



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

January 28, 2026

Juliana F. Gmur, Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814

Re: Incorrect Reduction Claim

Identity Theft, 25-0308-I-01

Penal Code Section 530.6(a), as added by Statutes of 2000, Chapter 956

Fiscal Years: 2002-2003, 2003-2004, 2005-2006, 2006-2007, 2007-2008, 2009-2010,
2010-2011, 2011-2012, and 2012-2013

City of Rancho Cucamonga, Claimant

Dear Ms. Gmur:

The State Controller's Office is transmitting our response to the above-named IRC.

If you have any questions, please contact me by telephone at (916) 327-3138.

Sincerely,

Lisa Kurokawa

LISA KUROKAWA, Chief
Compliance Audits Bureau
Division of Audits

**RESPONSE BY THE STATE CONTROLLER'S OFFICE
TO THE INCORRECT REDUCTION CLAIM (IRC) BY
THE CITY OF RANCHO CUCAMONGA**

Identity Theft Program

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Note: Reference to Sections and IRC page numbers relate to the city's Incorrect Reduction Claim filed on September 2, 2025, as follows:

- Section 6 – Written Detailed Narrative – PDF pages 7-32)
- Section 7 – Documentary Evidence and Declarations – PDF pages 33-1070)
- Section 8 – Claiming Instructions – PDF pages 1070-1107)
- Section 9 – Final State Audit Report or Other Written Notice of Adjustment – PDF pages 1108-1187)
- Section 10 – Reimbursement Claims – PDF pages 1188-1279)

Tab 1
SCO Declaration

1 **OFFICE OF THE STATE CONTROLLER**
2 3301 C Street, Suite 725
3 Sacramento, CA 95816
3 Telephone No.: (916) 327-3138

4
5 BEFORE THE
6 COMMISSION ON STATE MANDATES
7
8 STATE OF CALIFORNIA

9
10 INCORRECT REDUCTION CLAIM (IRC)
11 ON:
12

13 *Identity Theft*

14 No.: IRC 25-0308-I-01

15 Penal Code Section 530.6(a), as added by
16 Statutes of 2000, Chapter 956

17 AFFIDAVIT OF BUREAU CHIEF

18 CITY OF RANCHO CUCAMONGA, Claimant

1 I, Lisa Kurokawa, make the following declarations:

2

3 1) I am an employee of the State Controller's Office (SCO) and am over the age of
18 years.

4 2) I am currently employed as a Bureau Chief, and have been so since February 15, 2018.
Before that, I was employed as an audit manager for seven years.

5 3) I reviewed the work performed by the SCO auditor.

6 4) Any attached copies of records are true copies of records, as provided by the City of
Rancho Cucamonga, or retained at our place of business.

7 5) The records include claims for reimbursement, along with any attached supporting
documentation, explanatory letters, or other documents relating to the above-entitled
Incorrect Reduction Claim.

8 6) An audit of the claims filed for fiscal year (FY) 2002-2003, 2003-2004, 2004-2005,
2005-2006, 2006-2007, 2007-2008, 2009-2010, 2010-2011, 2011-2012, and 2012-2013
started on March 18, 2022 (**Tab 5**), and ended on November 20, 2023 (**Section 9 City
IRC – pdf pages 1108 - 1187**).

9

10 I do declare that the above declarations are made under penalty of perjury and are true and
correct to the best of my knowledge, and that such knowledge is based on personal
observation, information, or belief.

11

12 Date: January 28, 2026

13 OFFICE OF THE STATE CONTROLLER

14

15 By: Lisa Kurokawa

16

17 Lisa Kurokawa, Chief
18 Compliance Audits Bureau
19 Division of Audits
20 State Controller's Office

Tab 2
SCO Analysis and Response

**STATE CONTROLLER'S OFFICE ANALYSIS AND RESPONSE
TO THE INCORRECT REDUCTION CLAIM BY
THE CITY OF RANCHO CUCAMONGA**

**For Fiscal Years (FY) 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008,
2008-2009, 2009-2010, 2010-2011, 2011-2012, and 2012-2013**

Identity Theft

Penal Code Section 530.6(a), as added by the Statutes of 2000, Chapter 956

SUMMARY

The following is the State Controller's Office's (SCO) response to the Incorrect Reduction Claim (IRC) that the City of Rancho Cucamonga (City) filed on September 2, 2025, with the Commission on State Mandates (Commission). The SCO performed an audit of the City's claims for costs of the legislatively mandated Identity Theft Program (IDT) for the period of July 1, 2002, through June 30, 2013. The SCO issued its audit report on November 20, 2023 (**Section 9 City IRC pdf pages 1108 - 1187**).

The City submitted reimbursement claims totaling \$500,098 — \$54,210 for fiscal year (FY) 2002-2003, \$53,159 for FY 2003-2004, \$66,280 for FY 2004-2005, \$70,338 for FY 2005-06, \$43,820 for FY 2006-2007, \$28,795 for FY 2007-08, \$20,957 for FY 2008-09, \$24,069 for FY 2009-2010, \$29,854 for FY 2010-2011, \$38,126 for FY 2011-2012, and \$70,490 for FY 2012-2013 (**Section 10 City IRC, pdf pages 1188 - 1279**). Subsequently, the SCO performed an audit of these claims and determined that \$195,540 is allowable and \$304,558 is unallowable because the city primarily misclassified costs, overstated the number of identity reports taken, misstated the time increments needed to perform the reimbursable activities, and claimed unallowable indirect costs.

The following table summarizes the audit results:

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC §530.5	\$ 20,587	\$ -	\$ (20,587)
Beginning an investigation of facts	7,356	-	(7,356)
Total salaries	<u>27,943</u>	<u>-</u>	<u>(27,943)</u>
Contract services:			
Taking police report on a violation of PC §530.5	-	10,999	10,999
Beginning an investigation of facts	-	9,057	9,057
Total contract services	<u>-</u>	<u>20,056</u>	<u>20,056</u>
Total direct costs	<u>27,943</u>	<u>20,056</u>	<u>(7,887)</u>
Indirect costs	<u>26,267</u>	<u>-</u>	<u>(26,267)</u>
Total program costs	<u>\$ 54,210</u>	<u>20,056</u>	<u>\$ (34,154)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 20,056</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC §530.5	\$ 20,865	\$ -	\$ (20,865)
Beginning an investigation of facts	7,456	-	(7,456)
Total salaries	<u>28,321</u>	<u>-</u>	<u>(28,321)</u>
Contract services:			
Taking police report on a violation of PC §530.5	-	11,098	11,098
Beginning an investigation of facts	-	9,161	9,161
Total contract services	<u>-</u>	<u>20,259</u>	<u>20,259</u>
Total direct costs	<u>28,321</u>	<u>20,259</u>	<u>(8,062)</u>
Indirect costs	<u>24,838</u>	<u>-</u>	<u>(24,838)</u>
Total program costs	<u>\$ 53,159</u>	<u>20,259</u>	<u>\$ (32,900)</u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u>\$ 20,259</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC§530.5	\$ 27,093	\$ -	\$ (27,093)
Beginning an investigation of facts	9,688	-	(9,688)
Total salaries	<u>36,781</u>	-	(36,781)
Contract services:			
Taking police report on a violation of PC§530.5	-	12,910	12,910
Beginning an investigation of facts	-	10,674	10,674
Total contract services	<u>-</u>	<u>23,584</u>	<u>23,584</u>
Total direct costs	36,781	23,584	(13,197)
Indirect costs	<u>29,499</u>	-	(29,499)
Total program costs	<u>\$ 66,280</u>	<u>23,584</u>	<u>\$ (42,696)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 23,584</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC §530.5	\$ 28,650	\$ -	\$ (28,650)
Beginning an investigation of facts	10,147	-	(10,147)
Total salaries	<u>38,796</u>	-	(38,796)
Contract services:			
Taking police report on a violation of PC §530.5	-	14,241	14,241
Beginning an investigation of facts	-	11,569	11,569
Total contract services	<u>-</u>	<u>25,810</u>	<u>25,810</u>
Total direct costs	38,796	25,810	(12,986)
Indirect costs	<u>31,542</u>	-	(31,542)
Total program costs	<u>\$ 70,338</u>	<u>25,810</u>	<u>\$ (44,528)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 25,810</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC§530.5	\$ 18,065	\$ -	\$ (18,065)
Beginning an investigation of facts	6,443	-	(6,443)
Total salaries	<u>24,508</u>	-	(24,508)
Contract services:			
Taking police report on a violation of PC§530.5	-	8,696	8,696
Beginning an investigation of facts	-	7,124	7,124
Total contract services	<u>-</u>	<u>15,820</u>	<u>15,820</u>
Total direct costs	24,508	15,820	(8,688)
Indirect costs	<u>19,312</u>	-	(19,312)
Total program costs	<u>\$ 43,820</u>	<u>15,820</u>	<u>\$ (28,000)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 15,820</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC §530.5	\$ 11,859	\$ -	\$ (11,859)
Beginning an investigation of facts	4,218	-	(4,218)
Total salaries	<u>16,076</u>	-	(16,076)
Contract services:			
Taking police report on a violation of PC §530.5	-	5,993	5,993
Beginning an investigation of facts	-	4,884	4,884
Total contract services	<u>-</u>	<u>10,877</u>	<u>10,877</u>
Total direct costs	16,076	10,877	(5,199)
Indirect costs	<u>12,718</u>	-	(12,718)
Total program costs	<u>\$ 28,794</u>	<u>10,877</u>	<u>\$ (17,917)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 10,877</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC§530.5	\$ 8,615	\$ -	\$ (8,615)
Beginning an investigation of facts	3,060	-	(3,060)
Total salaries	<u>11,675</u>	<u>-</u>	<u>(11,675)</u>
Contract services:			
Taking police report on a violation of PC§530.5	-	4,473	4,473
Beginning an investigation of facts	-	3,629	3,629
Total contract services	<u>-</u>	<u>8,102</u>	<u>8,102</u>
Total direct costs	<u>11,675</u>	<u>8,102</u>	<u>(3,573)</u>
Indirect costs	<u>9,282</u>	<u>-</u>	<u>(9,282)</u>
Total program costs	<u><u>\$ 20,957</u></u>	<u><u>8,102</u></u>	<u><u>\$ (12,855)</u></u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u><u>\$ 8,102</u></u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC §530.5	\$ 9,803	\$ -	\$ (9,803)
Beginning an investigation of facts	3,480	-	(3,480)
Total salaries	<u>13,282</u>	<u>-</u>	<u>(13,282)</u>
Contract services:			
Taking police report on a violation of PC §530.5	-	5,557	5,557
Beginning an investigation of facts	-	4,508	4,508
Total contract services	<u>-</u>	<u>10,065</u>	<u>10,065</u>
Total direct costs	<u>13,282</u>	<u>10,065</u>	<u>(3,217)</u>
Indirect costs	<u>10,786</u>	<u>-</u>	<u>(10,786)</u>
Total program costs	<u><u>\$ 24,068</u></u>	<u><u>10,065</u></u>	<u><u>\$ (14,003)</u></u>
Less amount paid by the State ²		<u>-</u>	
Allowable costs claimed in excess of amount paid		<u><u>\$ 10,065</u></u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC§530.5	\$ 12,662	\$ -	\$ (12,662)
Beginning an investigation of facts	4,495	-	(4,495)
Total salaries	<u>17,157</u>	-	(17,157)
Contract services:			
Taking police report on a violation of PC§530.5	-	5,948	5,948
Beginning an investigation of facts	-	4,150	4,150
Total contract services	<u>-</u>	<u>10,098</u>	<u>10,098</u>
Total direct costs	<u>17,157</u>	<u>10,098</u>	<u>(7,059)</u>
Indirect costs	<u>12,697</u>	-	(12,697)
Total program costs	<u><u>\$ 29,854</u></u>	<u>10,098</u>	<u><u>\$ (19,756)</u></u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u><u>\$ 10,098</u></u>	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC §530.5	\$ 21,912	\$ -	\$ (21,912)
Beginning an investigation of facts	-	-	-
Total salaries	<u>21,911</u>	-	(21,911)
Contract services:			
Taking police report on a violation of PC §530.5	-	7,385	7,385
Beginning an investigation of facts	-	6,803	6,803
Total contract services	<u>-</u>	<u>14,188</u>	<u>14,188</u>
Total direct costs	<u>21,911</u>	<u>14,188</u>	<u>(7,723)</u>
Indirect costs	<u>16,214</u>	-	(16,214)
Total program costs	<u><u>\$ 38,125</u></u>	<u>14,188</u>	<u><u>\$ (23,937)</u></u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u><u>\$ 14,188</u></u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries:			
Taking police report on a violation of PC§530.5	\$ 39,938	\$ -	\$ (39,938)
Beginning an investigation of facts	-	-	-
Total salaries	<u>39,938</u>	<u>-</u>	<u>(39,938)</u>
Contract services:			
Taking police report on a violation of PC§530.5	-	20,474	20,474
Beginning an investigation of facts	-	16,207	16,207
Total contract services	<u>-</u>	<u>36,681</u>	<u>36,681</u>
Total direct costs	39,938	36,681	(3,257)
Indirect costs	<u>30,552</u>	<u>-</u>	<u>(30,552)</u>
Total program costs	<u>\$ 70,490</u>	<u>36,681</u>	<u>\$ (33,809)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 36,681</u>	
<u>Summary: July 1, 2002, through June 30, 2013</u>			
Direct costs:			
Salaries	\$276,391	\$ -	\$(276,391)
Contract services	<u>-</u>	<u>195,540</u>	<u>195,540</u>
Total direct costs	276,391	195,540	(80,851)
Indirect costs	<u>223,707</u>	<u>-</u>	<u>(223,707)</u>
Total program costs	<u>\$ 500,098</u>	<u>195,540</u>	<u>\$(304,558)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$195,540</u>	

I. IDENTITY THEFT PROGRAM CRITERIA

Parameters and Guidelines (Ps and Gs) – July 28, 2011 (Tab 4).

(Language for Section I is taken directly from the Ps and Gs, dated July 29, 2011)

I. SUMMARY OF MANDATE

The test claim statute requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft. On March 27, 2009, the Commission found that Penal Code section 530.6(a), as added by Statutes 2000, chapter 956, mandates a new program or higher level of service for local law enforcement agencies within the meaning of article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to Government Code section 17514 for the following activities only:

- take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information; and,
- begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose.

The Ps and Gs establish the state mandate and define the reimbursement criteria. The Commission adopted the Ps and Gs on July 28, 2011. In compliance with GC section 17558, the SCO issues claiming instructions for mandated programs to assist local agencies in claiming reimbursable costs.

SCO Claiming Instructions

In accordance with Government Code sections 17560 and 17561, eligible claimants may submit claims to the SCO for reimbursement of costs incurred for state-mandated programs. The SCO annually issues mandated cost claiming instructions, which contain filing instructions for mandated cost programs.

We included the claiming instruction extant at the time the county filed its FY 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2009-2010, 2010-2011, 2011-2012, and 2012-2013 mandated cost claims as part of our IRC response (**Tab 3**). Therefore, we included the eleven years relevant during the audit period for this engagement.

II. BACKGROUND OF IRC

The final audit report for the city's IDT was issued on November 20, 2023. An IRC was filed and received on September 2, 2025, with the Commission. On October 30, 2025, the Commission filed a "Notice of Complete Incorrect Reduction Claim, Schedule for Comments, and Notice of Tentative Hearing Date."

In the IRC, the city disagreed with the SCO's determination that the city did not comply with the program's Ps and Gs when claiming indirect costs. The final audit report consists of one finding.

