

# **Assessing and Capturing True Program Costs**

## **A White Paper for Conservation Districts**

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## **Facilitator Notes:**

The intended use of this paper is to assist Conservation Districts in understanding and capturing to the greatest practical sense the true costs of administering programs. The information presented is a collection of areas of potential expense. It is not intended to establish a “one size fits all” method of calculating program costs. It should be used as a tool to assist each district in identifying and capturing program expenses.

## **Disclaimer:**

The information presented here is the collective thoughts of individuals with experience related to the topic. The information is not meant to be authoritative and there is no claim to completeness. It is only a guidance tool offered to assist in efforts to understand and capture the true costs of administering programs and projects.

## **Overview of the Topic – The Why**

Since their inception, Conservation Districts have provided services for projects and programs at bargain basement prices. Many factors enter into this cost efficiency. Dedicated staffs that are truly interested in resource conservation more than personal gain, support from county government and conservation district’s ability to partner are but a few of the factors that enable cost efficiency. Increased technical proficiency coupled with this cost efficiency has spawned dramatic growth among conservation districts. Equally dramatic is the growth in the cost of doing business. Coupled with the increasing operation costs facing districts are agency funding sources that are flat-lined or dwindling. Assuming responsibility for administering programs and projects at less than a break even point may no longer be an option. Conservation Districts need to learn how to become better business agencies. A great financial and business weakness of districts is not identifying and wherever possible recouping “True Program Costs”.

The purpose of this informational document is to act as a resource tool to identify and define all costs associated with providing a program or project service. Program costs can be identified and broken down in many different categories. For the purpose of this paper, program or project costs will be separated into 3 categories:

1. **Direct Employee Costs (Salary & Benefits)**
2. **Direct Program or Project Costs (Program or Project Specific Expenses)**
3. **Indirect Costs (Expenses required for an agency to operate)**

These three categories were chosen because most agreements with state agencies are established to fund the (1) Direct Employee Costs only or (2) a combination of Direct Employee Costs and Direct Program or Project Costs. Currently few agency agreements fund (3) Indirect Costs. As we look at each of these three categories, we will note possible expenses that could be included and points of consideration. Each individual district will need to evaluate if these expenses and points of consideration are applicable to their district. Too often these Indirect Costs go unidentified and appropriate requests for reimbursement are not made. It is imperative that Conservation Districts understand and identify **all** costs related to doing business. Only when these expenses are determined and justified in a defensible manner will Conservation Districts begin to recoup all “True Program Costs.”

### **Direct Employee Costs**

Direct Employee Costs are generally the most understood and the easiest costs to identify. Therefore, the least amount of explanation will be provided for these items. **Direct Employee Costs are those expenses incurred by the employer as part of the salary and benefit package for an individual employee.** The most common Direct Employee Costs are as follows:

- Salary
- FICA
- Insurances – any insurance payments paid by the employer; do not include amounts paid by the employee. Examples of the types of insurances that may be provided are: health, life, disability, vision coverage, prescription coverage, etc. Costs can be determined by quotes provided for each employee by the insurance carrier or by taking the total cost for everyone in the office and dividing that number by the number of employees.
- Retirement – contributions made by the employer to the employees retirement account
- Compensated Absences – Vacation/ Personal/Sick/Holiday time paid but not worked
- Other – miscellaneous payments, material compensation or equipment provided to the employee by the employer. Examples are: clothing allowances, cell phone use, vehicle use outside the work day, etc.

When a contract or agreement is written at an hourly rate, all of these expenses should be used in the rate calculation. To achieve this rate, the total cost of all expenses for the year should be added together and divided by the total hours actually worked in a year. To determine the hours actually worked take the hours in a work week times 52 weeks and subtract from that the vacation, personal, sick, and holiday hours the employee is entitled to take in a year. (See Hourly Rate Calculation Example – Appendix B)

### **Direct Program Costs**

**Direct Program or Project Costs are specific expenses that are incurred as a result of administration and implementation of a project or program.** Determining Direct Program or Project Costs requires forethought and planning if the appropriate amount of expense is to be captured. Many different techniques can be used to validate these expenses. With Direct Program Costs and the next category, Indirect Costs, there is a trade off of the time required to do more tracking versus the additional funding that can be recouped.

Building project cost tracking into the day-to-day district operation appears to be the most cost effective way of determining program or project expenses. One of the most important components to accurately track program and project expenses is the software package used for accounting. The accounting software must have the flexibility to easily establish tracking of both income and expenses for a significant number of individual programs or projects. With the accounting package in place, the budgeting process can be created to reflect all expense categories that would fall under each individual program or project. The format is established to credit expenses to the appropriate cost center as invoices are processed on a day-by-day basis. Since income and expenses must be entered into a bookkeeping system it requires no additional time to code them into an accounting package that allows detailed tracking. Program or project specific equipment, office supply purchases, training, meals and lodging expenses and contractual or construction expenses are examples of costs that can be tracked through the accounting program.

