



FINANCIAL CONSULTANT **SCOPE OF WORK**

We are seeking a Financial consultant to perform an analysis of ABAG's internal cost allocation methodology, which is currently being utilized to develop PLAN's administrative expense component (charges). The cost allocation formula has been found to meet OMB Circular A-87 guidelines, so no testing in that area is required. ABAG is seeking to compare/contrast PLAN Administrative charges to those costs incurred by its peer group (i.e. similar sized pools/JPA's that maintain an internally staffed Third Party Administration function). Most of the work can and will be performed on site. A suitable workstation will be provided at ABAG offices. We have defined the scope of work as follows:

- 1) Obtain and document an understanding of the structural and operational relationship between ABAG and ABAG PLAN including how costs are incurred by both entities.
- 2) Obtain and document an understanding of the methodology used by ABAG for allocating direct and indirect administrative costs to PLAN for fiscal year 2010-11. Determine if methodology has changed in the past 3 years and, if so, document the changes and estimated impacts on the resulting allocation of charges.
- 3) Determine whether the methodology for allocating direct and indirect costs to PLAN is consistent with generally accepted industry standards and/or practice for entities of similar size and structure.
- 4) Determine whether the indirect costs allocated to PLAN represent reasonable charges based on industry standards and actual benefit received by PLAN.
- 5) Compare administrative overhead charges allocated to PLAN with five comparable agencies in California and document where PLAN charges fall in relation to these agencies.
- 6) Provide a summary of findings and recommendations for improvement.
- 7) Make one presentation of the findings and recommendations to either the Executive Committee or Board of Directors in June.

The project requires that the contractor fully comprehend the following areas within ABAG's Financial operations. It is very important to understand the unique relationship between ABAG and ABAG PLAN.



SCOPE OF WORK (con't)

ABAG/ABAG PLAN Organizational Structure

ABAG PLAN is an operating enterprise within ABAG, along with several other enterprise funds (project based). ABAG controls the hiring of all personnel for each enterprise fund and all personnel are employees of ABAG. PLAN is provided dedicated resources (staff of 10) for Risk Management and Claims Administration. All other PLAN resources (HR, Administration, Finance, Systems and Legal) are shared resources and their cost is allocated back to the PLAN Administration fund, as indirect costs.

The ABAG Indirect Cost Plan incorporates the following concepts:

- 1) Certain operating costs are incurred for a common or joint purpose and are not readily identifiable with specific projects due either to high cost of allocation or difficulty in coming up with an equitable basis for allocation. These costs which benefit more than one project and are necessary for general administrative purposes are recorded in the indirect (overhead) cost pool.
- 2) Costs in the indirect cost pool are allocated to projects based on a standard agency wide indirect cost rate. The basis ABAG uses to allocate indirect overhead costs is direct labor cost.
- 3) Actual incurred indirect (overhead) costs are accumulated in the indirect cost pool.
- 4) Indirect costs are allocated monthly to projects along with actual direct labor costs through the Payroll Cost Allocation (PCA) system. The indirect charges are calculated by multiplying the standard indirect cost rate by the total direct labor cost charged to a project. The PCA system records direct labor costs and the allocated indirect costs in projects and uploads monthly to the General Ledger.
- 5) ABAG uses the accrual basis of accounting and all costs are recorded in the General Ledger where transactions are posted to projects and categorized under appropriate expense accounts.
- 6) Indirect overhead costs are divided into two categories; Salary and Benefits (Personnel Costs) and Other Services and Charges (i.e. depreciation, maintenance, utilities, etc).
- 7) At the end of each month, the actual indirect cost rate is calculated by dividing total indirect costs recorded in the indirect cost pool by total direct labor cost charged to the projects. The actual indirect cost rate may be higher or lower than the standard rate. This process results in an under or over allocation of indirect costs. At the end of each fiscal year, the total amount of under or over allocation of overhead is carried forward as an adjustment in the next fiscal year.

SCOPE OF WORK (con't)

The Accounting Process at ABAG

ABAG has installed the Oracle Financial System and has been using this new system completely since July 1, 1999. The Oracle system consists of three modules--General Ledger, Accounts Payable and Accounts Receivable. ABAG also uses an in-house developed Payroll Cost Allocation System to allocate personnel and related indirect costs to projects. The Payroll Cost System uploads to the Oracle Financial System once a month. The Oracle system provides each entity with a separate set of books from a shared data base.

The Accounting Department is operated by 4 qualified and experienced employees: a Finance Director, an Accounting Supervisor and two other accounting staff. Monthly financial reports are generated for each entity and the June 30 year-end closing is normally completed around the end of July.

Very few and minor audit findings were ceded in the audits of the financial records of ABAG and affiliated entities over the last ten years. All management letter recommendations have been implemented (see copies of June 30, 1999 audit reports enclosed in Exhibit C). The accounting process at ABAG functions efficiently under sound administrative and internal controls. Each audit is well planned in advance with the auditors so that the financial reports and schedules to be examined are ready before audit work begins. Over the years, audits are efficiently done and cooperation between accounting staff and auditors has been excellent.

Payroll Cost Allocation System (PCA)

The Payroll Cost Allocation system is an Access database application developed in house. PCA records the details of employee costing including pay rates, hours, and project numbers. It can accumulate costs associated with payroll results. PCA reports compare budgeted project hours and costs to actual. PCA reports are excellent tools for program managers to monitor payroll expenses. PCA serves as an intermediary between our time entry system and general ledger system. It imports employee work hours from the timesheet system and transfers accumulated payroll costs by project to Oracle.

Specific duties will include but not be limited to the above Scope of Services. The above scope of work may be modified, as approved by ABAG PLAN.