For the finding (Overstated Identity Theft Program costs), the city claimed \$276,391 in salaries and benefits for the audit period. We determined that \$0 is allowable and \$276,391 is unallowable. The related unallowable indirect costs total \$223,707, for total unallowable costs of \$500,098. However, the city claimed \$0 in contract services costs and we determined that \$195,540 is allowable. Costs are unallowable primarily because the city claimed misclassified costs, overstated the number of identity theft reports taken, misstated the time increments needed to perform the reimbursable activities, and claimed unallowable indirect costs.

The following response to the city's IRC will address the factual basis for the conclusions reached related to the finding. We will draw from the city's own documentation provided during the audit, contemporaneous emails between the city and SCO auditors, and prior IRC decisions that directly relate to the requirements of this mandated cost program.

III. SCO'S RESPONSE TO THE CITY'S IRC

The city is not objecting to any parts of the audit finding related to mis-classifying costs, overstating the number of identity theft reports taken, and misstating the time increments required to perform the reimbursable activities. Instead, the entirety of the city's IRC is spent objecting to the part of the audit related to unallowable indirect costs and the methodology used to compute allowable administrative costs. In addition, comments regarding previous SCO audits of other entities and mandated cost programs are irrelevant for the purposes of this IRC, as each audit and the issues noted within it stands alone.

To eliminate redundancy, we will not cut and paste the city's entire IRC response. Rather, we will address relevant sections, as appropriate.

BACKGROUND

In this section of the city's IRC, it acknowledges that it contracted with the San Bernardino County Sheriff's Department (SBCSD) for its law enforcement services during all years of the audit period. The city also acknowledges that it has no in-house Police Department and therefore has no city employees performing the reimbursable activities of the Identity Theft mandate.

The city makes the curious statement that it began submitting claims for reimbursement "in 2000 which included law enforcement program claims dating back to FY 1996-97." However, for the purposes of this mandated program, the city's initial claims for FY 2002-03 through FY 2010-11 were all submitted on January 27, 2012. Annual claims were filed after that for FY 2011-12 and FY 2012-13. The city's comments about having had claims paid by the State in prior years absent an actual audit or review of those claims is irrelevant for the purposes of this IRC. The SCO's acceptance and subsequent payment of mandated cost claims based on completion of the proper mandated cost claim forms does not constitute an audit or review of those claims pursuant to Government Code section 17558.5. All mandated cost claim forms submitted to the SCO are initially checked for mathematical accuracy, that the proper claim forms were used, and that the claims were submitted timely.

The city is correct in its statement that the direct costs associated with the city's contract with the SBCSD were allowable and the indirect costs claimed were unallowable. However, the city claimed its contract services costs incorrectly as salaries and benefits, which we re-classified during our audit. The city also prepared Indirect Cost Rate Proposals (ICRPs) based on salary

and benefit costs which, per its own admission in this IRC, it did not incur. As we noted in the audit report, substituting contract services costs as salaries and benefit costs for the purposes of preparing ICRPs is in direct violation of the Parameters and Guidelines as well as cost principles contained in 2 CFR Part 200, Part 225. Given these indisputable facts, we determined that all indirect costs claimed are unallowable.

We could have stopped there and issued our audit report. However, as we explain in our comments addressing the city's Issue 3, the city's mandated cost consultant communicated with us, correctly noting that cities in Los Angeles County contracting for law enforcement services pay contract rates that include an administrative cost component. Los Angeles County refers to these additional amounts as "Liability". During prior audits and reviews of claims filed by cities that contract with Los Angeles County for law enforcement services, we have not had any findings related to the county's contract hourly rates nor objected to the inclusion of a liability amount. The consultant correctly noted that the SBCSD does not structure its contracts for law enforcement services in this manner. Instead, the SBCSD contracts include amounts for various items that, from our perspective, are not directly related to providing law enforcement services. We classified these items as "administrative costs" that the county incurs.

ISSUE 1: Which local agency should submit claims for state reimbursement – the agency that provides the service (county) – or the agency that pays for (incurs the cost) for that service (city)?(Section 6, City IRC, PDF pages 19-20)

Section II of the Ps and Gs defines the claimants eligible for reimbursement under this mandated cost program. Section II says:

Any city, county, or city and county whose law enforcement agency incurs increased costs as a result of this reimbursable state-mandated program is eligible to claim reimbursement of these costs.

We read Section II of the Ps and Gs to mean that, in addition to government entities that have their own law enforcement agency, cities that contract with a county for law enforcement services are also eligible to file claims under this state-mandated program. Therefore, the city's IRC asserts that the city should be eligible to claim the costs that it incurred to comply with the reimbursable activities. We agree. The city contracted with the SBCSD for its law enforcement services during all years of the audit period. Therefore, the SBCSD served as the city's law enforcement agency pursuant to its contracts with the city and the city incurred reimbursable contract services costs under this mandated program.

Section V.A.3 – Contracted Services of the Ps and Gs states:

Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

The SCO's *Mandated Cost Manual for Local Agencies* (Filing A Claim Section – #8 Direct Costs Subpart 3 – Contract Services (**Section 8 City IRC pdf page 1096**) states:

The cost of contract services is allowable if the local agency lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must give the name of the contractor; explain the reason for having to hire a contractor; describe the mandated activities performed; give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate shall not exceed the rate specified in the claiming instructions for the mandated program. The contractor's invoice, or statement, which includes an itemized list of costs for activities performed, must accompany the claim.

However, the city erroneously claimed its contracted services costs as salary and benefit costs. Section VII of the city's contract with the county for law enforcement services (**Section 7 City IRC, pdf page 519**) states:

All persons directly or indirectly employed by COUNTY in the performance of the services and functions to be provided to CITY hereunder, shall be employees of COUNTY, and no COUNTY employees shall have pension, civil service, or other status or right.

The city also states in its IRC that it compensated the county for its direct costs pursuant to the contract that it negotiated with the county. We agree. However, the city goes on to state that there are indirect costs associated with the contract that it has with the county and incurred such costs. We disagree.

ISSUE 2: Are agencies that contract for law enforcement services entitled to computation of indirect/overhead costs using the existing Claiming Manuals/instructions and Parameters and Guidelines or is it appropriate for the SCO to create alternate overhead claiming methodologies? (Section 6, City IRC, PDF pages 20-22)

Our research found that the Commission has previously ruled on this very topic. On November 30, 2018, the Commission adopted a decision for the City of Palmdale's IRC for the Interagency Child Abuse and Neglect Investigation Reports Program – IRC 17-0022-I-01 (**Tab 6**). In that decision, the Commission addressed the Controller's reduction of indirect costs claimed by a city contracting for law enforcement services that were based on salaries and wages costs that the city did not incur.

In its decision, the Commission stated the following:

The claimant here filed its initial reimbursement claims as direct salary costs for the deputies and sergeants conducting the mandate and sought 10 percent of the direct costs as its indirect costs. At all times relevant to this IRC, the claimant, through its reimbursement claims, amended claims, assertions and objections throughout the audit period, and allegations in filing the IRC, has consistently sought indirect costs of *only* the 10 percent default rate applied to the claimant's contract costs. The Final Audit Report states (and the claimant concedes) that “[n]one of the city staff members performed any of the reimbursable activities under this program.” Nevertheless, the claimant continued throughout the audit and in this IRC to assert its belief that the 10 percent default rate was a reasonable and conservative estimate of its indirect costs. Accordingly, as noted above, the Controller disallowed all claimed indirect costs.

The Government Code requires a claimant to file its reimbursement claims in accordance with the parameters and guidelines. And the courts have determined that parameters and guidelines are regulatory in nature and binding on the parties. In this case, the claimant has not complied with the Parameters and Guidelines in claiming its indirect costs; the 10 percent rate is allowed when the claimant uses its own employees to perform the mandated activities. This claimant

contracts for all law enforcement services, including the mandated activities, and therefore the claimant has no direct salaries and benefits upon which to base its claim of indirect costs. The 10 percent default rate is not available to this claimant based on the plain language of the Parameters and Guidelines, irrespective of whatever documentation might be presented to justify it. Therefore, it is correct as a matter of law for the Controller to deny indirect costs, as claimed.

The same issue has been presented to the Commission once again in this IRC. The only difference is that the city of Rancho Cucamonga claimed indirect costs using ICRPs that it prepared based on salaries and wages costs that it did not incur instead of claiming the default 10% indirect cost rate that is also available as an option in the IDT. From the SCO's perspective, the issue is clear and the indirect costs claimed are unallowable.

Section V.B, "Indirect Cost Rates," of the parameters and guidelines states, in part:

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in [Title 2, Code of Federal Regulations] Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate exceeds 10%.

If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

The distributions base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

It is our position that even if the contract between the city and the county includes indirect costs that the county incurred, reimbursing the county for such costs does not also make them indirect costs that are reimbursable to the city.

The city's extensive arguments concerning its ability to prepare ICRPs and claim indirect costs based on contract services costs it incurred demonstrate a fundamental misunderstanding of indirect costs and what they represent. If the city had been operating its own Police Department during the years of the audit period, it would have incurred direct costs for providing such law enforcement services as traffic patrols, criminal investigations, incarceration, and public security, just to name a few. The direct cost of providing such direct law enforcement services is typically the cost of the salaries and wages of the personnel assigned to these duties. In addition to the direct costs incurred to provide law enforcement services to the citizens of Rancho Cucamonga, the city would also have incurred related indirect costs. The Ps and Gs note that "indirect costs are costs that are incurred for a common or joint purpose, benefitting more than one program and are not directly assignable to a particular department or program without

efforts disproportionate to the result achieved.” What this means is that the city would have incurred costs for such items as (but not limited to):

- Owning, operating, and maintaining a police station(s),
- Police Officer uniforms,
- Law enforcement tactical gear,
- Owning, operating, and maintaining a fleet of law enforcement vehicles,
- Officer training,
- Utility services (e.g., electricity, water, trash, & sewer),
- Operating and staffing a Human Resources Department,
- Operating a payroll function,
- Calculating, collecting, and submitting withholdings to the appropriate state and federal offices,
- Negotiating and administering employee benefit plans,
- Maintaining and preparing appropriate accounting records and reports,
- Negotiating and administering contracts with unions for police officers and clerical staff,
- Insurance (liability, fire, & automotive), and
- General legal costs as appropriate

While this is not an exhaustive list, it represents legitimate costs associated with operating a law enforcement operation. However, any effort to allocate and assign such costs to a particular program or division within the Police Department would be very difficult, or as the Ps and Gs explain, “without efforts disproportionate to the results achieved.” In some cases, the costs originate within other city departments that would typically charge the city’s Police Department for its services pursuant to a properly prepared Citywide Cost Allocation Plan using the methodology described in 2 CFR, Part 225, Appendix C (State/Local-Wide Central Services Cost Allocation Plans). To capture such costs when billing for its services and/or preparing reimbursement claims, adding an indirect cost component to the salaries and wages of its employees is the designated method to recover such costs. The methodology to calculate this indirect cost component is outlined in 2 CFR, Part 225 (Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)), including Appendices A (General Principles for Determining Allowable Costs), B (Select Items of Cost), and E (State and Local Indirect Cost Rate Proposals) (**Tab 7**).

However, the city of Rancho Cucamonga did not operate its own Police Department at any time during the audit period and did not incur the indirect costs contained in the previous bullet point list. Instead, San Bernardino County incurred such costs. Accordingly, costs appearing in the city’s contract with the county are contract services costs, not salaries, benefits, and related indirect costs. Since the city did not incur related indirect costs, section V.B. (Indirect Cost Rates) of the Ps and Gs does not apply to the city’s claims.

Our audit report noted that in its claims filed for each year of the audit period, the city erroneously claimed salaries and benefits costs, which we re-classified in our report as contract services costs. The city also claimed indirect costs by preparing Indirect Cost Rate Proposals (ICRPs) for each year of the audit period. Each of the ICRPs appear in Section 10 of the city’s IRC filing as follows:

FY 2002-03, pdf pages 1193 and 1194,

FY 2003-04, pdf pages 1200 and 1201,

FY 2004-05, pdf pages 1208 and 1209 and again on pdf pages 1215 and 1216,

FY 2005-06, pdf pages 1222 and 1223,
FY 2006-07. pdf pages 1228 and 1229,
FY 2007-08, pdf pages 1236 and 1237 and again on pdf pages 1243 and 1244,
FY 2008-09, pdf pages 1250 and 1251,
FY 2009-10, pdf pages 1257 and 1258,
FY 2010-11, pdf pages 1265 and 1266,
FY 2011-12, pdf pages 1271 and 1272, and
FY 2012-13, pdf pages 1277 and 1278

Our audit report (**Section 9 City IRC, pdf pages 1109 through 1187**), explains on pdf pages 1131 through 1136 that the city's ICRPs did not comply with the Ps and Gs. In the language cited previously from Section V.B. of the Ps and Gs, there are three options for using a distribution base. The city chose option #2 – direct salaries and wages. However, the city did not incur any direct salaries and wages costs. It incurred contract services costs and erroneously reclassified such costs as salaries and benefits for the purpose of preparing its ICRPs. In addition, each of the city's ICRPs were prepared for the City of Rancho Cucamonga Sheriff, which does not exist as an entity or as a person.

Regardless of any arguments raised by the city in its IRC filing concerning its belief about the allowability of indirect costs for contract services, it did not comply with the Ps and Gs to claim indirect costs in any of its claims during the audit period. The city cannot now use the IRC process to cure its incorrectly prepared claims.

Issue 3: Are there indirect costs within the City's contract for law enforcement services?
(Section 6, City IRC, PDF pages 22 through 25)

From the SCO's perspective, the answer is no. San Bernardino County may have included costs within its law enforcement contracts that represent indirect costs that it incurred, but there are no indirect costs within a contract for services for the city to claim, despite the city's pleas to the contrary. However, we do agree that the city's contracts include various line-item amounts that appear to be administrative in nature and not directly related to providing law enforcement services.

As we noted in the Background section, cities in Los Angeles County contracting for law enforcement services pay contract rates that include an administrative cost component. Los Angeles County refers to these additional amounts as "Liability." The city's IRC includes a copy of a law enforcement services contract between the City of Lakewood and Los Angeles County for law enforcement services (**Section 7, City IRC, pdf pages 959 – 971**). Page 970 includes a schedule titled "Hours of Service & Estimated Charges." One of the amounts included in this schedule is an item labeled "Liability @ 4%. Then, on page 971, a document labeled "Patrol Officer Rate" explains that the "rate includes a county assessed 4% Liability Insurance Surcharge." We reached out to a representative within the Contracts Bureau of the Los Angeles County Sheriff's Department for clarification on what the liability amount included in these law enforcement contracts represent. We were advised that the amount is "to provide insurance coverage for general liability claims arising from services provided to contract cities." The liability amount is "a surcharge applied to contract city services fees (**Tab 8, pdf pages 109 - 110**). In essence, the surcharge is an additional administrative cost applied to the contract.

On August 30, 2022, the SCO Auditor sent the city an email (**Tab 8, pdf pages 111 - 112**) stating that all of the indirect costs claimed were unallowable. We received a response from the

city's mandated cost consultant (**Tab 8, pdf pages 113 - 115**). Noted in that response were references to law enforcement services contracts prepared by Los Angeles County. Specifically, reference was made to the fact that those contracts included a component for "overhead." We interpreted this response to mean that since cities contracting with Los Angeles County were able to be reimbursed for "overhead" costs, cities contracting with San Bernardino County for law enforcement services should also be able to be reimbursed for such costs. We were somewhat receptive to that argument and held internal discussions on the issue. On December 9, 2022, we provided the city with a preliminary status update on where things stood with the audit as of that date (**Tab 8, pdf pages 116 - 132**). While SCO was under no obligation to do so, we worked with city representatives and developed a method to include "administrative cost" items appearing within its contracts with San Bernardino County as reimbursable costs. We were very careful to explain that while we acknowledged that San Bernardino County contracts for law enforcement services include various line-item cost amounts that do not appear directly related to law enforcement services, we defined these costs as "administrative costs," not indirect costs or overhead costs. In our audit report (**Section 9 City IRC – pdf pages 1132 and 1133**), we detailed the specific line-item amounts that appear to be wholly administrative in nature. We have seen similar methodologies in other city reimbursement claims to calculate administrative costs pursuant to contracts for law enforcement services and deemed them to be allowable, even though the methodology to calculate such administrative costs is absent direct guidance within any *SCO Mandated Cost Manual for Local Agencies*.

