



ADMINISTRATIVE COST POLICY

Administrative Cost Considerations

The unique nature of First 5 Commissions requires a level of effort devoted to planning, evaluation and provider monitoring that goes far beyond that of many other governments. In contrast to general governments, where in-house workforces typically provide more direct services, in most commissions nearly all program activities are provided by contract.

First 5 Commissions may differ in the support services that are provided by their county government and how those costs are allocated to commissions. Commissions may also differ in the management capability of their grantees. A commission might have lower administrative costs because its grantees require less technical assistance or higher administrative costs because its grantees have less administrative capacity.

Tobacco tax revenue to commissions varies from \$315,000 to \$85 million annually, across the 58 California counties. Each county must meet a minimum set of administrative responsibilities, regardless of revenue. Smaller commissions, such as First 5 Plumas, due to the smaller dollar allocations, typically have higher administrative cost percentages due to their inability to achieve the economies of scale available to larger commissions.

Administrative Costs Defined:

The First 5 Plumas County Children and Families Commission shall use the most recent definition in the First 5 Financial Management Guide to define administrative functions. The definition will be consistent with the guidelines issued by the First 5 California Children and Families Commission. At the time this policy development and adoption, these guidelines state:

Administrative costs are defined as costs incurred in support of the general management and administration of a First5 Commission for a common or joint purpose that benefits more than one cost objective (other than evaluation activities) and/or those costs not readily assignable to a specifically benefited cost objective.

The Commission shall adhere to this definition in its budgeting, accounting and financial reporting processes. Where there is a question of interpretation of how specific activities shall be coded, the definition of administrative costs benefiting more than one cost objective, or not being readily assignable to one cost objective will serve as the determining definition.

Administrative Costs are to be distinguished from program costs and evaluation costs, which are defined as follows:

- **Program costs:** Costs incurred by First 5 commissions readily assignable to a program or service provider (other than for evaluation activities) and/or in the execution of direct service provision.

- **Evaluation costs:** Costs incurred by First 5 commissions in the evaluation of funded programs based upon their accountability framework and data collection and evaluation for required reporting to state and local stakeholders. Specifically, evaluation costs pertain to those activities undertaken to support the collection, production, and presentation of evaluation information to the state and local stakeholders

Further, it is recognized that Administrative costs are general in nature. This principle distinguishes between those costs that specifically and directly benefit a business unit, program, or evaluation activity from those that do not. Administrative costs support a commission's basic mission rather than specific program goals.

Administrative Activities:

At the time of this policy development and adoption, the First 5 Financial Management Guidelines delineate the following activities as administrative costs:

- Administrative costs support a county commission's basic mission rather than specific program goals.
- Staff costs may be assigned to program costs, as long as that time is limited to actual time spent on program-specific activities.
- Administrative costs do not include evaluation costs for funded programs.
- Typical administrative costs are for, but not limited to, the following functions:
 1. General accounting and financial reporting
 2. Local Annual Reporting Activities (separate from evaluation activities for state reporting; includes public hearing requirements, etc.)
 3. Financial planning
 4. Commission or Association meetings/travel
 5. Payroll/Benefits
 6. Human Resources Services
 7. Legal Services/Consulting
 8. Contract Compliance (for contracts benefiting more than one cost objective, such as vendors and administrative contracts; grantee contract compliance is a program cost)
 9. Audit
 10. Strategic Planning
 11. Procurement
 12. Rent
 13. Maintenance
 14. Utilities
 15. Insurance
 16. Cleaning/Janitorial

Administrative Cost Limit:

Based on an analysis of the Commission's spending needs and best practice in government finance, the limit on the percentage of the annual operating budget that may be spent on administrative functions is a range of 16%-20%. The Administrative Cost Limit may be adjusted at the discretion of the Commission for special costs (e.g.: state initiative planning, capital asset purchases, etc) planned for within the annual budget process.

Administrative Cost Monitoring and Reporting:

The Plumas County Public Health Agency, through a Memorandum of Understanding with the Commission, will be responsible for establishing, within the accounting and reporting system a methodology for tracking and reporting on administrative costs, and maintaining auditable records to ensure compliance with the administrative cost limit policy.

Contractors operating costs will be allocated on a percentage basis to administrative costs, depending on the type of services they perform for the Commission.

The Executive Director and the Plumas County Public Health Agency shall be responsible for presenting on a quarterly basis, to the Commission, a breakdown of administrative costs by line item and as a percentage of the operating budget. This information will ensure compliance with the administrative cost limit policy, and will also be used to help guide future budgeting decisions. This information shall also be reported, on an annual basis, to the First 5 California Commission in the annual financial report, which is adopted by the Commission at a public hearing.

The Commission will review on an annual basis the validity of the adopted definition of administrative costs and the administrative cost limit set forth in this policy. The Commission reserves the right to amend this policy in the future, as necessary to conform to state law, regulation, county government requirements, and other relevant factors.

The foregoing policy was introduced at a regular meeting of the First 5 Plumas County Children and Families Commission, on the 10th day of May, 2006, by the following vote:

AYES: Commissioners: Carol Burney, Elliott Smart, Klytia Dutton, Henry Foley, and Carmen Lopez

NOES: Commissioners: None

ABSENT: Shelley Miller and William Powers

ATTEST:

Chairperson, PCCFC

Executive Director, PCCFC

Approved as to form by: Plumas County Counsel