

Appropriate Allocation of Data-Processing Costs

This document discusses the appropriate allocation of data-processing costs in a Cost Allocation Plan (CAP), Internal Service Fund (ISF), or other county internal billing arrangement (IBA) that is not an ISF.

The purpose of any cost allocation method (whether it is through a CAP, ISF or IBA) is to appropriately distribute the costs to departments within the county. A number of factors provide for an appropriate allocation. Two of these factors are:

- How the costs are grouped; and
- The allocation base for each group of costs.

These two factors must be designed so that costs are allocated appropriately to the benefiting users. For example, it may be appropriate to allocate costs to all personal computer (PC)/laptop users (allocation by number of PCs/laptops); on the other hand, it may be appropriate to allocate the costs to only certain PC/laptop users (allocation based on user ID) because only those users have access to or use a certain application.

Unless the applications and the county computer systems are very basic, it is inappropriate to group all costs into one pool and divide by the number of PCs/laptops within the county. Each county department may not need a particular application, and not all PCs may need access to it.

The following example is provided to illustrate the need for a different grouping of costs and different bases for the allocation of costs in order to achieve the appropriate allocation of costs.

Example:

The treasurer's office has nine PCs. The Friend of the Court (FOC) office has 11 PCs. The county has a financial application used by all nine members of the treasurer's staff, and only one member of the FOC staff.

In this situation, it is appropriate to allocate the cost by user ID because only some of the PCs (10 out of the total of 20) have access to the application. If costs were based on the total number of PCs, the FOC, with more PCs but only one user, would inappropriately be allocated the majority of the cost.

The county network costs that provide the same access services to all PCs/laptops would be allocated to all 20 PCs.

The financial application costs would be included in their own cost pool and allocated based on user IDs with access (10 PCs/laptops) and not combined with the cost pool for the network costs that are allocated based on the number of PCs/laptops (20).

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The above allocation example should serve as a guide. Counties must allocate data-processing costs using appropriate cost groupings that reflect the users benefiting from the services. These principles apply whether the allocations are through a CAP, ISF or IBA. In accordance with 2 Code of Federal Regulations (CFR) Part 200, costs must be assigned in accordance with the benefits received.

FOC or Prosecuting Attorney (PA) offices should refer to the following references for additional cost allocation principles and guidance related to allocating costs through a CAP, ISF or IBA:

- 2 CFR Part 200 Appendix V - State/Local Governmentwide Central Service Cost Allocation Plans;
- 2 CFR Part 200 Subpart E, Subgroup – General Provisions; and
- The U.S. Department of Health and Human Services publication: *A Guide for State, Local and Indian Tribal Governments, Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government.*

FOC or PA data-processing costs must be identifiable to an external auditor.

Counties must also review their CAP, ISF or IBA allocations to ensure that any allocations that are proposed to be billed do not duplicate services provided by the state.