It is at this juncture that the city's logic is flawed in this matter. It argues that cities contracting with San Bernardino County for law enforcement services should be able to claim "overhead" (administrative) costs like the cities that contract with Los Angeles County. However, when the SCO applied a methodology like Los Angeles County, the city objected and continued to insist that *only* the OMB A-87 methodology is appropriate. This is even though the city did not incur any salaries and wages costs that are necessary to utilize that methodology. While working with the city during our audit, it did not suggest any other method to claim allowable administrative cost items other than preparing an ICRP using the A-87 process.

Issue 4: Was it correct for the SCO to replace the existing Indirect Cost Rate Proposal (ICRP) methodology and create a new alternate methodology for contract cities? (Section 6, City IRC, PDF page 25)

Despite the city's statement, the SCO has not developed "a new alternate methodology" for claiming indirect mandated costs. The city did not incur any indirect costs, so Section V.B. of the Ps and Gs does not apply to the city's claims. As we noted in our comments to Issue 2, the city did not incur any costs for a common or joint purpose benefiting other departments by virtue of its contracts with San Bernardino County for law enforcement services.

In addition, we would like to point out that SCO's calculations of administrative costs in this audit did not represent a *reduction* in costs but were additional costs that we deemed to be allowable.

IV. CONCLUSION

The SCO audited city's claims for costs of the legislatively mandated IDT Program (Penal Code Section 530.6(a), as added by Statutes of 2000, Chapter 956 for the period of July 1, 2002, through June 30, 2013. The city claimed \$500,098 for costs of the mandated program. Our audit found that \$195,540 is allowable and \$304,558 is unallowable primarily because the

city misclassified costs, overstated the number of identity theft reports taken, misstated the time increments needed to perform the reimbursable activities, and claimed unallowable indirect costs.

The Commission should find that (1) the SCO correctly reduced the city's FY 2002-2003 claim by \$34,154; (2) the SCO correctly reduced the city's FY 2003-2004 claim by \$32,900; (3) the SCO correctly reduced the city's FY 2004-2005 claim by \$42,696; (4) the SCO correctly reduced the city's FY 2005-2006 claim by \$44,258; (5) the SCO correctly reduced the city's FY 2006-2007 claim by \$28,000; (6) the SCO correctly reduced the city's FY 2007-2008 claim by \$17,918; (7) the SCO correctly reduced the city's FY 2008-2009 claim by \$12,855; (8) the SCO correctly reduced the city's FY 2009-2010 claim by \$14,004; (9) the SCO correctly reduced the city's FY 2010-2011 claim by \$19,756; (10) the SCO correctly reduced the city's FY 2011-2012 claim by \$23,938; and (11) the SCO correctly reduced the city's FY 2012-2013 claim by \$33,809.

V. CERTIFICATION

I hereby certify by my signature below that the statements made in this document are true and correct of my own knowledge, or, as to all other matters, I believe them to be true and correct based upon information and belief.

Executed on January 28, 2026, at Sacramento, California, by:

Lisa Kurokawa

Lisa Kurokawa, Chief
Compliance Audits Bureau
Division of Audits
State Controller's Office

Tab 3
SCO Claiming Instructions

OFFICE OF THE STATE CONTROLLER
STATE MANDATED COSTS CLAIMING INSTRUCTIONS NO. 2011-16
IDENTITY THEFT
SEPTEMBER 30, 2011

In accordance with Government Code (GC) sections 17560 and 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of costs incurred for state-mandated cost programs. This document contains claiming instructions and forms that eligible claimants must use for filing claims for the Identity Theft (IT) program. The Parameters and Guidelines (P's & G's) are included as an integral part of the claiming instructions.

On March 27, 2009, the Commission on State Mandates found that Penal Code section 530.6(a), as added by Chapter 956, Statutes of 2000, mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to GC section 17514.

Exception

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

Eligible Claimants

Any city or county whose law enforcement agency incurs increased costs as a result of this mandate is eligible to claim for reimbursement.

Reimbursement Claim Deadline

Initial reimbursement claims must be filed within 120 days from the issuance date of the claiming instructions. Costs incurred for compliance with this mandate are reimbursable for fiscal years **2002-2003** through **2009-2010** and must be filed with the SCO by **January 30, 2012**. Claims for fiscal year **2010-2011** must be filed with the SCO by **February 15, 2012**. **Claims filed more than one year after the filing date will not be accepted.**

Penalty

• Initial Claims

When filed within one year of the initial filing deadline, claims are assessed a late penalty of 10% of the total amount of the initial claim without limitation pursuant to GC section 17561, subdivision (d)(3).

• Annual Reimbursement Claim

When filed within one year of the annual filing deadline, claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty, pursuant to GC section 17568.

Minimum Claim Cost

GC section 17564, subdivision (a), provides that no claim may be filed pursuant to GC sections 17551, 17560 and 17561, unless such a claim exceeds one thousand dollars (**\$1,000**).

Reimbursement of Claims

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. These costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating: "I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

Audit of Costs

All claims submitted to the SCO are subject to review to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with the SCO's claiming instructions and the P's & G's adopted by the CSM. If any adjustments are made to a claim, the claimant will be notified of the amount adjusted, and the reason for the adjustment.

On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the SCO to initiate an audit will commence to run from the date of initial payment of the claim.

All documents used to support the reimbursable activities must be retained during the period subject to audit. If an audit has been initiated by the SCO during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to the SCO on request.

Record Retention

All documentation to support actual costs claimed must be retained for a period of three years after the end of the calendar year in which the reimbursement claim was filed or last amended regardless of the year of costs incurred. If no funds were appropriated for initial claims at the time the claim was filed, supporting documents must be retained for three years from the date of

initial payment of the claim. Therefore, all documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

Claim Submission

Submit a signed original FAM-27 and one copy with required documents. **Please sign the FAM-27 in blue ink and attach the copy to the top of the claim package.**

Mandated costs claiming instructions and forms are available online at the SCO's website: www.sco.ca.gov/ard_mancost.html.

Use the following mailing addresses:

If delivered by
U.S. Postal Service:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

If delivered by
other delivery services:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

If you have any questions, you may e-mail LRSDAR@sco.ca.gov or call the Local Reimbursements Section at (916) 324-5729.

PARAMETERS AND GUIDELINES

Penal Code Section 530.6(a)

Statutes 2000, Chapter 956

Identity Theft

03-TC-08

I. SUMMARY OF THE MANDATE

The test claim statute requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission found that Penal Code section 530.6(a), as added by Statutes 2000, chapter 956, mandates a new program or higher level of service for local law enforcement agencies within the meaning of article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to Government Code section 17514 for the following activities only:

- take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information; and,
- begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose.

II. ELIGIBLE CLAIMANTS

Any city, county, or city and county whose law enforcement agency incurs increased costs as a result of this reimbursable state-mandated program is eligible to claim reimbursement of these costs.

III. PERIOD OF REIMBURSEMENT

Government Code section 17557(e), states that a test claim shall be submitted on or before June 30 following a given fiscal year to establish eligibility for that fiscal year. The City of Newport Beach filed the test claim on September 25, 2003, establishing eligibility for reimbursement beginning July 1, 2002. Therefore, costs incurred for compliance with the mandated activities are reimbursable on or after July 1, 2002.

Reimbursement for state-mandated costs may be claimed as follows:

1. Actual costs for one fiscal year shall be included in each claim.
2. Pursuant to Government Code section 17561(d)(1)(A), all claims for reimbursement of initial fiscal year costs shall be submitted to the State Controller within 120 days of the issuance date for the claiming instructions.
3. Pursuant to Government Code section 17560(a), a local agency may, by February 15 following the fiscal year in which costs were incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year.
4. In the event revised claiming instructions are issued by the Controller pursuant to Government Code section 17558(c), between November 15 and February 15, a local agency filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim. (Gov. Code §17560 (b).)
5. If the total costs for a given fiscal year do not exceed \$1,000, no reimbursement shall be allowed except as otherwise allowed by Government Code section 17564(a).
6. There shall be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

IV. REIMBURSABLE ACTIVITIES

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, time sheets, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, calendars, and declarations. Declarations must include a certification or declaration stating, “I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise reported in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below.

For each eligible claimant, the following ongoing activities are eligible for reimbursement:

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected

claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

4. Fixed Assets

Report the purchase price paid for fixed assets (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

5. Travel

Report the name of the employee traveling for the purpose of the reimbursable activities. Include the date of travel, destination, the specific reimbursable activity requiring travel, and related travel expenses reimbursed to the employee in compliance with the rules of the local jurisdiction. Report employee travel time according to the rules of cost element A.1, Salaries and Benefits, for each applicable reimbursable activity.

B. Indirect Cost Rates

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.

If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

The distributions base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

In calculating an ICRP, the claimant shall have the choice of one of the following methodologies:

1. The allocation of allowable indirect costs (as defined and described in 2 CRF Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The

identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or

- b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

Providing a copy of the report to the complainant is not reimbursable under this program.

Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program,

V. CLAIM PREPARATION AND SUBMISSION

Each of the following cost elements must be identified for the reimbursable activities identified in section IV of this document. Each reimbursable cost must be supported by source documentation as described in section IV. Additionally, each reimbursement claim must be filed in a timely manner.

A. Direct Cost Reporting

Direct costs are those costs incurred specifically for reimbursable activities. The following direct costs are eligible for reimbursement.

1. Salaries and Benefits

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

2. Materials and Supplies

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities. Purchases shall be claimed at the actual price after deducting discounts, rebates, and allowances received by the claimant. Supplies that are withdrawn from inventory shall be charged on an appropriate and recognized method of costing, consistently applied.

3. Contracted Services

Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be

rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected; or

2. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) separating a department into groups, such as divisions or sections, and then classifying the division's or section's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate that is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected.

VI. RECORD RETENTION

Pursuant to Government Code section 17558.5(a), a reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter¹ is subject to the initiation of an audit by the State Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If an audit has been initiated by the Controller during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

VII. OFFSETTING REVENUES AND REIMBURSEMENTS

Any offsets the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any federal, state or non-local source shall be identified and deducted from this claim.

VIII. STATE CONTROLLER'S CLAIMING INSTRUCTIONS

Pursuant to Government Code section 17558(b), the Controller shall issue claiming instructions for each mandate that requires state reimbursement not later than 60 days after receiving the adopted parameters and guidelines from the Commission, to assist local agencies and school districts in claiming costs to be reimbursed. The claiming instructions shall be derived from the test claim decision and the parameters and guidelines adopted by the Commission.

Pursuant to Government Code section 17561(d)(1)(A), issuance of the claiming instructions shall constitute a notice of the right of the local agencies and school districts to file reimbursement claims, based upon parameters and guidelines adopted by the Commission.

IX. REMEDIES BEFORE THE COMMISSION

Upon the request of a local agency or school district, the Commission shall review the claiming instructions issued by the State Controller or any other authorized state agency for

¹ This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

PROGRAM 321	IDENTITY THEFT CLAIM FOR PAYMENT INSTRUCTIONS	FORM FAM-27
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(01) Enter the claimant number assigned by the State Controller's Office.

(02) Enter claimant official name, county of location, street or postal office box address, city, State, and zip code.

(03) to (08) Leave blank.

(09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.

(10) Not applicable

(11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.

(12) Enter the fiscal year for which actual costs are being claimed.

(13) Enter the amount of the reimbursement claim as shown on Form 1 line (11). The total claimed amount must exceed \$1,000; minimum claim must be \$1,001.

(14) Initial claims must be filed as specified in the claiming instructions. Annual reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim was filed on time. Otherwise, enter the penalty amount as a result of the calculation formula as follows:

- Late Initial Claims: FAM-27 line(13) multiplied by 10%, without limitation; or
- Late Annual Reimbursement Claims: FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.

(15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.

(16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).

(17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.

(18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.

(19) to (21) Leave blank.

(22) to (36) Reimbursement Claim Data. Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form 1, (04) 1. a) (g), means the information is located on Form 1, line (04) 1.a), column (g). Enter the information on the same line but in the right-hand column. Cost information should be rounded to the nearest dollar, i.e., no cents. Indirect costs percentage should be shown as a whole number and without the percent symbol, i.e., 35.19% should be shown as 35. **Completion of this data block will expedite the process.**

(37) Read the statement of Certification of Claim. The claim must be dated, signed by the district's authorized officer, and must type or print name, title, date signed, telephone number, and email address. **Claims cannot be paid unless accompanied by an original signed certification. (Please sign the FAM-27 in blue ink and attach the copy to the top of the claim package.)**

(38) Enter the name, telephone number, and e-mail address of the agency contact person for the claim. If the claim was prepared by a consultant, type or print the name of the consulting firm, the claim preparer, telephone number, and e-mail address.

SUBMIT A SIGNED ORIGINAL FAM-27 AND ONE COPY WITH ALL OTHER FORMS TO:

Address, if delivered by U.S. Postal Service:

OFFICE OF THE STATE CONTROLLER
ATTN: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

Address, if delivered by other delivery service:

OFFICE OF THE STATE CONTROLLER
ATTN: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

reimbursement of mandated costs pursuant to Government Code section 17571. If the Commission determines that the claiming instructions do not conform to the parameters and guidelines, the Commission shall direct the Controller to modify the claiming instructions to conform to the parameters and guidelines as directed by the Commission.

In addition, requests may be made to amend parameters and guidelines pursuant to Government Code section 17557(d)(1), and California Code of Regulations, title 2, section 1183.2.

X. LEGAL AND FACTUAL BASIS FOR THE PARAMETERS AND GUIDELINES

The statement of decision is legally binding on all parties and provides the legal and factual basis for the parameters and guidelines. The support for the legal and factual findings is found in the administrative record for the test claim. The administrative record, including the statement of decision, is on file with the Commission.

