

## Chapter 2

# The Activity View of the Budget

## 2.1 WHAT ARE THE BUDGET SUBMITTAL REQUIREMENTS?

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Agencies are required to assign certain budget totals and increments to activities to build a complete activity view of the budget. To prepare this view, agencies at a minimum must:

- Allocate the maintenance level subtotal to activities
- Allocate each performance level budget reduction decision package to activities
- Allocate and prioritize each performance level decision package for enhancements and reduction restorations to the affected activities

These requirements are described in greater detail below. Presenting the current biennium level total, the maintenance level subtotal and each performance level decision package by activity provides an activity view of the total budget for the agency.

### Allocate maintenance level to activities

The agency budget submittal must present maintenance level totals (by account and fiscal year) by activity. Agencies may choose to assign the costs of some or all carry-forward or maintenance level decision packages to activities, but this is not required. In some way, the entire subtotal must be assigned to activities to provide the activity view of the budget through maintenance level. **The agency budget cannot be submitted to OFM until all these costs and FTEs have been assigned to activities.**

BDS provides options for agencies to assign these costs — by account and fiscal year — to activities. Most agencies have found that entering each increment by activity is the simplest method to meet this requirement. If this is not feasible for your agency, contact the WaTech Solutions Center at 360-407-9100 or [SolutionsCenter@watech.wa.gov](mailto:SolutionsCenter@watech.wa.gov) to identify an option for your agency.

### Allocate each performance level decision package to activities

Agencies are required to indicate how the costs — by account and fiscal year — and FTEs of each performance level decision package should be assigned to activities. BDS enables users to indicate the activity costs (by account and fiscal year) for each decision package.

### Requests to add, delete or edit activities must be made to OFM by June 17, 2016

Agencies cannot update the activity inventory without prior approval from OFM. Contact your [assigned budget analyst](#) and [Linda.Swanson@ofm.wa.gov](mailto:Linda.Swanson@ofm.wa.gov) to request changes.

Requests to add or delete activities should provide a clear picture of the “before” and “after” set of activities, and include the following:

- List of current agency activities and descriptions
- Proposed list of agency activities, explaining where current activities have been merged or split
- Brief explanation of the reason for the requested change

**Tip:** Export your Activity Inventory report from Enterprise Reporting in Word format. Mark up with “track changes” for OFM review.

OFM will review the proposal to consider how the change in information will affect the budget decision process and provide a decision to the agency as soon as possible. Refer to the [OFM Activity Guide](#) for more information.

### **Provide information about nonbudgeted funds supporting activities**

Because the activity inventory is a part of the budget system, the numbers reflected in the activity totals will reflect only budgeted funds. If an agency has an activity that is supported significantly by nonbudgeted revenues, mention this in the activity description and note the dollar amount and fund source.

### **Include the Activity Inventory report in the budget submittal**

Agencies are required to include a copy of the Agency Activity Inventory report in their submittal. This report (ACT001) can be run in the Operating Budget Reports section of Enterprise Reporting. The report will include the descriptive information for each activity, including linked performance measures and expected results statements. (See Chapter 10 for more information on performance measures.)

## **2.2 HOW TO TREAT ADMINISTRATIVE COSTS IN THE ACTIVITY INVENTORY**

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### **Activity costs include related administrative costs essential to support activity**

The Activity Inventory should provide a reasonable estimate of the full cost of any activity, including related administrative costs that are essential to support it.

Administrative costs can be divided into two components: indirect costs and overhead costs. The information below describes how to handle the two types of costs in the Activity Inventory.

### **Definitions**

We realize many of the cost terms used here may mean different things in different organizations. Use the definitions below for the purpose of developing Activity Inventory estimates.

- **Allocate indirect costs to activities.** Indirect costs are administrative costs linked to two or more activities. They are closely related and tend to vary with activity level or size, but usually cannot be practically or economically assigned as direct charges. Indirect costs should be assigned to activities through cost allocation and included in the total cost of the activity in the Activity Inventory.

Types of costs that could be classified as indirect costs may vary from agency to agency, but some examples are:

- rent costs (if these are not already direct charged)
- postage costs
- software development and IT support costs
- other shared administrative costs closely related to activity levels and size

- **Show overhead costs as a separate “administration” activity.** Every agency has core administrative functions and costs regardless of the number or size of its activities. Overhead costs usually support the entire organization, are not directly attributable to specific activities and tend to be relatively fixed and not easily affected by fluctuations in activity levels. These costs should not be allocated to activities because they are not “caused” by the activity. Indicate these costs separately in one “Administration” activity in the Activity Inventory.

Types of costs that could be classified as overhead costs also may vary from agency to agency, but examples are:

- salary and support costs for the agency director
- core portions of accounting, budgeting, personnel, communications and receptionist functions
- other shared administrative costs that are not closely related to activity levels and size.

OFM is not concerned that each agency classifies the same type of cost in the same way. We want to ensure that activity costs include administrative costs that are critical to support the activity and help to achieve its intended outcomes.

### **Certain agencies are not required to have a separate administrative activity**

OFM determined that some agencies (those with only one or a few activities) were not required to break out overhead costs as a separate administration activity. This distinction is reflected in the current Activity Inventory. These agencies do not need to add an administrative activity for the budget submittal.

### **How to allocate indirect costs to activities**

Indirect costs should be assigned to activities on some generally accepted cost allocation basis. We encourage agencies already using a cost allocation methodology for some accounting purposes to use their method to allocate indirect costs to activities. Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- allocating by the number of FTEs in each activity
- allocating by the total dollars budgeted for each activity
- allocating by one or more bases that serve as good surrogates for the costs caused by each activity; for example, allocating IT staff costs by the number of personal computers or rent costs by the number of square feet

### **Provide allocation information to OFM**

The allocated costs should be included in the total costs for the activities. Agencies must also provide the following information in the agency budget submittal about the cost allocation approach:

- total amount of indirect costs allocated
- brief description of the allocation method selected
- allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity)
- dollar amount allocated to each activity each fiscal year

Use a format similar to that shown below. Send an electronic copy to [Linda.Swanson@ofm.wa.gov](mailto:Linda.Swanson@ofm.wa.gov).

### Activity Inventory Indirect Cost Allocation Approach

Agency: ABC				
Date:				
<b>Allocation Method Description:</b>				
Total indirect costs were allocated to activities based on the number of FTEs in each activity.				
	<b>% Allocation Received</b>	<b>Dollars Allocated FY1</b>	<b>Dollars Allocated FY2</b>	<b>Total Allocated</b>
<b>Activity A</b>	20	\$200,000	\$250,000	\$450,000
<b>Activity B</b>	50	\$500,000	\$625,000	\$1,125,000
<b>Activity C</b>	10	\$100,000	\$125,000	\$225,000
<b>Activity D</b>	20	\$200,000	\$250,000	\$450,000
<b>TOTAL</b>	100	\$1,000,000	\$1,250,000	\$2,250,000