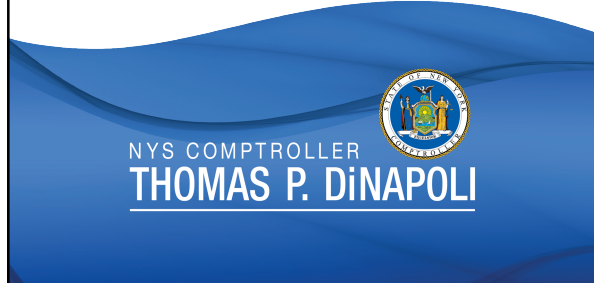


## Understanding the True Costs of Services

Sarah Driscoll - Auditor I  
Division of Local Government and School Accountability



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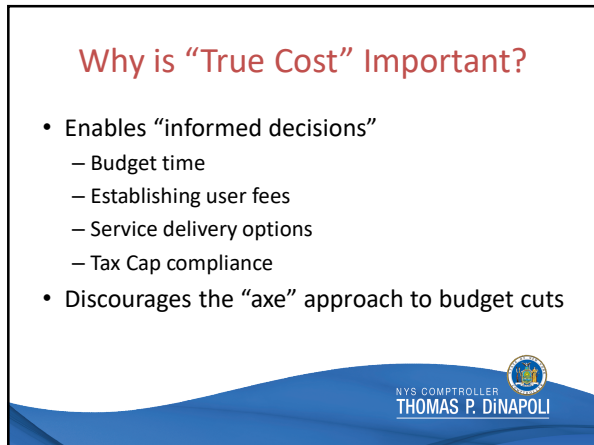
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## Why is "True Cost" Important?

- Enables "informed decisions"
  - Budget time
  - Establishing user fees
  - Service delivery options
  - Tax Cap compliance
- Discourages the "axe" approach to budget cuts



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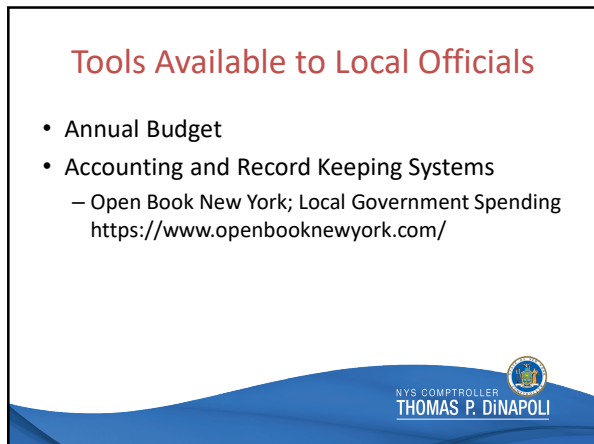
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## Tools Available to Local Officials

- Annual Budget
- Accounting and Record Keeping Systems
  - Open Book New York; Local Government Spending  
<https://www.openbooknewyork.com/>



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## The Line Item Budget

### Strengths

- Provides a uniform coding structure
- Facilitates a comparison
- Controls the expenditures

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## The Line Item Budget

### Weaknesses

- Services are split among funds.
- Attributed revenues are not shown.
- Indirect costs are not allocated.
- Does not permit a meaningful analysis.

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## Calculating True Cost

$$\begin{array}{r} \text{Direct Costs} \\ + \quad \text{Indirect Costs} \\ \hline \text{Total Cost} \\ - \quad \text{Attributed Revenue} \\ \hline \text{True Net Cost} \\ \downarrow \\ \boxed{\text{Local Effort Required}} \end{array}$$

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## What Changes Are Needed?