IDENTITY THEFT CLAIM FOR PAYMENT			For State Controller Use Only	PROGRAM 321
			(19) Program Number 00321 (20) Date Filed (21) LRS Input	
(01) Claimant Identification Number			Reimbursement Claim Data	
(02) Claimant Name			(22) FORM 1, (04) 1. a) (g)	
County of Location			(23) FORM 1, (04) 1. b) (g)	
Street Address or P.O. Box		Suite	(24) FORM 1, (04) 2. (g)	
City		State	Zip Code	(25) FORM 1, (06)
			Type of Claim	(26) FORM 1, (07)
		(03)	(09) Reimbursement <input type="checkbox"/>	(27) FORM 1, (09)
		(04)	(10) Combined <input type="checkbox"/>	(28) FORM 1, (10)
		(05)	(11) Amended <input type="checkbox"/>	(29)
Fiscal Year of Cost		(06)	(12)	(30)
Total Claimed Amount		(07)	(13)	(31)
Less: 10% Late Penalty (refer to attached Instructions)		(14)	(32)	
Less: Prior Claim Payment Received		(15)	(33)	
Net Claimed Amount		(16)	(34)	
Due from State		(08)	(17)	(35)
Due to State			(18)	(36)
(37) CERTIFICATION OF CLAIM				
<p>In accordance with the provisions of Government Code Sections 17560 and 17561, I certify that I am the officer authorized by the local agency to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grants or payments received for reimbursement of costs claimed herein and claimed costs are for a new program or increased level of services of an existing program. All offsetting revenues and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p>				
<p>Signature of Authorized Officer</p> <hr/>				
<p>Date Signed _____</p>				
<p>Telephone Number _____</p>				
<p>E-Mail Address _____</p>				
<p>Type or Print Name and Title of Authorized Signatory _____</p>				
<p>(38) Name of Agency Contact Person for Claim _____</p>			<p>Telephone Number _____</p>	
			<p>E-mail Address _____</p>	
<p>Name of Consulting Firm/Claim Preparer _____</p>			<p>Telephone Number _____</p>	
			<p>E-mail Address _____</p>	

PROGRAM 321	IDENTITY THEFT CLAIM SUMMARY	FORM 1
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(01) Claimant	(02)	Fiscal Year 20___/20___
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(03) Department						
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Direct Costs	Object Accounts						
	(a) Salaries	(b) Benefits	(c) Materials and Supplies	(d) Contract Services	(e) Fixed Assets	(f) Travel	(g) Total
(04) Reimbursable Activities							
1. Choose either a) or b)							
a) Taking police report in violation of PC §530.5							
b) Reviewing online ID theft report							
2. Investigation of facts							
(05) Total Direct Costs							

Indirect Costs						
(06) Indirect Cost Rate [From ICRP or 10%]	%					
(07) Total Indirect Costs [Refer to Claiming Instructions]						
(08) Total Direct and Indirect Costs [Line (05)(g) + line (07)]						

Cost Reduction						
(09) Less: Offsetting Revenues						
(10) Less: Other Reimbursements						
(11) Total Claimed Amount [Line (08) - {line (09) + line (10)}]						

PROGRAM 321	IDENTITY THEFT CLAIM SUMMARY INSTRUCTIONS	FORM 1
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- (01) Enter the name of the claimant.
- (02) Enter the fiscal year of costs.
- (03) Department. If more than one department has incurred costs for this mandate, give the name of each department. A separate Form 1 should be completed for each department.
- (04) Reimbursable Activities. For each reimbursable activity, enter the totals from Form 2, line (05), columns (d) through (i), to Form 1, block (04), columns (a) through (f), in the appropriate row. Total each row.
- (05) Total Direct Costs. Total columns (a) through (g).
- (06) Indirect Cost Rate. Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits, without preparing an ICRP. If an indirect cost rate of greater than 10% is used, include the Indirect Cost Rate Proposal (ICRP) with the claim.
- (07) Local agencies have the option of using the flat rate of 10% of direct labor costs or using a department's indirect cost rate proposal (ICRP) in accordance with the Office of Management and Budget OMB Circular A-87 (Title 2 CFR Part 225). If the flat rate is used for indirect costs, multiply Total Salaries, line (05)(a), by 10%. If an ICRP is submitted, multiply applicable costs used in the distribution base for the computation of the indirect cost rate by the Indirect Cost Rate, line (06). If more than one department is reporting costs, each must have its own ICRP for the program.
- (08) Total Direct and Indirect Costs. Enter the sum of Total Direct Costs, line (05)(g), and Total Indirect Costs, line (07).
- (09) Less: Offsetting Revenues. If applicable, enter any revenue received by the claimant for this mandate from any state or federal source.
- (10) Less: Other Reimbursements. If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (11) Total Claimed Amount. From Total Direct and Indirect Costs, line (08), subtract the sum of Offsetting Revenues, line (09), and Other Reimbursements, line (10). Enter the remainder on this line and carry the amount forward to form FAM-27, line (13) for the Reimbursement Claim.

PROGRAM 321	IDENTITY THEFT ACTIVITY COST DETAIL					FORM 2		
(01) Claimant			(02)			Fiscal Year 20___/20___		
(03) Reimbursable Activities: Check only one box per form to identify the activity being claimed. <input type="checkbox"/> Taking police report in violation of PC §530.5 <input type="checkbox"/> Investigation of facts <input type="checkbox"/> Reviewing online ID theft report								
(04) Description of Expenses			Object Accounts					
(a) Employee Names, Job Classifications, Functions Performed and Description of Expenses	(b) Hourly Rate or Unit Cost	(c) Hours Worked or Quantity	(d) Salaries	(e) Benefits	(f) Materials and Supplies	(g) Contract Services	(h) Fixed Assets	(i) Travel
(05) Total <input type="checkbox"/> Subtotal <input type="checkbox"/> Page: ___ of ___								

PROGRAM 321	IDENTITY THEFT ACTIVITY COST DETAIL INSTRUCTIONS	FORM 2
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(01) Claimant. Enter the name of the claimant.

(02) Fiscal Year. Enter the fiscal year for which costs were incurred.

(03) Reimbursable Activities. Check the box which indicates the activity being claimed. Check only one box per form. A separate Form 2 must be prepared for each applicable activity.

(04) Description of Expenses. The following table identifies the type of information required to support reimbursable costs. To detail costs for the activity box checked in block (03), enter the employee names, position titles, a brief description of the activities performed, actual time spent by each employee, productive hourly rates, fringe benefits, supplies used, contract services, and travel expenses. **The descriptions required in column (4)(a) must be of sufficient detail to explain the cost of activities or items being claimed.** For audit purposes, all supporting documents must be retained by the claimant for a period of not less than three years after the date the claim was filed or last amended, whichever is later. If no funds were appropriated and no payment was made at the time the claim was filed, the time for the Controller to initiate an audit will be from the date of initial payment of the claim. Such documents must be made available to the SCO on request.

Object/ Sub object Accounts	Columns									Submit supporting documents with the claim
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Salaries	Employee Name/Title	Hourly Rate	Hours Worked	Salaries = Hourly Rate x Hours Worked						
Benefits	Activities Performed	Benefit Rate			Benefits = Benefit Rate x Salaries					
Materials and Supplies	Description of Supplies Used	Unit Cost	Quantity Used			Cost = Unit Cost x Quantity Used				
Contract Services	Name of Contractor Specific Tasks Performed	Hourly Rate	Hours Worked Inclusive Dates of Service				Cost = Hourly Rate x Hours Worked			Copy of Contract and Invoices
Fixed Assets	Description of Equipment Purchased	Unit Cost	Usage					Cost = Unit Cost x Usage		
Travel	Purpose of Trip Name and Title Departure and Return Date	Per Diem Rate Mileage Rate Travel Cost	Days Miles Travel Mode						Total Travel Cost = Rate x Days or Miles	

(05) Total line (04), columns (d) through (i) and enter the sum on this line. Check the appropriate box to indicate if the amount is a total or subtotal. If more than one form is needed to detail the activity costs, number each page. Enter totals from line (05), columns (d) through (i) to Form 1, block (04), columns (a) through (f) in the appropriate row.

Minimum Claim Cost

GC section 17564, subdivision (a), provides that no claim may be filed pursuant to GC sections 17551 and 17561, unless such a claim exceeds one thousand dollars (**\$1,000**).

Reimbursement of Claims

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. These costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating: “I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

Audit of Costs

All claims submitted to the SCO are subject to review to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with the SCO’s claiming instructions and the P’s & G’s adopted by the CSM. If any adjustments are made to a claim, the claimant will be notified of the amount adjusted, and the reason for the adjustment.

On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the SCO to initiate an audit will commence to run from the date of initial payment of the claim.

All documents used to support the reimbursable activities must be retained during the period subject to audit. If an audit has been initiated by the SCO during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to the SCO on request.

Record Retention

All documentation to support actual costs claimed must be retained for a period of three years after the date the claim was filed or last amended, whichever is later. If no funds were appropriated or no payment was made at the time the claim was filed, the time for the Controller to initiate an audit will be from the date of initial payment of the claim. Therefore, all

OFFICE OF THE STATE CONTROLLER
STATE MANDATED COSTS CLAIMING INSTRUCTIONS NO. 2011-16
IDENTITY THEFT
SEPTEMBER 30, 2011
REVISED JULY 1, 2012

In accordance with Government Code (GC) sections 17560 and 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of costs incurred for state-mandated cost programs. This document contains claiming instructions and forms that eligible claimants must use for filing claims for the Identity Theft (IT) program. The Parameters and Guidelines (P's & G's) are included as an integral part of the claiming instructions.

On March 27, 2009, the Commission on State Mandates found that Penal Code section 530.6(a), as added by Chapter 956, Statutes of 2000, mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to GC section 17514.

Exception

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

Eligible Claimants

Any city or county whose law enforcement agency incurs increased costs as a result of this mandate is eligible to claim for reimbursement.

Reimbursement Claim Deadline

Claims for the **2011-2012** fiscal year may be filed by **February 15, 2013**, without a late penalty. **Claims filed more than one year after the filing date will not be accepted.**

Penalty

• **Initial Claims**

When filed within one year of the initial filing deadline, claims are assessed a late penalty of 10% of the total amount of the initial claim without limitation pursuant to GC section 17561, subdivision (d)(3).

• **Annual Reimbursement Claim**

When filed within one year of the annual filing deadline, claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty, pursuant to GC section 17568.

Reimbursement for state-mandated costs may be claimed as follows:

1. Actual costs for one fiscal year shall be included in each claim.
2. Pursuant to Government Code section 17561(d)(1)(A), all claims for reimbursement of initial fiscal year costs shall be submitted to the State Controller within 120 days of the issuance date for the claiming instructions.
3. Pursuant to Government Code section 17560(a), a local agency may, by February 15 following the fiscal year in which costs were incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year.
4. In the event revised claiming instructions are issued by the Controller pursuant to Government Code section 17558(c), between November 15 and February 15, a local agency filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim. (Gov. Code §17560 (b).)
5. If the total costs for a given fiscal year do not exceed \$1,000, no reimbursement shall be allowed except as otherwise allowed by Government Code section 17564(a).
6. There shall be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

IV. REIMBURSABLE ACTIVITIES

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, time sheets, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, calendars, and declarations. Declarations must include a certification or declaration stating, “I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise reported in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below.

For each eligible claimant, the following ongoing activities are eligible for reimbursement:

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected

documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

Claim Submission

Submit a signed original Form FAM-27 and one copy with required documents. **Please sign the Form FAM-27 in blue ink and attach the copy to the top of the claim package.**

Mandated costs claiming instructions and forms are available online at the SCO's website: www.sco.ca.gov/ard_mancost.html.

Use the following mailing addresses:

If delivered by
U.S. Postal Service:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

If delivered by
other delivery services:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

If you have any questions, you may e-mail LRSDAR@sco.ca.gov or call the Local Reimbursements Section at (916) 324-5729.

claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

4. Fixed Assets

Report the purchase price paid for fixed assets (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

5. Travel

Report the name of the employee traveling for the purpose of the reimbursable activities. Include the date of travel, destination, the specific reimbursable activity requiring travel, and related travel expenses reimbursed to the employee in compliance with the rules of the local jurisdiction. Report employee travel time according to the rules of cost element A.1, Salaries and Benefits, for each applicable reimbursable activity.

B. Indirect Cost Rates

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.

If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

The distributions base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

In calculating an ICRP, the claimant shall have the choice of one of the following methodologies:

1. The allocation of allowable indirect costs (as defined and described in 2 CRF Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The

rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected; or

2. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) separating a department into groups, such as divisions or sections, and then classifying the division's or section's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate that is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected.

VI. RECORD RETENTION

Pursuant to Government Code section 17558.5(a), a reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter¹ is subject to the initiation of an audit by the State Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If an audit has been initiated by the Controller during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

VII. OFFSETTING REVENUES AND REIMBURSEMENTS

Any offsets the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any federal, state or non-local source shall be identified and deducted from this claim.

VIII. STATE CONTROLLER'S CLAIMING INSTRUCTIONS

Pursuant to Government Code section 17558(b), the Controller shall issue claiming instructions for each mandate that requires state reimbursement not later than 60 days after receiving the adopted parameters and guidelines from the Commission, to assist local agencies and school districts in claiming costs to be reimbursed. The claiming instructions shall be derived from the test claim decision and the parameters and guidelines adopted by the Commission.

Pursuant to Government Code section 17561(d)(1)(A), issuance of the claiming instructions shall constitute a notice of the right of the local agencies and school districts to file reimbursement claims, based upon parameters and guidelines adopted by the Commission.

IX. REMEDIES BEFORE THE COMMISSION

Upon the request of a local agency or school district, the Commission shall review the claiming instructions issued by the State Controller or any other authorized state agency for

¹ This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

Adopted: July 28, 2011

PARAMETERS AND GUIDELINES

Penal Code Section 530.6(a)

Statutes 2000, Chapter 956

Identity Theft

03-TC-08

I. SUMMARY OF THE MANDATE

The test claim statute requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission found that Penal Code section 530.6(a), as added by Statutes 2000, chapter 956, mandates a new program or higher level of service for local law enforcement agencies within the meaning of article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to Government Code section 17514 for the following activities only:

- take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information; and,
- begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose.

II. ELIGIBLE CLAIMANTS

Any city, county, or city and county whose law enforcement agency incurs increased costs as a result of this reimbursable state-mandated program is eligible to claim reimbursement of these costs.

III. PERIOD OF REIMBURSEMENT

Government Code section 17557(e), states that a test claim shall be submitted on or before June 30 following a given fiscal year to establish eligibility for that fiscal year. The City of Newport Beach filed the test claim on September 25, 2003, establishing eligibility for reimbursement beginning July 1, 2002. Therefore, costs incurred for compliance with the mandated activities are reimbursable on or after July 1, 2002.

identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or

b) Reviewing the identity theft report completed on-line by the identity theft victim.

2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

Providing a copy of the report to the complainant is not reimbursable under this program.

Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program,

V. CLAIM PREPARATION AND SUBMISSION

Each of the following cost elements must be identified for the reimbursable activities identified in section IV of this document. Each reimbursable cost must be supported by source documentation as described in section IV. Additionally, each reimbursement claim must be filed in a timely manner.

A. Direct Cost Reporting

Direct costs are those costs incurred specifically for reimbursable activities. The following direct costs are eligible for reimbursement.

1. Salaries and Benefits

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

2. Materials and Supplies

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities. Purchases shall be claimed at the actual price after deducting discounts, rebates, and allowances received by the claimant. Supplies that are withdrawn from inventory shall be charged on an appropriate and recognized method of costing, consistently applied.

3. Contracted Services

Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be

reimbursement of mandated costs pursuant to Government Code section 17571. If the Commission determines that the claiming instructions do not conform to the parameters and guidelines, the Commission shall direct the Controller to modify the claiming instructions to conform to the parameters and guidelines as directed by the Commission.

In addition, requests may be made to amend parameters and guidelines pursuant to Government Code section 17557(d)(1), and California Code of Regulations, title 2, section 1183.2.

X. LEGAL AND FACTUAL BASIS FOR THE PARAMETERS AND GUIDELINES

The statement of decision is legally binding on all parties and provides the legal and factual basis for the parameters and guidelines. The support for the legal and factual findings is found in the administrative record for the test claim. The administrative record, including the statement of decision, is on file with the Commission.