It is vitally important to be able to accurately account for hours actually worked for each staff person associated with a specific project or program. As noted above with expense tracking, if it is done on a daily basis as part of a normal operating procedure it does not become a cumbersome task. Several conservation districts have developed computer programs where each staff person enters their daily time use by specific project or program. These same programs can be used to generate payroll time, thus providing an incentive to complete the daily input and efficiency in time tabulation at the end of each pay period. If tracking by computer is not feasible, a manual tracking system with time sheets easily accomplishes the same task. Whether employees are management, administrative support or line staff, tracking is required by each individual that has any hours specifically dedicated to a program or project. The accountability of the tracking system used is very important if hours noted on an invoice are ever challenged. It is very important to be specific in logging hours on a project as regular, compensatory or overtime as they each can have a consequential cost to the District.

Some Direct Program or Project Costs require planned manual or equipment tracking. Mileage, postage and copies are examples of expenses that require planned tracking. Postage meters, office copiers and telephone systems can be equipped with a tracking device to provide exact counts and costs by individual programs and projects. Tracking devices on equipment may be an unwelcome upfront expense. However, over time these costs can be recouped through an accurate tracking of expenses. Mileage logs placed in every vehicle to record start and end mileage for each trip with a space to note the program or project serviced provides an accurate cost recovery tool. The cost associated with office space is an expense that is easily obtained and often overlooked. Office space can be calculated on a square foot basis from actual rental payments. If office space is provided and rent is not charged, there is still a value that should be charged. This value can be determined by determining the cost per square foot for comparable rental space. When an employee does not spend 100% of their time on a specific program, the office space expense should be pro-rated among programs or projects serviced by an employee.

The most common Direct Program or Project Costs are as follows:

- Equipment & Office Supplies – Only items specifically purchased/leased to service a specific program or project.
- Travel, Training, Lodging, Meals, Mileage – District expenses incurred as a result of a specific program or project
- Postage, Copies, Telephone, Photography –
- Administrative Expense - Time that Management, Administrative Support Staff and Line Staff designate to a specific program or project
- Professional Services – Legal, Engineering Design, Surveying, Computer, etc.
- Materials and Construction Expenses
- Office Space

### **Indirect Costs**

Too often the funding for programs or projects stops with the Direct Expenses previously discussed. Direct expenses are the visible and easily identified expenses. **Indirect Costs are those essential but less visible expenses necessary to operate and maintain a professional office and staff that are not captured in direct employee costs or program and project costs.** It is important to note that these indirect costs provide a support system that enables the staff and district office to deliver programs and projects in an efficient and professional manner. These indirect costs include all vital expenses that permit conservation districts to function as professional agencies capable of

administering programs and projects. To the greatest extent possible, they need to be identified and recognized by funding entities as legitimate reimbursable expenses. Wherever possible, expenses that normally remain unidentified as a program or project cost should be noted and listed under the Direct Cost category. Some expenses cannot be separated and tied to a specific program or project. Such costs can be combined and an equitable pro-rating formula can be used to recognize them as a justified expense to the projects or programs the District is engaged in. The Indirect Costs in each Conservation District will be unique to that District. The challenge in determining true program or project costs lies in how to capture indirect costs.

The criteria for identifying such expenses are not defined by specific rules and regulations. A general question that could be asked is: Is the service, equipment, function or activity to be paid for essential to the operation of the office? Examples of what might be included and what might not be included are as follows. Making payroll whether done in house or by a payroll service company is an essential part of doing business. On the other hand, buying district jackets for all staff and directors may be a great way to show appreciation but it is not essential to the operation of the office. Trying to include marginal expenses could raise concerns if you were requested to show how the indirect costs were determined. The examples listed below are not intended to be all-inclusive.

- **Administrative Time** – Management, clerical and bookkeeping time that is spent in the general operation of the office. As noted above, be sure to use the “True Hourly Cost” of that time. Timesheets can be used to record and define time spent on a specific program or project and on general administration tasks. All of the time spent on general administrative duties is an indirect cost of doing business. A good example is the time and resources spent supporting the District Board of Directors in such activities as agenda, minutes and actual meetings. Without the Board there would be no District services.
- **Professional Services** – Annual audits, legal counsel, computer technical support, web page management, retirement account management and payroll services are all examples of professional services that are essential to an office.
- **Office Equipment/Furniture** – Most budgets contain line items for equipment purchase. Postage meters, computers, printers, fax machines, desks and chairs are examples of office equipment/furniture that are necessary for an office to function but may not be able to be claimed as a direct expense. If a contract permits the purchase of equipment such as a computer, those costs should be claimed as a direct expense. With equipment, be cautious to avoid a double dip of funds. For example, if the purchase and maintenance cost of a copier is calculated into the per copy cost charged as a direct expense these costs should not be included as an indirect expense.
- **Service Contracts** – Many pieces of office equipment require annual service contracts. Postage meters, copiers and the Internet are examples where annual service contracts are an indirect expense.
- **Insurances & Bonding** – Some insurance costs can be directly tied to an employee or project as a direct expense while some other insurance cannot. Professional Liability Insurance, General Liability Insurance, Property Insurance and Bonding are examples of overhead expenses that are required for operation but not directly tied to an employee, project or program. Some coverage such as Workman’s Compensation may be able to be separated out by employee or may be a general office expense.
- **Utilities** – Utility expenses not included in the office rent.