- Supplemental display changes to address “line item budget” weaknesses
  - Non-accountant friendly format
  - Links revenues and expenditures to service areas
  - Identifies the “true cost” of services

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## Necessary Components

- Major service and function areas
- Direct costs and indirect costs
- Attributable revenues
- Net total cost
- Sources of local effort required

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## Major Service Areas

SERVICE AREA	ACCOUNT CODES
GENERAL GOVERNMENT	1000 - 1999
EDUCATION	2000 - 2999
PUBLIC SAFETY	3000 - 3999
HEALTH	4000 - 4999
TRANSPORTATION	5000 - 5999
ECONOMIC DEVELOPMENT & OPPORTUNITY	6000 - 6999
CULTURE & RECREATION	7000 - 7999
HOME & COMMUNITY SERVICE	8000 - 8999
EMPLOYEE BENEFITS	9000 - 9099
DEBT SERVICE	9700 - 9799
INTERFUND TRANSFER	9900 - 9999

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## Major Service Areas

- Extracted from function areas in line item budget.
- Limit of 10 to 20 is recommended.
- Departments can be divided by area.
  - Highway
    - Snow removal
    - Repairs and improvements

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## Direct Appropriations

- Costs readably identifiable with a service
  - Personal Service Costs (.1)
  - Capital Outlay (.2)
  - Contractual Expenditures (.4)

Account	Description	Amount
DA5142.1	Snow Removal, Personal Services	\$ 146,750
DA5142.2	Snow Removal, Equipment & Capital Outlay	\$ 35,700
DA5142.4	Snow Removal, Contractual Expense	\$ 85,675
	Total Snow Removal	\$ 268,125

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## Indirect Costs

- Allocate based on use or benefit
  - Employee benefits
  - Shared Services
  - Debt Service
- Significant impact on cost
- Based on materiality and ability

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### Examples of Allocating Indirect Costs

Employee Benefits	% of Payroll
Buildings	Square footage occupied
Central Communications	Number of phones/devices
Central Data Processing	Time utilized
Clerical / Administration	Number of hours required, job basis, printing resources
Unallocated Insurance	Basis of premiums
Debt Service	% of Principal & Interest

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### True Cost of Snow Removal

Account	Description	Amount
DA5142.1	Snow Removal, Personal Services	\$ 146,750
DA5142.2	Snow Removal, Equipment & Capital Outlay	\$ 35,700
DA5142.4	Snow Removal, Contractual Expense	\$ 85,675
Subtotal Direct Cost of Snow Removal		\$ 268,125
	Employee Benefits (38% of salaries)	\$ 55,765
	Insurance (26% of premiums)	\$ 9,700
	Serial Bond, Principal	\$ 38,675
	Serial Bond, Interest	\$ 9,678
Subtotal Indirect Cost of Snow Removal		\$ 113,818
Total Direct & Indirect Cost of Snow Removal		<b>\$ 381,943</b>

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### Parallel Expenditure-Revenue Codes

Major Function	Expenditure Code	Revenue Codes			
		Department	Inter Gov't	State Aid	Federal Aid
General Government	1000.0	1200	2200	3000	4000
Education	2000.0	1300	2230	3100	4100
Public Safety	3000.0	1500	2260	3300	4300
Health	4000.0	1600	2280	3400	4400
Transportation	5000.0	1700	2300	3500	4500
Economic Assistance	6000.0	1800	2310	3600	4600
Culture & Recreation	7000.0	2000	2350	3800	4800
Home & Community	8000.0	2100	2370	3900	4900
Undistributed	9000.0				

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## Attributed Revenues

- Directly related to performance of a service
- Fees, user charges and State and Federal reimbursements
- Parallel revenue and expenditure codes in Uniform System of Accounts

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## Local Effort Required

- Not a direct result of a service
- Not restricted as to use
  - State aid
  - Sales tax
  - Interest
  - Appropriated fund balance
  - Property taxes

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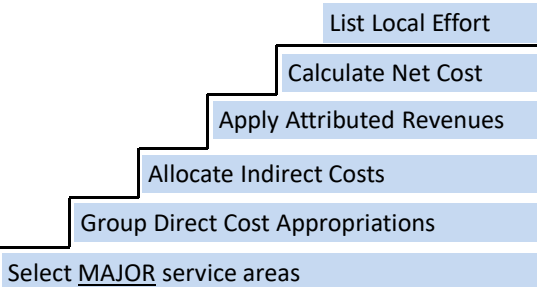
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## Steps to Follow