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State Controller's Office

Local Mandated Cost Manual

IDENTITY THEFT CLAIM FOR PAYMENT			For State Controller Use Only	PROGRAM 321	
			(19) Program Number 00321 (20) Date Filed (21) LRS Input	321	
(01) Claimant Identification Number			Reimbursement Claim Data		
(02) Claimant Name			(22) FORM 1, (04) 1. (a) (g)		
County of Location			(23) FORM 1, (04) 1. (b) (g)		
Street Address or P.O. Box		Suite	(24) FORM 1, (04) 2. (g)		
City		State	Zip Code	(25) FORM 1, (06)	
		(03)	Type of Claim	(26) FORM 1, (07)	
		(04)	(09) Reimbursement	<input type="checkbox"/>	(27) FORM 1, (09)
		(05)	(10) Combined	<input type="checkbox"/>	(28) FORM 1, (10)
			(11) Amended	<input type="checkbox"/>	(29)
Fiscal Year of Cost		(06)	(12)	(30)	
Total Claimed Amount		(07)	(13)	(31)	
Less: 10% Late Penalty (refer to attached Instructions)		(14)	(32)		
Prior Claim Payment Received		(15)	(33)		
Net Claimed Amount		(16)	(34)		
Due from State		(08)	(17)	(35)	
Due to State			(18)	(36)	
(37) CERTIFICATION OF CLAIM					
<p>In accordance with the provisions of Government Code Sections 17560 and 17561, I certify that I am the officer authorized by the local agency to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grants or payments received for reimbursement of costs claimed herein and claimed costs are for a new program or increased level of services of an existing program. All offsetting revenues and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p>					
<p>Signature of Authorized Officer</p> <hr style="width: 20%; margin-left: 0;"/> <p>Date Signed _____</p> <p>Telephone Number _____</p> <p>E-Mail Address _____</p> <p>Type or Print Name and Title of Authorized Signatory _____</p> <p>(38) Name of Agency Contact Person for Claim _____</p> <p>Telephone Number _____</p> <p>E-mail Address _____</p> <p>Name of Consulting Firm/Claim Preparer _____</p> <p>Telephone Number _____</p> <p>E-mail Address _____</p>					

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT CLAIM SUMMARY INSTRUCTIONS	FORM 1
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- (01) Enter the name of the claimant.
- (02) Enter the fiscal year of costs.
- (03) If more than one department has incurred costs for this mandate, give the name of each department. A separate Form 1 should be completed for each department.
- (04) For each reimbursable activity, enter the totals from Form 2, line (05), columns (d) through (i), to Form 1, block (04), columns (a) through (f), in the appropriate row. Total each row.
- (05) Total columns (a) through (g).
- (06) Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits, without preparing an Indirect Cost Rate Proposal (ICRP). If an indirect cost rate of greater than 10% is used, include the ICRP with the claim.
- (07) Local agencies have the option of using the flat rate of 10% of direct labor costs or using a department's ICRP in accordance with the Office of Management and Budget OMB Circular A-87 (Title 2 CFR Part 225). If the flat rate is used for indirect costs, multiply Total Salaries, line (05)(a), by 10%. If an ICRP is submitted, multiply applicable costs used in the distribution base for the computation of the indirect cost rate by the Indirect Cost Rate, line (06). If more than one department is reporting costs, each must have its own ICRP for the program.
- (08) Enter the sum of Total Direct Costs, line (05)(g), and Total Indirect Costs, line (07).
- (09) If applicable, enter any revenue received by the claimant for this mandate from any state or federal source.
- (10) If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (11) From Total Direct and Indirect Costs, line (08), subtract the sum of Offsetting Revenues, line (09), and Other Reimbursements, line (10). Enter the remainder on this line and carry the amount forward to Form FAM-27, line (13) for the Reimbursement Claim.

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT CLAIM FOR PAYMENT INSTRUCTIONS	FORM FAM-27
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(01) Enter the claimant identification number assigned by the State Controller's Office.

(02) Enter claimant official name, county of location, street or postal office box address, city, State, and zip code.

(03) to (08) Leave blank.

(09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.

(10) Not applicable.

(11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.

(12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate Form FAM-27 for each fiscal year.

(13) Enter the amount of the reimbursement claim as shown on Form 1 line (11). The total claimed amount must exceed \$1,000; minimum claim must be \$1,001.

(14) Initial claims must be filed as specified in the claiming instructions. Annual reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim was filed on time. Otherwise, enter the penalty amount as a result of the calculation formula as follows:

- Late Initial Claims: Form FAM-27 line (13) multiplied by 10%, without limitation; or
- Late Annual Reimbursement Claims: Form FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.

(15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.

(16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).

(17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.

(18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.

(19) to (21) Leave blank.

(22) to (36) Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form 1, (04) 1. a) (g), means the information is located on Form 1, line (04) 1.a), column (g). Enter the information on the same line but in the right-hand column. Cost information should be rounded to the nearest dollar, i.e., no cents. Indirect costs percentage should be shown as a whole number and without the percent symbol, i.e., 35.19% should be shown as 35. **Completion of this data block will expedite the process.**

(37) Read the statement of Certification of Claim. The claim must be dated, signed by the agency's authorized officer, and must type or print name, title, date signed, telephone number, and email address. **Claims cannot be paid unless accompanied by an original signed certification. (Please sign the Form FAM-27 in blue ink and attach the copy to the top of the claim package.)**

(38) Enter the name, telephone number, and e-mail address of the agency contact person for the claim. If the claim was prepared by a consultant, type or print the name of the consulting firm, the claim preparer, telephone number, and e-mail address.

SUBMIT A SIGNED ORIGINAL Form FAM-27 AND ONE COPY WITH ALL OTHER FORMS TO:

Address, if delivered by U.S. Postal Service:

OFFICE OF THE STATE CONTROLLER
ATTN: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

Address, if delivered by other delivery service:

OFFICE OF THE STATE CONTROLLER
ATTN: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT CLAIM SUMMARY	FORM 1					
(01) Claimant		(02) Fiscal Year 20___/20___					
(03) Department							
Direct Costs		Object Accounts					
(04) Reimbursable Activities	(a) Salaries	(b) Benefits	(c) Materials and Supplies	(d) Contract Services	(e) Fixed Assets	(f) Travel	(g) Total
1. Choose either a) or b)							
a) Taking police report in violation of PC §530.5							
b) Reviewing online ID theft report							
2. Investigation of facts							
(05) Total Direct Costs							
Indirect Costs							
(06) Indirect Cost Rate						[From ICRP or 10%]	%
(07) Total Indirect Costs						[Refer to Claim Summary Instructions]	
(08) Total Direct and Indirect Costs						[Line (05)(g) + line (07)]	
Cost Reduction							
(09) Less: Offsetting Revenues							
(10) Less: Other Reimbursements							
(11) Total Claimed Amount						[Line (08) - {line (09) + line (10)}]	

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT ACTIVITY COST DETAIL					FORM 2		
(01) Claimant			(02)			Fiscal Year 20___/20___		
(03) Reimbursable Activities: Check only one box per form to identify the activity being claimed. <input type="checkbox"/> Taking police report in violation of PC §530.5 <input type="checkbox"/> Investigation of facts <input type="checkbox"/> Reviewing online ID theft report								
(04) Description of Expenses			Object Accounts					
(a) Employee Names, Job Classifications, Functions Performed and Description of Expenses	(b) Hourly Rate or Unit Cost	(c) Hours Worked or Quantity	(d) Salaries	(e) Benefits	(f) Materials and Supplies	(g) Contract Services	(h) Fixed Assets	(i) Travel
(05) Total <input type="checkbox"/> Subtotal <input type="checkbox"/> Page: ___ of ___								

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT ACTIVITY COST DETAIL INSTRUCTIONS	FORM 2
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(01) Enter the name of the claimant.

(02) Enter the fiscal year for which costs were incurred.

(03) Check the box which indicates the activity being claimed. Check only one box per form. A separate Form 2 must be prepared for each applicable activity.

(04) The following table identifies the type of information required to support reimbursable costs. To detail costs for the activity box checked in block (03), enter the employee names, position titles, a brief description of the activities performed, actual time spent by each employee, productive hourly rates, fringe benefits, supplies used, contract services, and travel expenses. **The descriptions required in column (4)(a) must be of sufficient detail to explain the cost of activities or items being claimed.** For audit purposes, all supporting documents must be retained by the claimant for a period of not less than three years after the date the claim was filed or last amended, whichever is later. If no funds were appropriated or no payment was made at the time the claim was filed, the time for the Controller to initiate an audit will be from the date of initial payment of the claim. Such documents must be made available to the SCO on request.

Object/ Sub object Accounts	Columns									Submit supporting documents with the claim
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Salaries	Employee Name/Title	Hourly Rate	Hours Worked	Salaries = Hourly Rate x Hours Worked						
Benefits	Activities Performed	Benefit Rate			Benefits = Benefit Rate x Salaries					
Materials and Supplies	Description of Supplies Used	Unit Cost	Quantity Used			Cost = Unit Cost x Quantity Used				
Contract Services	Name of Contractor Specific Tasks Performed	Hourly Rate	Hours Worked Inclusive Dates of Service				Cost = Hourly Rate x Hours Worked			Copy of Contract and Invoices
Fixed Assets	Description of Equipment Purchased	Unit Cost	Usage					Cost = Unit Cost x Usage		
Travel	Purpose of Trip Name and Title Departure and Return Date	Per Diem Rate Mileage Rate Travel Cost	Days Miles Travel Mode					Total Travel Cost = Rate x Days or Miles		

(05) Total line (04), columns (d) through (i) and enter the sum on this line. Check the appropriate box to indicate if the amount is a total or subtotal. If more than one form is needed to detail the activity costs, number each page. Enter totals from line (05), columns (d) through (i) to Form 1, block (04), columns (a) through (f) in the appropriate row.

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OFFICE OF THE STATE CONTROLLER
STATE MANDATED COSTS CLAIMING INSTRUCTIONS NO. 2011-16
IDENTITY THEFT
SEPTEMBER 30, 2011
REVISED JULY 1, 2013

In accordance with Government Code (GC) sections 17560 and 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of costs incurred for state-mandated cost programs. This document contains claiming instructions and forms that eligible claimants must use for filing claims for the Identity Theft (IT) program. The Parameters and Guidelines (P's & G's) are included as an integral part of the claiming instructions.

On March 27, 2009, the Commission on State Mandates found that Penal Code section 530.6(a), as added by Chapter 956, Statutes of 2000, mandates a new program or higher level of service for local law enforcement agencies within the meaning of Article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to GC section 17514.

Exception

There will be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

Eligible Claimants

Any city or county whose law enforcement agency incurs increased costs as a result of this mandate is eligible to claim for reimbursement.

Reimbursement Claim Deadline

Claims for the **2012-13** fiscal year may be filed by **February 18, 2014**, without a late penalty. **Claims filed more than one year after the filing date will not be accepted.**

Penalty

- Initial Claims**

When filed within one year of the initial filing deadline, claims are assessed a late penalty of 10% of the total amount of the initial claim without limitation pursuant to GC section 17561, subdivision (d)(3).

- Annual Reimbursement Claim**

When filed within one year of the annual filing deadline, claims are assessed a late penalty of 10% of the claim amount; \$10,000 maximum penalty, pursuant to GC section 17568.

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Minimum Claim Cost

GC section 17564, subdivision (a), provides that no claim may be filed pursuant to GC sections 17551 and 17561, unless such a claim exceeds one thousand dollars (**\$1,000**).

Reimbursement of Claims

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. These costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating: "I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, these documents cannot be substituted for source documents.

Audit of Costs

All claims submitted to the SCO are subject to review to determine if costs are related to the mandate, are reasonable and not excessive, and if the claim was prepared in accordance with the SCO's claiming instructions and the P's & G's adopted by the CSM. If any adjustments are made to a claim, the claimant will be notified of the amount adjusted, and the reason for the adjustment.

On-site audits will be conducted by the SCO as deemed necessary. Pursuant to GC section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a claimant is subject to audit by the SCO no later than three years after the date the actual reimbursement claim was filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the SCO to initiate an audit will commence to run from the date of initial payment of the claim.

All documents used to support the reimbursable activities must be retained during the period subject to audit. If an audit has been initiated by the SCO during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to the SCO on request.

Record Retention

All documentation to support actual costs claimed must be retained for a period of three years after the date the claim was filed or last amended, whichever is later. If no funds were appropriated or no payment was made at the time the claim was filed, the time for the Controller to initiate an audit will be from the date of initial payment of the claim. Therefore, all

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documentation to support actual costs claimed must be retained for the same period, and must be made available to the SCO on request.

Claim Submission

Submit a signed original Form FAM-27 and one copy with required documents. **Please sign the Form FAM-27 in blue ink and attach the copy to the top of the claim package.**

Mandated costs claiming instructions and forms are available online at the SCO's website: www.sco.ca.gov/ard_mancost.html.

Use the following mailing addresses:

If delivered by
U.S. Postal Service:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

If delivered by
other delivery services:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

If you have any questions, you may e-mail LRSDAR@sco.ca.gov or call the Local Reimbursements Section at (916) 324-5729.

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Adopted: July 28, 2011

PARAMETERS AND GUIDELINES

Penal Code Section 530.6(a)

Statutes 2000, Chapter 956

Identity Theft

03-TC-08

I. SUMMARY OF THE MANDATE

The test claim statute requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission found that Penal Code section 530.6(a), as added by Statutes 2000, chapter 956, mandates a new program or higher level of service for local law enforcement agencies within the meaning of article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to Government Code section 17514 for the following activities only:

- take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information; and,
- begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose.

II. ELIGIBLE CLAIMANTS

Any city, county, or city and county whose law enforcement agency incurs increased costs as a result of this reimbursable state-mandated program is eligible to claim reimbursement of these costs.

III. PERIOD OF REIMBURSEMENT

Government Code section 17557(e), states that a test claim shall be submitted on or before June 30 following a given fiscal year to establish eligibility for that fiscal year. The City of Newport Beach filed the test claim on September 25, 2003, establishing eligibility for reimbursement beginning July 1, 2002. Therefore, costs incurred for compliance with the mandated activities are reimbursable on or after July 1, 2002.

Reimbursement for state-mandated costs may be claimed as follows:

1. Actual costs for one fiscal year shall be included in each claim.
2. Pursuant to Government Code section 17561(d)(1)(A), all claims for reimbursement of initial fiscal year costs shall be submitted to the State Controller within 120 days of the issuance date for the claiming instructions.
3. Pursuant to Government Code section 17560(a), a local agency may, by February 15 following the fiscal year in which costs were incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year.
4. In the event revised claiming instructions are issued by the Controller pursuant to Government Code section 17558(c), between November 15 and February 15, a local agency filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim. (Gov. Code §17560 (b).)
5. If the total costs for a given fiscal year do not exceed \$1,000, no reimbursement shall be allowed except as otherwise allowed by Government Code section 17564(a).
6. There shall be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

IV. REIMBURSABLE ACTIVITIES

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, time sheets, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, calendars, and declarations. Declarations must include a certification or declaration stating, "I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise reported in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below.

For each eligible claimant, the following ongoing activities are eligible for reimbursement:

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected

identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or

b) Reviewing the identity theft report completed on-line by the identity theft victim.

2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

Providing a copy of the report to the complainant is not reimbursable under this program.

Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program,

V. CLAIM PREPARATION AND SUBMISSION

Each of the following cost elements must be identified for the reimbursable activities identified in section IV of this document. Each reimbursable cost must be supported by source documentation as described in section IV. Additionally, each reimbursement claim must be filed in a timely manner.

A. Direct Cost Reporting

Direct costs are those costs incurred specifically for reimbursable activities. The following direct costs are eligible for reimbursement.

1. Salaries and Benefits

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

2. Materials and Supplies

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities. Purchases shall be claimed at the actual price after deducting discounts, rebates, and allowances received by the claimant. Supplies that are withdrawn from inventory shall be charged on an appropriate and recognized method of costing, consistently applied.

3. Contracted Services

Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be

claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

4. Fixed Assets

Report the purchase price paid for fixed assets (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

5. Travel

Report the name of the employee traveling for the purpose of the reimbursable activities. Include the date of travel, destination, the specific reimbursable activity requiring travel, and related travel expenses reimbursed to the employee in compliance with the rules of the local jurisdiction. Report employee travel time according to the rules of cost element A.1, Salaries and Benefits, for each applicable reimbursable activity.

