



TOWN OF HEMPSTEAD, NEW YORK

FINAL

EXECUTIVE SUMMARY

**ANALYSIS OF ADMINISTRATIVE CHARGES
CENTRAL SERVICES COST ALLOCATION PLAN
BASED ON ACTUAL EXPENDITURES
FOR FISCAL YEAR ENDING DECEMBER 31, 2016**

8/13/18

**TOWN OF HEMPSTEAD, NEW YORK
EXECUTIVE SUMMARY**

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TOWN OF HEMPSTEAD, NEW YORK EXECUTIVE SUMMARY

INTRODUCTION

A study of administrative and support costs associated with operating departments, functions and programs was undertaken by the Town of Hempstead (Town) with the assistance of MAXIMUS Consulting Services, Inc. (MAXIMUS). As part of the Town's effort to maintain the quality of services provided to its citizens and to identify the total costs incurred to provide these services, the Town initiated an in-depth analysis of indirect costs applicable to all Town departments as well as specific funds and special districts.

Because government budgets and accounting systems are appropriation based, the direct costs of operating a particular department, function or program are typically well known to management. However, appropriation-based systems do not allow for identifying the total costs (direct and indirect) associated with government operations. In order to determine what the total costs of operations are, a methodology for distributing administrative and support costs (indirect) must be developed. Further, when government services are provided to specific users, there is an added emphasis to this determination and to the purpose of generating logical and defensible new revenues from specific sources.

The central services cost allocation plan (the plan) is prepared to meet the objectives of the Town's initiative by providing a comprehensive analysis of administrative costs. This document can be used by Town management to charge indirect costs to its various funds. The plan also identifies the costs incurred by the Town in providing services to its special districts. Further, the plan allows Town management to better identify the total costs (direct and indirect) of all departments and ultimately, better control of Town resources.

This report provides a summary and explanation of the methodology used in developing the plan. In addition, the logical flow of costs incurred by various service-oriented departments to the receivers of those services will be identified, along with the cost impact they represent. Although the explanations that follow are in many cases universal in application; that is, the procedures followed are used consistently in the development of cost allocation plans for various sub-divisions of government, they are within the context of this synopsis specifically applicable to the Town.

COST ALLOCATION METHODOLOGY

The Town structures its budget and chart of accounts in a hierarchy of: fund, agency, organization (department) and object. The plan has identified certain costs incurred within general fund departments as "central service" in nature. In addition, the receivers of cost allocations are typically referred to as receiving departments. The term "cost plan" as used throughout this summary generally refers to a methodology by which indirect costs are identified

as applicable to the operation of the various departments of the Town. This is to say that during the normal accounting process, direct costs of salaries, supplies, etc., are charged to appropriate accounts within the Town's department and fund structure, however, there are additional costs incurred relative to these departments which have not been directly budgeted or accounted for. Indirect costs represent administrative and general support costs incurred by departments such as the Town Comptroller, Town Attorney, General Services, Human Resources, Information and Technology, etc. In addition, undistributed costs of property and liability insurance, general fund employee fringe benefits and general fund debt service are allocated in the plan.

Indirect costs, as exemplified by the specific departments mentioned above, generally apply to the Town as a whole and require intensified analysis in order to accommodate accurate distribution to benefiting departments. Through the development of a cost allocation plan, these costs, which are sometimes referred to as overhead, are identified in specific detail and allocated to those departments and programs which they affect. In this way, the Town can determine what the true costs of operations are, both direct and indirect, for any department or program under its control.

Indirect costs can represent various types of centralized services. They include purchasing, accounting and financial reporting, payroll processing, legal services, photocopying, labor relations, personnel administration, etc. The methodology used in development and compilation of data contained in the plan involves a segregation process whereby central service areas or cost centers are broken down as to specific activity. These finite cost pools are then allocated to receivers or user departments via identifiable and equitable statistical bases. Throughout the plan, this same methodology is applied until all allocable central service costs have been distributed. It should be noted however, that certain costs incurred by the Town within central service departments that are not relative to the support or administration of other departments or funds and have been deemed general government in nature and not allocated (i.e., constituent services).

An example of a central service department is Town Comptroller. This department is responsible for a variety of duties relative to the financial operations of the Town as a whole. As such, the Town Comptroller provides financial accounting and reporting, accounts payable, payroll processing, purchasing, and other financially oriented services to Town departments, funds and special districts. In following through with the cost finding process, costs incurred by the Town Comptroller, both direct and indirect, are in turn analyzed and allocated to those departments and funds it serves. Cost allocation is accomplished through the use of various representative statistical bases or work measurements. In this example, these would be corresponding bases such as the number of expense and revenue transactions processed for allocating accounting/accounts payable costs; the number of employees for allocating payroll processing costs, etc.

