



CITY POLICY

POLICY NUMBER: A1202

REFERENCE:

Executive Committee of Council
January 9, 1985
Agenda Item B.1.c.
March 15, 1989

ADOPTED BY:

City Manager

SUPERSEDES:

1144

PREPARED BY: Finance Department

DATE: 1989 03 15

TITLE: OVERHEAD COSTS AND ALLOCATIONS

Policy Statement:

1. ALL OVERHEAD COSTS AND ALLOCATIONS SHALL BE SUBJECT TO REVIEW AND APPROVAL BY THE BUDGET COMMITTEE.
2. EACH DEPARTMENT SHALL MAINTAIN A SYSTEMATIC METHOD OF APPROPRIATELY ALLOCATING ALL DIRECT AND INDIRECT OVERHEAD COSTS BETWEEN CAPITAL AND CURRENT PROGRAMS.
3. ALL COMMON OVERHEAD COSTS SHALL BE EXPENSED IN THE YEAR OF INCURRENCE.
4. THE DETERMINATION OF THE CLASSIFICATION OF THESE COSTS SHALL BE SUBJECT TO REVIEW AND APPROVAL BY THE FINANCE DEPARTMENT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND INDUSTRY STANDARDS.

The purpose of this policy is to:

Standardize the categories of overheads which may be expensed or capitalized.

Ensure that all overhead costs which vary with the level of capital expenditures shall be appropriately capitalized.

Ensure casual relationship between overhead costs and activities undertaken (capital or current) adhere to generally accepted accounting principles and industry related standards.

Monitor and control overhead costing and allocation methods.

Provide greater uniformity in capitalization procedures in accounting for capital related overhead costs.

This policy is subject to any specific provisions of the Municipal Government Act or other relevant legislation or Union Agreement.



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1. DEFINITIONS

1.01 Allocation of Overhead

Overhead costs are allocated based on an identified cause and effect relationship between costs incurred and activities (capital or operating) undertaken.

1.02 Overhead

Expenses which are incurred to produce a commodity, construct an asset or render a service, but which cannot directly be attributed to individual costs of production, delivering a service or to a specific asset or group of assets.

1.03 Overhead - Direct

Costs which vary directly with the level of activity (current or capital programs), including but not limited to, fringe benefits for employees, costs of engineering and purchase of sundry materials which are used in the activity/project.

1.04 Overhead - Indirect

Costs which may be incurred to support both capital and operating programs which vary, but not necessarily relative to the level of capital expenditures. These costs include, but are not limited to, engineering administration, project supervision and related expenses, material handling, motor vehicle (non-running expenses and tools and work equipment.

1.05 Overhead - Common

Costs related to general activities or administration which bear no direct relation to the level of capital expenditures on a period-to-period basis and consequently vary little regardless of level of activity. These costs include, but are not limited to, administration, systems and data processing expenses, central management charges and real estate administration.

1.06 Overapplied Overhead

The amount by which overhead allocations exceed actual overhead.

1.07 Underapplied Overhead

The amount by which overhead allocations fall short of actual overhead costs.



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2. RESPONSIBILITIES

2.01 City Manager to:

Approve this policy and amendments thereto.

2.02 Budget Committee to:

Review and approve all overhead costs and allocations to budget programs during the annual budget review process.

2.03 Finance Department to:

- a) Recommend any revisions to the overhead cost and allocation policy to ensure procedures are in accordance with current generally accepted accounting principles and industry standards.
- b) Monitor and control, through the Corporate Control Branch, all City-wide overhead costs allocation bases and allocation of overheads.
- c) Ensure that the policy directives are adhered to through annual reviews of departmental overhead methods and procedures and the annual budget review process.

2.04 Department Head to:

- a) Maintain all departmental overhead costs and allocations to ensure overhead costs and rates are appropriately identified and justified in accordance with City Policy and Procedures.
- b) Ensure that all overhead costs are appropriately documented through time accounting methods and/or other appropriate procedures.

3. PROCEDURES

3.01 Overhead Cost and Allocation Determination

Departments will:

- a) At beginning of the year (at budget time) as well as for rate changes during the year, departments will submit figures to show estimated overhead, based on which applied and calculation of rate of application whether percentage or amount per unit. For comparison, previous years' or previous period figures will also be shown. Submission will also show allocation to current and capital programs.



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- b) Advise the Finance Department of all new overhead allocations including appropriate breakdown of costs and rate justifications.

The Finance Department will:

- c) Annually, through the Corporate Control Branch, review overhead cost allocation methods to determine their appropriateness.
- d) Determine on a departmental basis, the classification of all overhead costs as direct, indirect or common to ensure adherence to generally accepted accounting principles and industry related standards.
- e) Annually review departmental overhead allocations to ensure that all common overhead costs are appropriately expensed on a periodic basis.

3.02 Overhead Rate Adjustments

Department will:

- a) Review each overhead account quarterly and determine the over/under-application for each overhead.
- b) Upon determination of the necessity for a rate adjustment, a report outlining the justification for the rate adjustment and effect on budget programs must be submitted to and approved by the Finance Department.

The Finance Department will:

- c) Through the Corporate Control Branch, monitor, control and approve all overhead rate adjustments/changes to ensure adherence to the Overhead Cost and Allocation Policy.