B. Indirect Cost Rates

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.

If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

The distributions base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

In calculating an ICRP, the claimant shall have the choice of one of the following methodologies:

1. The allocation of allowable indirect costs (as defined and described in 2 CRF Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The

rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected; or

2. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) separating a department into groups, such as divisions or sections, and then classifying the division's or section's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate that is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected.

VI. RECORD RETENTION

Pursuant to Government Code section 17558.5(a), a reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter¹ is subject to the initiation of an audit by the State Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If an audit has been initiated by the Controller during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

VII. OFFSETTING REVENUES AND REIMBURSEMENTS

Any offsets the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any federal, state or non-local source shall be identified and deducted from this claim.

VIII. STATE CONTROLLER'S CLAIMING INSTRUCTIONS

Pursuant to Government Code section 17558(b), the Controller shall issue claiming instructions for each mandate that requires state reimbursement not later than 60 days after receiving the adopted parameters and guidelines from the Commission, to assist local agencies and school districts in claiming costs to be reimbursed. The claiming instructions shall be derived from the test claim decision and the parameters and guidelines adopted by the Commission.

Pursuant to Government Code section 17561(d)(1)(A), issuance of the claiming instructions shall constitute a notice of the right of the local agencies and school districts to file reimbursement claims, based upon parameters and guidelines adopted by the Commission.

IX. REMEDIES BEFORE THE COMMISSION

Upon the request of a local agency or school district, the Commission shall review the claiming instructions issued by the State Controller or any other authorized state agency for

¹ This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

reimbursement of mandated costs pursuant to Government Code section 17571. If the Commission determines that the claiming instructions do not conform to the parameters and guidelines, the Commission shall direct the Controller to modify the claiming instructions to conform to the parameters and guidelines as directed by the Commission.

In addition, requests may be made to amend parameters and guidelines pursuant to Government Code section 17557(d)(1), and California Code of Regulations, title 2, section 1183.2.

X. LEGAL AND FACTUAL BASIS FOR THE PARAMETERS AND GUIDELINES

The statement of decision is legally binding on all parties and provides the legal and factual basis for the parameters and guidelines. The support for the legal and factual findings is found in the administrative record for the test claim. The administrative record, including the statement of decision, is on file with the Commission.

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State Controller's Office

Local Mandated Cost Manual

IDENTITY THEFT CLAIM FOR PAYMENT			For State Controller Use Only		PROGRAM 321
			(19) Program Number 00321 (20) Date Filed (21) LRS Input		
(01) Claimant Identification Number			Reimbursement Claim Data		
(02) Claimant Name			(22) FORM 1, (04) 1. (a) (g)		
County of Location			(23) FORM 1, (04) 1. (b) (g)		
Street Address or P.O. Box		Suite	(24) FORM 1, (04) 2. (g)		
City		State	Zip Code		(25) FORM 1, (06)
		(03)	Type of Claim (09) Reimbursement	<input type="checkbox"/>	(26) FORM 1, (07) (27) FORM 1, (09)
		(04)	(10) Combined	<input type="checkbox"/>	(28) FORM 1, (10)
		(05)	(11) Amended	<input type="checkbox"/>	(29)
				(06)	(12)
Fiscal Year of Cost		(07)	(13)	(31)	
Less: 10% Late Penalty (refer to attached Instructions)		(14)	(32)		
Less: Prior Claim Payment Received		(15)	(33)		
Net Claimed Amount		(16)	(34)		
Due from State		(08)	(17)	(35)	
Due to State			(18)	(36)	
(37) CERTIFICATION OF CLAIM					
<p>In accordance with the provisions of Government Code Sections 17560 and 17561, I certify that I am the officer authorized by the local agency to file mandated cost claims with the State of California for this program, and certify under penalty of perjury that I have not violated any of the provisions of Article 4, Chapter 1 of Division 4 of Title 1 Government Code.</p> <p>I further certify that there was no application other than from the claimant, nor any grants or payments received for reimbursement of costs claimed herein and claimed costs are for a new program or increased level of services of an existing program. All offsetting revenues and reimbursements set forth in the parameters and guidelines are identified, and all costs claimed are supported by source documentation currently maintained by the claimant.</p> <p>The amount for this reimbursement is hereby claimed from the State for payment of actual costs set forth on the attached statements.</p> <p>I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.</p>					
<p>Signature of Authorized Officer</p> <p>_____ _____ _____</p> <p>Type or Print Name and Title of Authorized Signatory</p> <p>_____ _____ _____</p>					
(38) Name of Agency Contact Person for Claim			Telephone Number _____ E-mail Address _____		
Name of Consulting Firm/Claim Preparer			Telephone Number _____ E-mail Address _____		

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT ACTIVITY COST DETAIL INSTRUCTIONS	FORM 2
------------------------	---	-------------------

(01) Enter the name of the claimant.

(02) Enter the fiscal year for which costs were incurred.

(03) Check the box which indicates the activity being claimed. Check only one box per form. A separate Form 2 must be prepared for each applicable activity.

(04) The following table identifies the type of information required to support reimbursable costs. To detail costs for the activity box checked in block (03), enter the employee names, position titles, a brief description of the activities performed, actual time spent by each employee, productive hourly rates, fringe benefits, supplies used, contract services, and travel expenses. **The descriptions required in column (4)(a) must be of sufficient detail to explain the cost of activities or items being claimed.** For audit purposes, all supporting documents must be retained by the claimant for a period of not less than three years after the date the claim was filed or last amended, whichever is later. If no funds were appropriated or no payment was made at the time the claim was filed, the time for the Controller to initiate an audit will be from the date of initial payment of the claim. Such documents must be made available to the SCO on request.

Object/ Sub object Accounts	Columns									Submit supporting documents with the claim
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Salaries	Employee Name/Title	Hourly Rate	Hours Worked	Salaries = Hourly Rate x Hours Worked						
Benefits	Activities Performed	Benefit Rate			Benefits = Benefit Rate x Salaries					
Materials and Supplies	Description of Supplies Used	Unit Cost	Quantity Used			Cost = Unit Cost x Quantity Used				
Contract Services	Name of Contractor Specific Tasks Performed	Hourly Rate	Hours Worked Inclusive Dates of Service				Cost = Hourly Rate x Hours Worked			Copy of Contract and Invoices
Fixed Assets	Description of Equipment Purchased	Unit Cost	Usage					Cost = Unit Cost x Usage		
Travel	Purpose of Trip Name and Title Departure and Return Date	Per Diem Rate Mileage Rate Travel Cost	Days Miles Travel Mode					Total Travel Cost = Rate x Days or Miles		

(05) Total line (04), columns (d) through (i) and enter the sum on this line. Check the appropriate box to indicate if the amount is a total or subtotal. If more than one form is needed to detail the activity costs, number each page. Enter totals from line (05), columns (d) through (i) to Form 1, block (04), columns (a) through (f) in the appropriate row.

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT CLAIM FOR PAYMENT INSTRUCTIONS	FORM FAM-27
------------------------	--	------------------------

(01) Enter the claimant identification number assigned by the State Controller's Office.

(02) Enter claimant official name, county of location, street or postal office box address, city, State, and zip code.

(03) to (08) Leave blank.

(09) If filing a reimbursement claim, enter an "X" in the box on line (09) Reimbursement.

(10) Not applicable.

(11) If filing an amended reimbursement claim, enter an "X" in the box on line (11) Amended.

(12) Enter the fiscal year for which actual costs are being claimed. If actual costs for more than one fiscal year are being claimed, complete a separate Form FAM-27 for each fiscal year.

(13) Enter the amount of the reimbursement claim as shown on Form 1 line (11). The total claimed amount must exceed \$1,000; minimum claim must be \$1,001.

(14) Initial claims must be filed as specified in the claiming instructions. Annual reimbursement claims must be filed by **February 15** of the following fiscal year in which costs were incurred or the claims must be reduced by a late penalty. Enter zero if the claim was filed on time. Otherwise, enter the penalty amount as a result of the calculation formula as follows:

- Late Initial Claims: Form FAM-27 line (13) multiplied by 10%, without limitation; or
- Late Annual Reimbursement Claims: Form FAM-27, line (13) multiplied by 10%, late penalty not to exceed \$10,000.

(15) Enter the amount of payment, if any, received for the claim. If no payment was received, enter zero.

(16) Enter the net claimed amount by subtracting the sum of lines (14) and (15) from line (13).

(17) If line (16), Net Claimed Amount, is positive, enter that amount on line (17), Due from State.

(18) If line (16), Net Claimed Amount, is negative, enter that amount on line (18), Due to State.

(19) to (21) Leave blank.

(22) to (36) Bring forward the cost information as specified on the left-hand column of lines (22) through (36) for the reimbursement claim, e.g., Form 1, (04) 1. a) (g), means the information is located on Form 1, line (04) 1.a), column (g). Enter the information on the same line but in the right-hand column. Cost information should be rounded to the nearest dollar, i.e., no cents. Indirect costs percentage should be shown as a whole number and without the percent symbol, i.e., 35.19% should be shown as 35. **Completion of this data block will expedite the process.**

(37) Read the statement of Certification of Claim. The claim must be dated, signed by the agency's authorized officer, and must type or print name, title, date signed, telephone number, and email address. **Claims cannot be paid unless accompanied by an original signed certification. (Please sign the Form FAM-27 in blue ink and attach the copy to the top of the claim package.)**

(38) Enter the name, telephone number, and e-mail address of the agency contact person for the claim. If the claim was prepared by a consultant, type or print the name of the consulting firm, the claim preparer, telephone number, and e-mail address.

SUBMIT A SIGNED ORIGINAL Form FAM-27 AND ONE COPY WITH ALL OTHER FORMS TO:

Address, if delivered by U.S. Postal Service:

OFFICE OF THE STATE CONTROLLER
ATTN: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

Address, if delivered by other delivery service:

OFFICE OF THE STATE CONTROLLER
ATTN: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT CLAIM SUMMARY	FORM 1						
(01) Claimant		(02) Fiscal Year 20___/20___						
(03) Department								
Direct Costs		Object Accounts						
(04) Reimbursable Activities		(a) Salaries	(b) Benefits	(c) Materials and Supplies	(d) Contract Services	(e) Fixed Assets	(f) Travel	(g) Total
1. Choose either (a) or (b)								
a) Taking police report in violation of PC §530.5								
b) Reviewing online ID theft report								
2. Investigation of facts								
(05) Total Direct Costs								
Indirect Costs								
(06) Indirect Cost Rate		[From ICRP or 10%]						%
(07) Total Indirect Costs		[Refer to Claim Summary Instructions]						
(08) Total Direct and Indirect Costs		[Line (05)(g) + line (07)]						
Cost Reduction								
(09) Less: Offsetting Revenues								
(10) Less: Other Reimbursements								
(11) Total Claimed Amount		[Line (08) - {line (09) + line (10)}]						

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT CLAIM SUMMARY INSTRUCTIONS	FORM 1
-----------------------	---	------------------

- (01) Enter the name of the claimant.
- (02) Enter the fiscal year of costs.
- (03) If more than one department has incurred costs for this mandate, give the name of each department. A separate Form 1 should be completed for each department.
- (04) For each reimbursable activity, enter the totals from Form 2, line (05), columns (d) through (i), to Form 1, block (04), columns (a) through (f), in the appropriate row. Total each row.
- (05) Total columns (a) through (g).
- (06) Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits, without preparing an Indirect Cost Rate Proposal (ICRP). If an indirect cost rate of greater than 10% is used, include the ICRP with the claim.
- (07) Local agencies have the option of using the flat rate of 10% of direct labor costs or using a department's ICRP in accordance with the Office of Management and Budget OMB Circular A-87 (Title 2 CFR Part 225). If the flat rate is used for indirect costs, multiply Total Salaries, line (05)(a), by 10%. If an ICRP is submitted, multiply applicable costs used in the distribution base for the computation of the indirect cost rate by the Indirect Cost Rate, line (06). If more than one department is reporting costs, each must have its own ICRP for the program.
- (08) Enter the sum of Total Direct Costs, line (05)(g), and Total Indirect Costs, line (07).
- (09) If applicable, enter any revenue received by the claimant for this mandate from any state or federal source.
- (10) If applicable, enter the amount of other reimbursements received from any source including, but not limited to, service fees collected, federal funds, and other state funds that reimbursed any portion of the mandated cost program. Submit a schedule detailing the reimbursement sources and amounts.
- (11) From Total Direct and Indirect Costs, line (08), subtract the sum of Offsetting Revenues, line (09), and Other Reimbursements, line (10). Enter the remainder on this line and carry the amount forward to Form FAM-27, line (13) for the Reimbursement Claim.

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State Controller's Office

Local Mandated Cost Manual

PROGRAM 321	IDENTITY THEFT ACTIVITY COST DETAIL					FORM 2		
(01) Claimant		(02)			Fiscal Year 20___/20___			
(03) Reimbursable Activities: Check only one box per form to identify the activity being claimed. <input type="checkbox"/> 1.(a) Taking police report in violation of PC §530.5 <input type="checkbox"/> 2. Investigation of facts <input type="checkbox"/> 1.(b) Reviewing online ID theft report								
(04) Description of Expenses			Object Accounts					
(a) Employee Names, Job Classifications, Functions Performed and Description of Expenses	(b) Hourly Rate or Unit Cost	(c) Hours Worked or Quantity	(d) Salaries	(e) Benefits	(f) Materials and Supplies	(g) Contract Services	(h) Fixed Assets	(i) Travel
(05) Total <input type="checkbox"/> Subtotal <input type="checkbox"/> Page: ___ of ___								

Tab 4
Parameters and Guidelines – Identity Theft
Program

BEFORE THE
COMMISSION ON STATE MANDATES
STATE OF CALIFORNIA

IN RE TEST CLAIM ON:

Penal Code Section 530.6(a)
Statutes 2000, Chapter 956

Filed September 25, 2003, by
the City of Newport Beach, Claimant.

Case No. 03-TC-08

Identity Theft

PARAMETERS AND GUIDELINES AND
DECISION PURSUANT TO GOVERNMENT
CODE SECTION 1700 ET SEQ.; TITLE 2,
CALIFORNIA CODE OF REGULATIONS,
DIVISION 2, CHAPTER 2.5, ARTICLE 7.

(Adopted July 28, 2011)

PARAMETERS AND GUIDELINES

On July 28, 2011, the Commission on State Mandates adopted the staff analysis as its decision
and the attached parameters and guidelines for the above-named matter.



Drew Bohan, Executive Director

Dated: July 29, 2011

PARAMETERS AND GUIDELINES

Penal Code Section 530.6(a)

Statutes 2000, Chapter 956

Identity Theft

03-TC-08

I. SUMMARY OF THE MANDATE

The test claim statute requires local law enforcement agencies to take a police report and begin an investigation when a complainant residing within their jurisdiction reports suspected identity theft.

On March 27, 2009, the Commission found that Penal Code section 530.6(a), as added by Statutes 2000, chapter 956, mandates a new program or higher level of service for local law enforcement agencies within the meaning of article XIII B, section 6 of the California Constitution, and imposes costs mandated by the state pursuant to Government Code section 17514 for the following activities only:

- take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information; and,
- begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose.

II. ELIGIBLE CLAIMANTS

Any city, county, or city and county whose law enforcement agency incurs increased costs as a result of this reimbursable state-mandated program is eligible to claim reimbursement of these costs.

III. PERIOD OF REIMBURSEMENT

Government Code section 17557(e), states that a test claim shall be submitted on or before June 30 following a given fiscal year to establish eligibility for that fiscal year. The City of Newport Beach filed the test claim on September 25, 2003, establishing eligibility for reimbursement beginning July 1, 2002. Therefore, costs incurred for compliance with the mandated activities are reimbursable on or after July 1, 2002.