The methodology illustrated by the previous example is consistently applied throughout the cost plan formula. Also, as can be seen by the example, only those departments that provide services to or benefit other departments are classified as central service areas.

MAXIMUS has developed software that uses a double step-down allocation procedure to distribute costs of central services to other user departments (beneficiaries). The first step requires a sequential ordering of departments before the allocation process begins. Departmental indirect costs are then allocated to each user department in the sequence ordered in the first allocation process.

A second step-down allocation is made from each central service department to capture costs related to the cross-benefit of services among central service departments not identified in the first allocation. The user department is subsequently closed and not allowed to receive any additional allocation.

The costs allocated from each central service department consist of costs accumulated in a two-step allocation process as follows:

1. First allocation – The actual operating expenditures incurred in the central service department, plus all central service costs allocated from other central service departments.
2. Second allocation – Central service costs not previously identified and allocated by other central service departments.

Within the Town's cost allocation plan, each central service cost center is prefaced by a narrative which identifies the type of service provided, the segregation of costs into separate and distinct cost pools, and the means by which these costs are allocated. Schedules contained within each section illustrate the direct costs incurred, allocated costs from other central service cost centers and other adjustments, in total and by specific activity area. Detail allocation schedules identify how each cost pool is distributed to receivers. The statistical bases, which serve to proportion costs among the receivers, are clearly noted on each detail allocation schedule. Cost allocation summary schedules appearing at the end of each section show the total costs allocated to each receiver department, function or program. Upon completion of all allocations, summary Schedule A (see Exhibit I) is prepared showing the final allocated costs by receiving department for each central service department.

The methodology, as discussed above and as reflected in the plan, provides for a clear and concise trail of how the total costs of administrative and support services have been developed. Moreover, these costs are identified at departmental levels and specifically by service categories.

OPERATING FUNDS WITH TOTAL INCREASE > \$500K FROM PRIOR YEAR

None.

