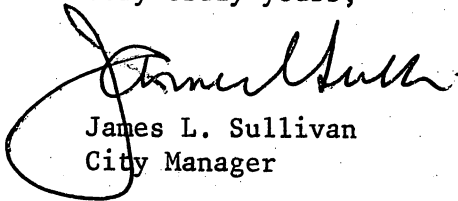
April 6, 1981

To the Honorable, the City Council:

Attached is an order requesting the transfer of \$40,000 from the Reserve Extraordinary Expenditures account to the Finance Other Ordinary Maintenance account to implement the Indirect Cost Allocation Plan as detailed in the attached proposal.

Passage of this order is recommended.

Very truly yours,



James L. Sullivan
City Manager

JLS/mbf
Encs. 2

Transfer of \$40,000 to the Finance
Division.

In City Council,

April 6, 1981

4/6/1981

MD Order Adopted

M-0-2

Revised to P-0-1

on

Motion of L. Parady