Reimbursement for state-mandated costs may be claimed as follows:

1. Actual costs for one fiscal year shall be included in each claim.
2. Pursuant to Government Code section 17561(d)(1)(A), all claims for reimbursement of initial fiscal year costs shall be submitted to the State Controller within 120 days of the issuance date for the claiming instructions.
3. Pursuant to Government Code section 17560(a), a local agency may, by February 15 following the fiscal year in which costs were incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year.
4. In the event revised claiming instructions are issued by the Controller pursuant to Government Code section 17558(c), between November 15 and February 15, a local agency filing an annual reimbursement claim shall have 120 days following the issuance date of the revised claiming instructions to file a claim. (Gov. Code §17560 (b).)
5. If the total costs for a given fiscal year do not exceed \$1,000, no reimbursement shall be allowed except as otherwise allowed by Government Code section 17564(a).
6. There shall be no reimbursement for any period in which the Legislature has suspended the operation of a mandate pursuant to state law.

IV. REIMBURSABLE ACTIVITIES

To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, time sheets, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, calendars, and declarations. Declarations must include a certification or declaration stating, “I certify (or declare) under penalty of perjury under the laws of the State of California that the foregoing is true and correct,” and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise reported in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below.

For each eligible claimant, the following ongoing activities are eligible for reimbursement:

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal identifying information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected

rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected; or

2. The allocation of allowable indirect costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) separating a department into groups, such as divisions or sections, and then classifying the division's or section's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate that is used to distribute indirect costs to mandates. The rate should be expressed as a percentage which the total amount of allowable indirect costs bears to the base selected.

VI. RECORD RETENTION

Pursuant to Government Code section 17558.5(a), a reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter¹ is subject to the initiation of an audit by the State Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. All documents used to support the reimbursable activities, as described in Section IV, must be retained during the period subject to audit. If an audit has been initiated by the Controller during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings.

VII. OFFSETTING REVENUES AND REIMBURSEMENTS

Any offsets the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any federal, state or non-local source shall be identified and deducted from this claim.

VIII. STATE CONTROLLER'S CLAIMING INSTRUCTIONS

Pursuant to Government Code section 17558(b), the Controller shall issue claiming instructions for each mandate that requires state reimbursement not later than 60 days after receiving the adopted parameters and guidelines from the Commission, to assist local agencies and school districts in claiming costs to be reimbursed. The claiming instructions shall be derived from the test claim decision and the parameters and guidelines adopted by the Commission.

Pursuant to Government Code section 17561(d)(1)(A), issuance of the claiming instructions shall constitute a notice of the right of the local agencies and school districts to file reimbursement claims, based upon parameters and guidelines adopted by the Commission.

IX. REMEDIES BEFORE THE COMMISSION

Upon the request of a local agency or school district, the Commission shall review the claiming instructions issued by the State Controller or any other authorized state agency for

¹ This refers to Title 2, division 4, part 7, chapter 4 of the Government Code.

reimbursement of mandated costs pursuant to Government Code section 17571. If the Commission determines that the claiming instructions do not conform to the parameters and guidelines, the Commission shall direct the Controller to modify the claiming instructions to conform to the parameters and guidelines as directed by the Commission.

In addition, requests may be made to amend parameters and guidelines pursuant to Government Code section 17557(d)(1), and California Code of Regulations, title 2, section 1183.2.

X. LEGAL AND FACTUAL BASIS FOR THE PARAMETERS AND GUIDELINES

The statement of decision is legally binding on all parties and provides the legal and factual basis for the parameters and guidelines. The support for the legal and factual findings is found in the administrative record for the test claim. The administrative record, including the statement of decision, is on file with the Commission.

identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or

- b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

Providing a copy of the report to the complainant is not reimbursable under this program.

Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program,

V. CLAIM PREPARATION AND SUBMISSION

Each of the following cost elements must be identified for the reimbursable activities identified in section IV of this document. Each reimbursable cost must be supported by source documentation as described in section IV. Additionally, each reimbursement claim must be filed in a timely manner.

A. Direct Cost Reporting

Direct costs are those costs incurred specifically for reimbursable activities. The following direct costs are eligible for reimbursement.

1. Salaries and Benefits

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

2. Materials and Supplies

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities. Purchases shall be claimed at the actual price after deducting discounts, rebates, and allowances received by the claimant. Supplies that are withdrawn from inventory shall be charged on an appropriate and recognized method of costing, consistently applied.

3. Contracted Services

Report the name of the contractor and services performed to implement the reimbursable activities and attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services during the period covered by the reimbursement claim. If the contract services were also used for purposes other than the reimbursable activities, only the pro-rata portion of the services used to implement the reimbursable activities can be

claimed. Submit contract consultant and invoices with the claim and a description of the contract scope of services.

4. Fixed Assets

Report the purchase price paid for fixed assets (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset is also used for purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

5. Travel

Report the name of the employee traveling for the purpose of the reimbursable activities. Include the date of travel, destination, the specific reimbursable activity requiring travel, and related travel expenses reimbursed to the employee in compliance with the rules of the local jurisdiction. Report employee travel time according to the rules of cost element A.1, Salaries and Benefits, for each applicable reimbursable activity.

B. Indirect Cost Rates

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using 10% of labor, excluding fringe benefits, or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.

If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

The distributions base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

In calculating an ICRP, the claimant shall have the choice of one of the following methodologies:

1. The allocation of allowable indirect costs (as defined and described in 2 CRF Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B)) shall be accomplished by: (1) classifying a department's total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to mandates. The

Tab 5
Audit Start Letter



BETTY T. YEE
California State Controller

March 18, 2022

Tamara Oatman, Finance Director
City of Rancho Cucamonga
10500 Civic Center Drive
Rancho Cucamonga, CA 91729

Re: Audit of Mandated Cost Claims for the Identity Theft Program
for the Period of July 1, 2002, through June 30, 2013

Dear Ms. Oatman:

This letter constitutes the initiation of an audit by the State Controller's Office of the City of Rancho Cucamonga's legislatively mandated Identity Theft Program cost claims filed for fiscal year (FY) 2002-03 through FY 2012-13. The amount claimed for the audit period totals \$500,098. The objective of our audit is to determine whether costs claimed represent increased costs as a result of the mandated program. To that end, we will assess whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

Joji Tyree, of our office, contacted the city on December 1, 2021, to schedule an entrance conference for Wednesday, January 19, 2022, at 2:00 p.m. We contacted you by telephone on January 18, 2022, to reschedule the entrance conference for Wednesday, April 20, 2022, at 2:00 p.m. The audit will be conducted in accordance with generally accepted government auditing standards. Government Code sections 12410, 17558.5, and 17561 provide the authority for this audit. We will begin audit fieldwork after the entrance conference.

Please furnish working accommodations for staff. A list of documents that we will need to begin the audit is attached. We request that this information be made available at the entrance conference. We will request additional documentation throughout the audit process, if necessary.

Lisa Kurokawa is the Bureau Chief with overall responsibility for the audit. Kimberly Tarvin, CPA, is the Division Chief, and is responsible for final review and signing the audit report.

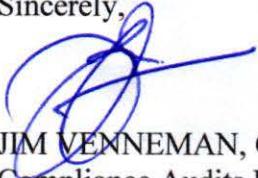
Tamara Oatman, Finance Director

March 18, 2022

Page 2

If you have any questions, please contact me by telephone at (916) 501-8693, or email at jvenneman@sco.ca.gov.

Sincerely,



JIM VENNEMAN, CPA, Audit Manager
Compliance Audits Bureau
Division of Audits

JV/ac

20940

Attachment

cc: The Honorable L. Dennis Michael
Mayor of the City of Rancho Cucamonga
Ernie Perez, Captain
Rancho Cucamonga Patrol Station
San Bernardino County Sheriff's Department
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance
Steven Pavlov, Finance Budget Analyst
Local Government Unit
California Department of Finance
Darryl Mar, Manager
Local Reimbursement Section
State Controller's Office
Lisa Kurokawa, Bureau Chief
Division of Audits
State Controller's Office
Joji Tyree, Auditor-in-Charge
Division of Audits
State Controller's Office

Attachment—
Records Request for Mandated Cost Program
FY 2002-03 through 2012-13

1. Copies of claims filed for the mandated cost program
2. Copies of reports for external and internal audits performed on the mandated cost program
3. Organization charts for the city's finance and sheriff's departments effective during the audit period, showing employee names and position titles
4. Copies of finance department's policies, procedures, and manuals pertaining to the filing of mandated cost claims
5. Copies of sheriff department's policies, procedures, and manuals pertaining to Penal Code (PC) section 530.5 (Identity Theft) and related incident reports
6. Copies of sheriff department's contracts for law enforcement services provided for set fees in effect during the audit period
7. Documentation that supports the salaries claimed for each fiscal year
8. System-generated unduplicated list of approved PC section 530.5 reports for the city by case number for the audit period, including incident numbers for the related initial calls for service
9. PDF or hard copies of approved PC section 530.5 reports for FY 2010-11, FY 2011-12, and FY 2012-13; this is our statistical sample
10. Computer Aided Dispatch system printouts of time increments for the initial calls for service related to the approved PC section 530.5 police reports in our statistical sample
11. Job classifications for the writers and approvers of the PC section 530.5 reports in our statistical sample
12. Documentation that supports the productive hourly rates claimed, for each fiscal year, for the job classifications that performed the reimbursable activities for the PC section 530.5 reports in our statistical sample
13. Other documents to support the claims and complete the audit, as needed

Tab 6
City of Palmdale IRC Decision

December 7, 2018

Ms. Annette Chinn
Cost Recovery Systems, Inc.
705-2 East Bidwell Street, #294
Folsom, CA 95630

Ms. Jill Kanemasu
Division of Accounting and Reporting
State Controller's Office
3301 C Street, Suite 700
Sacramento, CA 95816

And Parties, Interested Parties, and Interested Persons (See Mailing List)

Re: **Decision**

Interagency Child Abuse and Neglect Investigation Reports (ICAN), 17-0022-I-01
Penal Code Sections 11165.9, 11166, 11166.2, 11166.9¹, 11168 (formerly 11161.7),
11169, 11170, and 11174.34 (formerly 11166.9) as added or amended by Statutes 1977,
Chapter 958; Statutes 1980, Chapter 1071; Statutes 1981, Chapter 435; Statutes 1982,
Chapters 162 and 905; Statutes 1984, Chapters 1423 and 1613; Statutes 1985, Chapter
1598; Statutes 1986, Chapters 1289 and 1496; Statutes 1987, Chapters 82, 531, and 1459;
Statutes 1988, Chapters 269, 1497, and 1580; Statutes 1989, Chapter 153; Statutes 1990,
Chapters 650, 1330, 1363, 1603; Statutes 1992, Chapters 163, 459, and 1338; Statutes
1993, Chapters 219 and 510; Statutes 1996, Chapters 1080 and 1081; Statutes 1997,
Chapters 842, 843, and 844; Statutes 1999, Chapters 475 and 1012; and Statutes 2000,
Chapter 916; California Code of Regulations, Title 11, Section 903 (Register 98, Number
29); "Child Abuse Investigation Report" Form SS 8583 (Rev. 3/91)
Fiscal Years: 1999-2000, 2000-2001, 2001-2002, 2002-2003, 2003-2004, 2004-2005,
2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2011-2012, and
2012-2013

City of Palmdale, Claimant

Dear Ms. Chinn and Ms. Kanemasu:

On November 30, 2018, the Commission on State Mandates adopted the Decision on the above-entitled matter.

Sincerely,



Heather Halsey
Executive Director

¹ Renumbered as Penal Code section 11174.34 (Stats. 2004, ch. 842 (SB 1313)).

E. The Controller's Reduction of Indirect Costs Is Correct as a Matter of Law, and Not Arbitrary, Capricious, or Entirely Lacking in Evidentiary Support.

The final reduction at issue in this IRC relates to the disallowance of indirect costs during the audit period. The Parameters and Guidelines allow claimants to use either a 10 percent indirect cost rate based on direct labor costs, excluding benefits, or prepare an Indirect Cost Rate Proposal if indirect costs exceed the 10 percent rate.²⁰⁵ In this case, the claimant claimed the 10 percent indirect cost rate for each fiscal year and applied it to *contract services costs* that were incorrectly claimed as direct labor costs.²⁰⁶ The claimant did not incur any direct labor costs in any fiscal year of the audit period for the mandated activities. The claimant contracts with the Los Angeles County Sheriff's Department to perform all law enforcement activities, including the reimbursable activities here.²⁰⁷ Therefore, the Controller found that the claimant did not incur any direct labor costs for this program, and that the claimant's methodology to classify and compute costs as indirect based on contract costs is not appropriate. The Controller also found that the claimant's contracted rates *included* overhead costs, which would normally be characterized as indirect costs.²⁰⁸ In other words, the Controller concluded that much of what would normally be claimed as indirect costs was already included in the contract.

The claimant replies that it is entitled to fair compensation of all direct and indirect actual costs related to the mandated program.²⁰⁹ In addition, the claimant asserts that the hourly rates of the deputies do not include all overhead, such as additional administrative and support positions, and facility costs.²¹⁰ The claimant further explains:

In the Los Angeles County Sheriff Contract, most overhead charges are included in the cost of each Deputy in the contract rate. This overhead includes services such as dispatch, special unit services (homicide, sexual crimes, forensics, etc.), equipment, and other overhead positions such as a base level of administrative and clerical support.

In addition to this base amount of overhead built into the sworn staff rates, each city has the option of purchasing additional supplemental overhead positions to their contract if they require and can afford additional support (such as clerical) or administrative staff (dedicated Lieutenants, and extra Sergeants or Watch Deputies). Each fiscal year, the City purchased additional supplemental overhead positions through the contract. (See Appendix B)

²⁰⁵ See Exhibit A, IRC, page 247 [Parameters and Guidelines, p. 15].

²⁰⁶ See, e.g., Exhibit A, IRC, pages 299 [Reimbursement Claim Form, Fiscal Year 2006-2007]; 111 [Claimant's "Indirect Cost Rate Proposal," showing 15.4% claimed indirect costs, but failing to show the nature or to otherwise describe the direct and indirect costs alleged].

²⁰⁷ See Exhibit A, IRC, page 61 [Email from Karen Johnson, Finance Manager for the City of Palmdale, to Douglas Brejnak, Auditor, dated August 19, 2015].

²⁰⁸ Exhibit B, Controller's Comments on the IRC, page 22.

²⁰⁹ Exhibit A, IRC, page 5.

²¹⁰ Exhibit A, IRC, page 5.

In some years the cities may be able to afford more direct staff and more overhead items and in other years they cannot. In the lean years, response times and customer service may decline due to limited fiscal resources. When the actual overhead rates were calculated, they were found to range between 12%-15%. (See Appendix B)²¹¹

The claimant further asserts that it incurred “approximately \$1 million in City Staff Costs related to the management and oversight of the Sheriff’s Contract/Public Safety program (or 5% of total Law Enforcement Contract with the County).”²¹² And finally, the claimant asserts that the donation of 11 acres of land, and “infrastructure improvements associated with the construction of the Palmdale Sheriff’s Station in 2004” constitute reimbursable indirect costs outside the contract.²¹³

The Draft Proposed Decision concluded that the Controller’s reduction of indirect costs was correct as a matter of law because the claimant did not comply with the Parameters and Guidelines, and there was no evidence in the record that the claimant developed an indirect cost rate proposal.²¹⁴ The Draft Proposed Decision also noted that the claimant was still asserting its indirect cost documentation supported the 10 percent default rate:

As support, the city created sample Indirect Cost Rate Proposals (ICRPs) for FY 2006-07 through FY 2012-13...The city provided its ICRPs to show additional overhead costs that it asserts should be reimbursable. However, the city is asking for the restoration of the 10% rate claimed and not the indirect cost rates based on the proposed ICRPs.²¹⁵

In response to the Draft Proposed Decision, the claimant asserts that it provided sufficient documentation to the Controller to show that the indirect cost rates “were on average, similar to the default rate (10%) claimed.”²¹⁶ The claimant further states: “If the Commission feels that the default 10% rate cannot be used, we request that the City’s actual Indirect Cost rates, which we had available and presented to the SCO auditors during and after the audit, on more than one occasion for their review and approval, and that these actual overhead costs be allowed and reinstated.”²¹⁷ The claimant’s response also included additional copies, substantially similar to

²¹¹ Exhibit A, IRC, page 6.