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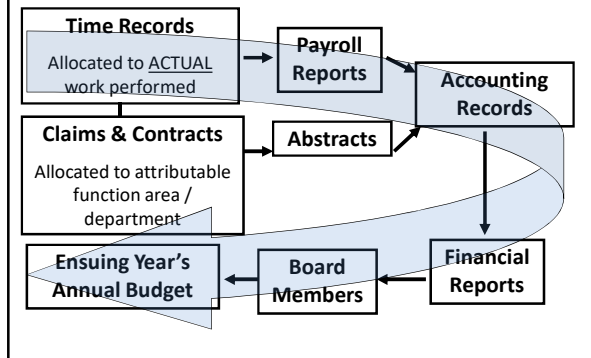
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## The Correct Flow of Information




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## Payroll and Employee Benefits

- Significant portion of expenses
- Requires detailed time records
- Allocate payrolls to services
- Allocate benefits to services

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## Common Payroll Method

Not Recommended

Dates	Service	Account
July 1 – July 15	Street Improvement	A5112.1
July 16 – July 31	Sewer Line Maintenance	A8120.1
August 1 – August 15	Water Line Maintenance	A8340.1
August 16 - August 30	Park Maintenance	A7110.1
September 1 – September 15	Bridge Maintenance	A5120.1
September 16 – October 30	Brush & Leaf / Miscellaneous	A5140.1
November 1 – November 15	Machinery	A5130.1
November 16 – December 14	Garage	A5132.1
December 15 – March 15	Snow Removal	A5142.1
April 1 – April 15	Street Cleaning	A8170.1
April 16 – May 1	Storm Sewers	A8140.1
May 1 – May 31	Street Maintenance	A5110.1

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## Common Time Record Used

Not Recommended

Employee: John Jones								
	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Week Ended: 9/5/09	8	8	8	8	8	3		43
Week Ended: 9/12/09								
<b>Total For Pay Period</b>								
Week Ended: 9/19/09								
Week Ended: 9/26/09								
<b>Total For Pay Period</b>								

Week Ended 9/5/09 Charge To: Bridge Maintenance (A5120.1)								
	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
John Jones	8	8	8	8	8	3		43
Harry Smith	8	8	8	8	8			40
Josh Parker	8	8	8	8	8			40
William Baker	8	8	8	8	8	3		43

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## A Better Method

Employee: John Jones		Week Ended: 9/5/17							Totals
Work Performed	Mon	Tue	Wed	Thur	Fri	Sat	Sun		
Brush & Leaf Pickup									
Street Repair		4			3			7	
Street Improvement	5		3	8	3			19	
Vehicle Repair	2				2			4	
Snow Plowing									
Snow Removal									
Parks Maintenance		2.5						2.5	
Cemetery Maintenance	1							1	
Sewer Maintenance		1.5				3		4.5	
Water Maintenance			5					5	
Miscellaneous									
<b>Totals</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>3</b>		<b>43</b>	

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## Contractual Expenditures

- Large portion of expenditures
- Allocate to service areas
- Object of expenditure code
  - Budget at a minimum level
  - Account for at an expanded level

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Examples of Expanding the Contractual Code (.4)

DA5142.41	Snow Removal – Diesel Fuel
DA5142.42	Snow Removal – Gasoline
DA5142.43	Snow Removal – Salt
DA5142.44	Snow Removal – Sand
DA5142.45	Snow Removal – Equip Rental
DA5142.46	Snow Removal – Supplies

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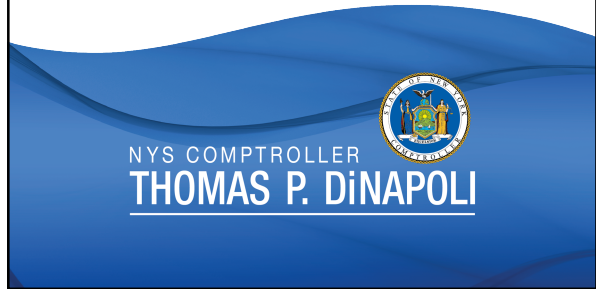
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Thank You

Division of Local Government and School Accountability  
localtraining@osc.ny.gov



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