EXHIBIT I

SCHEDULE A – ALLOCATED COSTS BY DEPARTMENT

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Civil Defense | Publicity | Tourism | Senior Enrichment | Housing Authority |
|--|----------------------|------------------|----------------|--------------------------|--------------------------|
| Gen Fund-Undistributed | 0 | 0 | 142,801 | 2,277,123 | 0 |
| Gen Fund-Debt Service | 0 | 0 | 1,065 | 101,206 | 0 |
| Insurance | 0 | 0 | 8,419 | 118,900 | 0 |
| General Services | 0 | 0 | 172,967 | 1,285,257 | 0 |
| Supervisor | 0 | 0 | 13,013 | 238,630 | 0 |
| Town Comptroller | 656 | 377 | 19,950 | 214,042 | 1,145 |
| Receiver of Taxes | 1 | 297 | 1,958 | 28,749 | 71 |
| Town Clerk | 0 | 0 | 1,793 | 12,646 | 0 |
| Town Attorney | 0 | 0 | 3,655 | 67,426 | 0 |
| Human Resources | 0 | 0 | 4,143 | 76,203 | 0 |
| Civil Service | 0 | 0 | 3,378 | 62,137 | 0 |
| Engineering | 0 | 0 | 0 | 0 | 0 |
| Information & Tech | 0 | 0 | 25,814 | 102,402 | 0 |
| Public Safety | 0 | 0 | 0 | 0 | 208,737 |
| DGS-Traffic Control | 0 | 0 | 0 | 0 | 0 |
| Highway Dept | 0 | 0 | 0 | 0 | 0 |
| Town Board | 0 | 0 | 18,200 | 333,791 | 0 |
| Allocated Costs for Fiscal 2016 | 657 | 674 | 417,156 | 4,918,512 | 209,953 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Consrvtm & Waterways | DGS-Cemeteries | Contingency | Apportioned Costs | Animal Shelter |
|---------------------------------|-------------------------|----------------|-------------|-------------------|----------------|
| Gen Fund-Undistributed | 4,396,123 | 957,269 | 0 | 0 | 1,638,373 |
| Gen Fund-Debt Service | 1,186,413 | 188,517 | 0 | 0 | 277,852 |
| Insurance | 297,639 | 48,712 | 0 | 0 | 103,145 |
| General Services | 105,424 | 1,054,601 | 0 | 0 | 1,471,838 |
| Supervisor | 355,785 | 73,758 | 0 | 0 | 138,840 |
| Town Comptroller | 491,057 | 101,631 | 0 | 40,701 | 447,390 |
| Receiver of Taxes | 56,443 | 11,674 | 0 | 203,227 | 22,905 |
| Town Clerk | 33,865 | 0 | 0 | 0 | 26,515 |
| Town Attorney | 155,136 | 20,832 | 0 | 0 | 54,821 |
| Human Resources | 113,614 | 23,545 | 0 | 0 | 44,335 |
| Civil Service | 92,634 | 19,200 | 0 | 0 | 36,146 |
| Engineering | 136,841 | 0 | 0 | 0 | 0 |
| Information & Tech | 165,629 | 42,265 | 0 | 0 | 241,000 |
| Public Safety | 730,570 | 313,095 | 0 | 0 | 313,095 |
| DGS-Traffic Control | 480,570 | 240,292 | 0 | 0 | 240,292 |
| Highway Dept | 40,087 | 200,459 | 0 | 0 | 0 |
| Town Board | 497,640 | 103,170 | 0 | 0 | 194,207 |
| Allocated Costs for Fiscal 2016 | 9,335,470 | 3,399,020 | 0 | 243,928 | 5,250,754 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Building Department | Board of Zoning | Planning & Econ Dev | Memorial Day Fund | Part Town Undistrib |
|---------------------------------|------------------------|-----------------|------------------------|-------------------|---------------------|
| Gen Fund-Undistributed | 0 | 0 | 0 | 0 | 0 |
| Gen Fund-Debt Service | 20,297 | 2,422 | 0 | 0 | 0 |
| Insurance | 26,393 | 3,150 | 5,471 | 0 | 0 |
| General Services | 2,062,021 | 201,031 | 346,948 | 0 | 0 |
| Supervisor | 399,172 | 65,082 | 43,382 | 0 | 0 |
| Town Comptroller | 398,714 | 60,983 | 29,506 | 157 | 84,148 |
| Receiver of Taxes | 112,526 | 22,403 | 16,076 | 1 | 38,386 |
| Town Clerk | 138,324 | 223,607 | 32,700 | 0 | 0 |
| Town Attorney | 1,407,806 | 834,143 | 35,648 | 0 | 0 |
| Human Resources | 127,473 | 20,776 | 13,850 | 0 | 0 |
| Civil Service | 103,941 | 16,939 | 11,292 | 0 | 0 |
| Engineering | 478,945 | 136,841 | 205,261 | 0 | 0 |
| Information & Tech | 1,185,618 | 76,352 | 124,871 | 0 | 0 |
| Public Safety | 0 | 0 | 0 | 0 | 0 |
| DGS-Traffic Control | 240,292 | 0 | 120,139 | 0 | 0 |
| Highway Dept | 0 | 0 | 0 | 0 | 0 |
| Town Board | 558,341 | 91,037 | 60,694 | 0 | 0 |
| Allocated Costs for Fiscal 2016 | 7,259,863 | 1,754,766 | 1,045,838 | 158 | 122,534 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Part Town Highway Fd | Fire Protectn Districts | T/H Lighting District | Library Districts | Parking Fields |
|---------------------------------|-------------------------|----------------------------|-----------------------|-------------------|----------------|
| Gen Fund-Undistributed | 0 | 0 | 0 | 0 | 0 |
| Gen Fund-Debt Service | 0 | 0 | 0 | 0 | 0 |
| Insurance | 0 | 0 | 0 | 0 | 0 |
| General Services | 0 | 0 | 8,410 | 0 | 0 |