- Board of Director Related Expenses – Legal advertisement of board meetings, mileage reimbursement and participation in training, conferences and retreats are necessary expenses that enable District Directors to function in accordance with their required duties.
- Professional Certifications and Trainings – Providing for a professional and capable staff that can undertake the current and future programs and responsibilities needed to fulfill the District mission.

[Note: The Conservation District Fund Allocation Program (CDFAP) reimburses for a portion of the district audit and administrative fees. Be sure that this revenue is accounted for to avoid a double-dip situation.]

Now that we know what our Indirect Costs are, how do we relate them to a specific program or project? One of the most effective ways of doing this relates back to time accounting. With an accurate accounting of time by program or project a percentage of time spent on each program or project can be determined. If the total hours actually worked on a specific program or project is divided by the total hours worked on all programs and projects (excluding noted administrative time) a percentage by program or project will be determined. This percentage would reflect the amount of the total of all indirect costs that could be applied to each specific program or project.

### **Summary**

Any private business that failed to identify and charge for all costs associated with doing business would soon find that they could not survive. Over the years, Conservation Districts have developed a better understanding that they are, in fact, running a business. Although Districts may not have a goal of making large profits as private enterprise does, they must operate with a goal of capturing all legitimate operating expenses for projects and programs. This paper is not intended to be all inclusive, it is a tool for each district to use as they establish their own cost of operation. Hopefully, it can also serve as an educational tool to help state agencies that contract with Conservation Districts to better understand the funding needed to operate. *Assessing and Capturing True Program Costs* is essential to operating a financially responsible Conservation District.

## **Appendix A – Check List**

### **Direct Employee Costs**

\_\_\_\_\_ Salary

\_\_\_\_\_ Retirement

\_\_\_\_\_ FICA

\_\_\_\_\_ Compensated Absences

\_\_\_\_\_ Insurances

\_\_\_\_\_ Other

### **Direct Program Costs**

\_\_\_\_\_ Project/ Program Equipment

\_\_\_\_\_ Project/Program Office Supplies

\_\_\_\_\_ Mileage

\_\_\_\_\_ Postage

\_\_\_\_\_ Copies

\_\_\_\_\_ Telephone

\_\_\_\_\_ Direct Administrative Support

\_\_\_\_\_ Office Space

\_\_\_\_\_ Project/Program Professional Services

\_\_\_\_\_ Materials/Construction

\_\_\_\_\_ Training, Lodging, Meals, etc.

\_\_\_\_\_ Professional Certifications

\_\_\_\_\_ Other

### **Indirect Costs**

\_\_\_\_\_ General District Administration

\_\_\_\_\_ Office Equipment/Furniture

\_\_\_\_\_ Professional Services – General District

\_\_\_\_\_ Service Contracts

\_\_\_\_\_ District Insurances & Bonding

\_\_\_\_\_ Utilities

\_\_\_\_\_ District Board Related Expenses

\_\_\_\_\_ Other

**Notes:** \_\_\_\_\_  
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## Appendix B – Direct Employee Hourly Rate Calculation

When an employee’s time is invoiced at an hourly rate, the rate charged should include all benefits paid for the employee. In addition, the rate should be adjusted to account for paid time off. Calculating this rate is simply done by dividing the total salary and benefit cost by the actual hours an employee would work in a year. On most contracts, invoicing for hours paid for time off would not be approved. However, pro-rating for paid time off in an hourly wage calculation is an acceptable practice. Following the example below will explain the process.

### Total Salary & Benefit Cost

Salary	\$16.85 per hour x 2080 hours per year	=	\$35,048.
FICA	Employer contribution		\$ 2,682.
Health Care	All health, dental vision, prescription Ins.		\$ 9,730.
Retirement	Employer contribution		\$ 2,980.
Life Ins.			<u>\$ 185.</u>
	<b>Total</b>	<b>=</b>	<b>\$50,625.</b>

### Total Hours Worked per Year

40 Hours per week x 52 weeks	=	2,080 hours
Time off		
Vacation days	12	
Personal days	3	
Holidays	9	
Sick days	<u>10</u>	
	34 days x 8 hours per day	= -272 hours off
	<b>Total hours of work</b>	<b>1,808</b>

### Calculation

Salary & Benefit Expense Divided by Hours of Work = Actual Hourly Wage Rate

\$50,625 divided by 1,808 hours = \$28.00 per hour