| Supervisor | 828,710 | 0 | 0 | 0 | 21,693 |
| Town Comptroller | 1,002,384 | 27,325 | 163,726 | 5,992 | 99,776 |
| Receiver of Taxes | 448,627 | 35,682 | 67,004 | 7,579 | 55,445 |
| Town Clerk | 14,450 | 0 | 0 | 0 | 0 |
| Town Attorney | 2,364,260 | 0 | 0 | 0 | 6,105 |
| Human Resources | 264,644 | 0 | 0 | 0 | 6,913 |
| Civil Service | 215,769 | 0 | 0 | 0 | 5,639 |
| Engineering | 0 | 0 | 0 | 0 | 478,945 |
| Information & Tech | 179,140 | 0 | 0 | 0 | 0 |
| Public Safety | 0 | 0 | 0 | 0 | 1,461,133 |
| DGS-Traffic Control | 360,429 | 0 | 3,964,681 | 0 | 240,292 |
| Highway Dept | 2,605,849 | 0 | 0 | 0 | 360,814 |
| Town Board | 1,159,157 | 0 | 0 | 0 | 30,347 |
| Allocated Costs for Fiscal 2016 | 9,443,419 | 63,007 | 4,203,821 | 13,571 | 2,767,102 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Sanitation Utility | Parks & Recreation | Water Utility | Credit Union | Urban Renewal |
|--|---------------------------|-------------------------------|----------------------|---------------------|----------------------|
| Gen Fund-Undistributed | 0 | 173,012 | 0 | 0 | 0 |
| Gen Fund-Debt Service | 799 | 0 | 0 | 398 | 0 |
| Insurance | 1,388 | 19,135 | 0 | 451 | 2,581 |
| General Services | 245,565 | 2,205,811 | 97,177 | 36,554 | 164,712 |
| Supervisor | 1,692,131 | 1,722,530 | 303,719 | 0 | 0 |
| Town Comptroller | 1,658,869 | 1,776,723 | 511,729 | 0 | 0 |
| Receiver of Taxes | 1,134,090 | 877,561 | 244,461 | 0 | 0 |
| Town Clerk | 29,360 | 34,900 | 34,031 | 0 | 895 |
| Town Attorney | 1,354,337 | 705,354 | 148,231 | 0 | 473,385 |
| Human Resources | 540,353 | 550,127 | 96,991 | 0 | 0 |
| Civil Service | 440,573 | 448,574 | 79,080 | 0 | 0 |
| Engineering | 0 | 205,261 | 0 | 0 | 0 |
| Information & Tech | 391,763 | 609,223 | 311,768 | 0 | 34,068 |
| Public Safety | 313,095 | 2,609,200 | 104,361 | 0 | 0 |
| DGS-Traffic Control | 240,292 | 360,429 | 0 | 0 | 0 |
| Highway Dept | 0 | 200,459 | 0 | 0 | 0 |
| Town Board | 2,366,871 | 2,409,348 | 424,830 | 0 | 0 |
| Allocated Costs for Fiscal 2016 | 10,409,486 | 14,907,647 | 2,356,378 | 37,403 | 675,641 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | IDA | CSEA | DOOR | Capital Funds | Community Development |
|--|----------------|----------------|--------------|----------------------|------------------------------|
| Gen Fund-Undistributed | 0 | 0 | 0 | 0 | 0 |
| Gen Fund-Debt Service | 1,614 | 609 | 0 | 0 | 0 |
| Insurance | 1,820 | 1,058 | 0 | 0 | 0 |
| General Services | 147,184 | 146,549 | 1,858 | 0 | 0 |
| Supervisor | 0 | 0 | 0 | 0 | 0 |
| Town Comptroller | 0 | 0 | 0 | 0 | 0 |
| Receiver of Taxes | 0 | 0 | 0 | 0 | 0 |
| Town Clerk | 0 | 0 | 0 | 0 | 40,660 |
| Town Attorney | 0 | 0 | 0 | 0 | 0 |
| Human Resources | 0 | 0 | 0 | 0 | 0 |
| Civil Service | 0 | 0 | 0 | 0 | 0 |
| Engineering | 0 | 0 | 0 | 4,105,294 | 0 |
| Information & Tech | 24,678 | 0 | 0 | 0 | 0 |
| Public Safety | 0 | 0 | 0 | 0 | 0 |
| DGS-Traffic Control | 0 | 0 | 0 | 0 | 0 |
| Highway Dept | 0 | 0 | 0 | 601,355 | 0 |
| Town Board | 0 | 0 | 0 | 0 | 0 |
| Allocated Costs for Fiscal 2016 | 175,296 | 148,216 | 1,858 | 4,706,649 | 40,660 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Other Misc | Total Allocated | Direct Billed | Unallocated | Cost Adjustments |
|--|-------------------|------------------------|----------------------|--------------------|-------------------------|
| Gen Fund-Undistributed | 548,497 | 10,133,198 | 0 | 7,399,178 | 0 |
| Gen Fund-Debt Service | 2,655,901 | 4,437,093 | 0 | 0 | 0 |
| Insurance | 15,134 | 653,396 | 0 | 0 | 0 |
| General Services | 1,158,973 | 10,912,880 | 0 | 0 | 0 |
| Supervisor | 0 | 5,896,445 | 0 | 693,265 | 0 |
| Town Comptroller | 276,067 | 7,413,048 | 0 | 0 | 0 |
| Receiver of Taxes | 0 | 3,385,166 | 0 | 5,501,018 | 0 |
| Town Clerk | 0 | 623,746 | 0 | 8,812,901 | 0 |
| Town Attorney | 245,434 | 7,876,573 | 0 | 400,691 | 0 |
| Human Resources | 0 | 1,882,967 | 0 | 0 | 0 |
| Civil Service | 0 | 1,535,302 | 0 | 0 | 0 |
| Engineering | 0 | 5,747,388 | 0 | 0 | 48,824 |
| Information & Tech | 14,912 | 3,529,503 | 0 | 0 | 0 |
| Public Safety | 0 | 6,053,286 | 0 | 0 | 0 |
| DGS-Traffic Control | 0 | 6,487,708 | 0 | 0 | 0 |
| Highway Dept | 0 | 4,009,023 | 0 | 0 | 0 |
| Town Board | 0 | 8,247,633 | 0 | 0 | 0 |
| Allocated Costs for Fiscal 2016 | 4,914,918 | 88,824,355 | 0 | 22,807,053 | 48,824 |

Town of Hempstead, New York
Analysis of Administrative Charges
2016 Central Services Cost Allocation Plan
Schedule A - Allocated Costs By Department

| Central Service Departments | Disallowed | Total Expenditures |
|------------------------------------|-------------------|---------------------------|
| Gen Fund-Undistributed | | |
| Gen Fund-Debt Service | | |
| Insurance | | |
| General Services | | |
| Supervisor | | |
| Town Comptroller | | |
| Receiver of Taxes | | |
| Town Clerk | | |
| Town Attorney | | |
| Human Resources | | |
| Civil Service | | |
| Engineering | | |
| Information & Tech | | |
| Public Safety | | |
| DGS-Traffic Control | | |
| Highway Dept | | |
| Town Board | | |
| Allocated Costs for Fiscal 2016 | | 111,680,232 |

EXHIBIT II

RECONCILIATION OF ACTUAL EXPENDITURES ALLOCATED

Town of Hempstead, New York
Analysis of Administrative Charges
Reconciliation of Actual Expenditures Allocated

| | | | |
|--|------------------|-----------------------|--------|
| Total 2016 General Fund Actual Expenditures | | <u>\$ 164,643,282</u> | |
| Building Department | \$ 7,259,863 | | |
| Board of Zoning | 1,754,766 | | |
| Planning & Econ Dev | 1,045,838 | | |
| Memorial Day Fund | 158 | | |
| Part Town Undistributed | 122,534 | | |
| Part Town Highway Fund | 9,443,419 | | |
| Fire Protectn Districts | 63,007 | | |
| T/H Lighting District | 4,203,821 | | |
| Library Districts | 13,571 | | |
| Parking Fields | 2,767,102 | | |
| Sanitation Utility | 10,409,486 | | |
| Parks & Recreation | 14,907,647 | | |
| Water Utility | 2,356,378 | | |
| Capital Funds | <u>4,706,649</u> | | |
| Total Other Funds Allocated * | (1) | 59,054,239 | 35.9% |
| Civil Defense | 657 | | |
| Publicity | 674 | | |
| Tourism | 417,156 | | |
| Senior Enrichment | 4,918,512 | | |
| Housing Authority | 209,953 | | |
| Consrvtn & Waterways | 9,335,470 | | |
| DGS-Cemeteries | 3,399,020 | | |
| Apportioned Costs | 243,928 | | |
| Animal Shelter | 5,250,754 | | |
| Credit Union | 37,403 | | |
| Urban Renewal | 675,641 | | |
| IDA | 175,296 | | |
| CSEA | 148,216 | | |
| DOOR | 1,858 | | |
| Community Development | 40,660 | | |
| Other Misc | <u>4,914,918</u> | | |
| Total General Fund Allocated * | (2) | <u>29,770,116</u> | 18.1% |
| Sub Total * | (3)=(1)+(2) | 88,824,355 | |
| Total General Fund Central Services Unallocated * | (4) | 22,807,053 | 13.9% |
| Cost Adjustments * | (5) | <u>48,824</u> | |
| Total * | (3)+(4)+(5) | 111,680,232 | |
| Total General Fund Non-Central Services Expenditures | | <u>52,963,050</u> | 32.2% |
| Total 2016 General Fund Actual Expenditures | | <u>\$ 164,643,282</u> | 100.0% |

* Refer to Schedule A in plan.