²¹² Exhibit A, IRC, page 6.

²¹³ Exhibit A, IRC, page 6.

²¹⁴ Exhibit D, Draft Proposed Decision, pages 42-43.

²¹⁵ Exhibit D, Draft Proposed Decision, page 42 [citing Exhibit B, Controller’s Comments on the IRC, p. 25].

²¹⁶ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 9 [Declaration of Karen Johnston, Finance Manager/City Treasurer].

²¹⁷ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 10 [Declaration of Karen Johnston, Finance Manager/City Treasurer].

those previously in the record,²¹⁸ of documents entitled “Indirect Cost Rate Proposal” for fiscal years 2006-2007 through 2012-2013. However, those documents are not explained in the narrative comments and do not include a description of what costs are listed as direct and indirect; nor is there any indirect cost documentation provided for the first six years of the audit period, fiscal years 1999-2000 through 2005-2006.²¹⁹

Finally, in response to the Controller’s Late Comments on the Draft Proposed Decision, the claimant continues to stress that it “had already developed and presented indirect cost rate proposals for FY 2006-07 through FY 2012-13,” and that “[t]hese rates were computed for use in the preparation of other, prior State Mandate Reimbursement claims.” The claimant also asserts that its rates “were prepared in compliance with Federal OMB and CRF guidelines and reflected actual allowable cost pursuant to the Parameters and Guidelines.”²²⁰ Accordingly, the claimant now requests “that actual overhead rates be allowed in our claims for State Reimbursement.”²²¹

The Commission cannot reweigh the evidence and substitute its judgment for the Controller’s.²²² The Commission’s review is limited to ensuring that the Controller has adequately considered all relevant factors, and has demonstrated a rational connection between those factors, and the choices made.²²³

The Parameters and Guidelines state that when claiming indirect costs claimants have the option of using *10 percent of direct labor*, excluding fringe benefits, *or preparing an Indirect Cost Rate Proposal (ICRP)* if the indirect cost rate claimed *exceeds the 10 percent default rate*, as follows:

Indirect costs are costs that are incurred for a common or joint purpose, benefiting more than one program, and are not directly assignable to a particular department or program without efforts disproportionate to the result achieved. Indirect costs may include both: (1) overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Compensation for indirect costs is eligible for reimbursement utilizing the procedure provided in 2 CFR Part 225 (Office of Management and Budget (OMB) Circular A-87). Claimants have the option of using *10% of direct labor*,

²¹⁸ See Exhibit F, Claimant’s Comments on the Draft Proposed Decision, pages 49-70; Exhibit A, IRC, pages 110-131.

²¹⁹ Exhibit F, Claimant’s Comments on the Draft Proposed Decision, pages 49-70.

²²⁰ Exhibit H, Claimant’s Response to the Controller’s Late Comments on the Draft Proposed Decision, page 2.

²²¹ Exhibit H, Claimant’s Response to the Controller’s Late Comments on the Draft Proposed Decision, page 2.

²²² See generally, *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.* (1984) 467 U.S. 837.

²²³ *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547-548.

excluding fringe benefits, *or preparing an Indirect Cost Rate Proposal (ICRP) if the indirect cost rate claimed exceeds 10%.*

If the claimant chooses to prepare an ICRP, both the direct costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B) and the indirect costs shall exclude capital expenditures and unallowable costs (as defined and described in 2 CFR Part 225, Appendix A and B (OMB Circular A-87 Attachments A and B). However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable. The distribution base may be: (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.²²⁴

The claimant here filed its initial reimbursement claims as direct salary costs for the deputies and sergeants conducting the mandate, and sought 10 percent of the direct costs as its indirect costs. At all times relevant to this IRC, the claimant, through its reimbursement claims,²²⁵ amended claims,²²⁶ assertions and objections throughout the audit period,²²⁷ and allegations in filing the IRC,²²⁸ has consistently sought indirect costs of *only* the 10 percent default rate applied to the claimant's contract costs. The Final Audit Report states (and the claimant concedes) that “[n]one of the city staff members performed any of the reimbursable activities under this program.”²²⁹ Nevertheless, the claimant continued throughout the audit and in this IRC to assert its belief that the 10 percent default rate was a reasonable and conservative estimate of its indirect costs.²³⁰ Accordingly, as noted above, the Controller disallowed all claimed indirect costs.

The Government Code requires a claimant to file its reimbursement claims in accordance with the parameters and guidelines.²³¹ And the courts have determined that parameters and guidelines

²²⁴ Exhibit A, IRC, page 247 [Parameters and Guidelines, p. 15 (emphasis added)].

²²⁵ See, e.g., Exhibit B, Controller's Comments on the IRC, page 30 [Original Reimbursement Claim, Fiscal Year 2012-2013, dated July 3, 2014].

²²⁶ Exhibit A, IRC, pages 299-380 [Amended Claim Forms].

²²⁷ See, e.g., Exhibit A, IRC, pages 60 [July 27, 2015 Email from Annette Chinn, Claimant Representative, to Douglas Brejnak, Auditor]; 297 [Claimant's Response to Draft Audit Report (“[W]e believe that we have already provided more than enough support to justify the inclusion of the default 10% rate allowed in the State instructions.”)].

²²⁸ Exhibit A, IRC, page 5 [“The city has attached the Cost Schedules for each year showing the Supplemental costs incurred through the contract as well as has prepared sample ICRPs to show that the default overhead rate of 10% is justified.”].

²²⁹ Exhibit A, IRC, page 271 [Final Audit Report, p. 10].

²³⁰ Exhibit A, IRC, pages 287 [Final Audit Report, p. 26]; 297 [Claimant's Response to the Draft Audit Report (“We request the restoration of the additional 10% default overhead ICRP costs in the claims.”)].

²³¹ Government Code section 17561(d)(1).

are regulatory in nature and binding on the parties.²³² In this case, the claimant has not complied with the Parameters and Guidelines in claiming its indirect costs; the 10 percent rate is allowed when the claimant uses its own employees to perform the mandated activities. This claimant contracts for all law enforcement services, including the mandated activities, and therefore the claimant has no direct salaries and benefits upon which to base its claim of indirect costs. The 10 percent default rate is not available to this claimant based on the plain language of the Parameters and Guidelines, irrespective of whatever documentation might be presented to justify it. Therefore, it is correct as a matter of law for the Controller to deny indirect costs, as claimed.

The remaining question then, is whether it was arbitrary and capricious for the Controller to reject the claimant's indirect cost documentation. The Commission finds that it was not. As noted above, in response to the Draft Proposed Decision, the claimant asserts that it provided sufficient documentation to the Controller to show that the indirect cost rates "were on average, similar to the default rate (10%) claimed."²³³ The claimant further states: "If the Commission feels that the default 10% rate cannot be used, we request that the City's actual Indirect Cost rates, which we had available and presented to the SCO auditors during and after the audit, on more than one occasion for their review and approval, and that these actual overhead costs be allowed and reinstated."²³⁴

However, as noted above, the Commission's review is limited to ensuring that the Controller has adequately considered all relevant factors, and has demonstrated a rational connection between those factors, and the choices made.²³⁵ Based on the evidence and documentation in the record, at no time prior to its comments on the Draft Proposed Decision has the claimant requested reimbursement on the basis of its sample Indirect Cost Rate Proposals. The Controller explains:

As support, the city created sample Indirect Cost Rate Proposals (ICRPs) for FY 2006-07 through FY 2012-13 (Exhibit F). The city did not provide ICRPs for FY 1999-00 through FY 2005-06. The city provided its ICRPs to show additional overhead costs that it asserts should be reimbursable. However, the city is asking for the restoration of the 10% rate claimed and not the indirect cost rates based on the proposed ICRPs.²³⁶

The sample ICRPs that the Controller refers to are each one to three pages, and include "City Wide Costs" without any evidence of an allocation basis for this mandated program; "Allowable Indirect Costs," which coincide with costs for additional sergeants and administrative support (which the Controller suggests are also contract costs, and therefore include some overhead); and

²³² *California School Boards Association v. State of California* (2009) 171 Cal.App.4th 1183, 1201; *Clovis Unified School Dist. v. Chiang* (2010) 188 Cal.App.4th 794, 799.

²³³ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 9 [Declaration of Karen Johnston, Finance Manager/City Treasurer].

²³⁴ Exhibit F, Claimant's Comments on the Draft Proposed Decision, page 10 [Declaration of Karen Johnston, Finance Manager/City Treasurer].

²³⁵ *American Bd. of Cosmetic Surgery, Inc. v. Medical Bd. of California* (2008) 162 Cal.App.4th 534, 547-548.

²³⁶ Exhibit B, Controller's Comments on the IRC, page 25.

“Allocation of Land/Facility Costs,” listed as \$300,000, without any information of the origin of that amount.

Moreover, the documents included in the Claimant’s Comments on the Draft Proposed Decision, which appear to be substantially similar to those provided to the Controller in the context of the audit, do not explain the origin of the purported indirect cost rates calculated, do not identify a distribution base, as required under the Parameters and Guidelines, and are characterized by the Controller as “support” for the claimant requesting “the restoration of the 10% rate claimed.”²³⁷ Both parties also characterize these documents as “*sample* Indirect Cost Rate Proposals.”²³⁸

The Controller also describes a number of other issues within the sample ICRPs,²³⁹ including the assignment of direct and indirect costs; and the apparent duplication of costs inherent in using contract costs (which already contain overhead and support, i.e., indirect costs) as a direct cost basis for calculating indirect costs; and especially that the OMB regulations prohibit donations, including of real property, from being considered as indirect costs.²⁴⁰ One of the costs that the claimant asserted as justification for indirect costs, and documented in its amended claims was the donation of land to build a Palmdale station for the Los Angeles County Sheriff’s Department.²⁴¹ This cost item has been omitted from the claimant’s more recent filings,²⁴² but as of the time of the audit the indirect cost documentation included this unallowable cost item.

Based on the evidence in the record, at no time during the audit, or in the early stages of this IRC, did the claimant seek reimbursement based on anything other than the 10 percent default rate, which was correctly denied consistent with the Parameters and Guidelines. Based on the claimant’s position and assertions at that time, as reflected in the record, and based on the many flaws and insufficiencies in the evidence, as identified by the Controller, and which have not been rebutted, it was not arbitrary and capricious for the Controller to deny all indirect costs, as claimed.

Accordingly, the Commission finds that the Controller’s reduction of indirect costs, as claimed, is correct as a matter of law, and not arbitrary, capricious, or entirely lacking in evidentiary support.

V. Conclusion

Based on the forgoing analysis, the Commission denies this IRC.

²³⁷ See Exhibit F, Claimant’s Comments on the Draft Proposed Decision, pages 49-70; Exhibit B, Controller’s Comments on the IRC, page 25.

²³⁸ See Exhibit A, IRC, page 109; Exhibit B, Controller’s Comments on the IRC, page 25.

²³⁹ Exhibit B, Controller’s Comments on the IRC, pages 25-27.

²⁴⁰ Exhibit B, Controller’s Comments on the IRC, page 26 [Citing 2 CFR Part 225].

²⁴¹ See Exhibit A, IRC, pages 6 [IRC Narrative]; 111 [Indirect Cost Documentation, Fiscal Year 2006-2007].

²⁴² Compare Exhibit A, IRC, page 111 [Indirect Cost Documentation, Fiscal Year 2006-2007]; with Exhibit F, Claimant’s Comments on the Draft Proposed Decision, page 50.

Tab 7
Title 2, Code of Federal Regulations, Part 225

OFFICE OF MANAGEMENT AND BUDGET**2 CFR Part 225****Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)**

AGENCY: Office of Management and Budget

ACTION: Relocation of policy guidance to 2 CFR chapter II.

SUMMARY: The Office of Management and Budget (OMB) is relocating Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," to Title 2 in the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 as part of an initiative to provide the public with a central location for Federal government policies on grants and other financial assistance and nonprocurement agreements. Consolidating the OMB guidance and co-locating the agency regulations provides a good foundation for streamlining and simplifying the policy framework for grants and agreements as part of the efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107).

DATES: This document is effective August 31, 2005. This document republishes the existing OMB Circular A-87, which already is in effect.

FOR FURTHER INFORMATION CONTACT: Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202-395-3052 (direct) or 202-395-3993 (main office) and e-mail: *Hai_M_Tran@omb.eop.gov*.

SUPPLEMENTARY INFORMATION: On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106-107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A-87 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements.

Our relocation of OMB Circular A-87 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this notice relocates in 2 CFR the version of OMB

Circular A-87 as revised by the May 10, 2004 notice.

List of Subjects in 2 CFR Part 225

Accounting, Grant administration, Grant programs, Reporting and recordkeeping requirements, State, local, and Indian tribal governments.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

Authority and Issuance

■ For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, Chapter II, by adding a part 225 as set forth below.

PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87)

Sec.

- 225.5 Purpose.
- 225.10 Authority
- 225.15 Background
- 225.20 Policy.
- 225.25 Definitions.
- 225.30 OMB responsibilities.
- 225.35 Federal agency responsibilities.
- 225.40 Effective date of changes.
- 225.45 Relationship to previous issuance.
- 225.50 Policy review date.
- 225.55 Information Contact.

Appendix A to Part 225—General Principles for Determining Allowable Costs

Appendix B to Part 225—Selected Items of Cost

Appendix C to Part 225—State/Local-Wide Central Service Cost Allocation Plans

Appendix D to Part 225—Public Assistance Cost Allocation Plans

Appendix E to Part 225—State and Local Indirect Cost Rate Proposals

Authority: 31 U.S.C. 503; 31 U.S.C. 1111; 41 U.S.C. 405; Reorganization Plan No. 2 of 1970; E.O. 11541, 35 FR 10737, 3 CFR, 1966-1970, p. 939.

§ 225.5 Purpose.

This part establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

§ 225.10 Authority.

This part is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; the Chief Financial Officers Act of 1990; Reorganization Plan No. 2 of 1970; and Executive Order No. 11541 ("Prescribing the Duties of the Office of Management and Budget and the Domestic Policy Council in the Executive Office of the President").

§ 225.15 Background.

As part of the government-wide grant streamlining effort under Public Law 106-107, Federal Financial Award Management Improvement Act of 1999, OMB led an interagency workgroup to simplify and make consistent, to the extent feasible, the various rules used to award Federal grants. An interagency task force was established in 2001 to review existing cost principles for Federal awards to State, local, and Indian tribal governments; colleges and universities; and non-profit organizations. The task force studied "Selected Items of Cost" in each of the three cost principles to determine which items of costs could be stated consistently and/or more clearly.

§ 225.20 Policy.

This part establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. They are not intended to identify the circumstances or to dictate the extent of Federal and governmental unit participation in the financing of a particular Federal award. Provision for profit or other increment above cost is outside the scope of this part.

§ 225.25 Definitions.

Definitions of key terms used in this part are contained in Appendix A to this part, Section B.

§ 225.30 OMB responsibilities.

The Office of Management and Budget (OMB) will review agency regulations and implementation of this part, and will provide policy interpretations and assistance to insure effective and efficient implementation. Any exceptions will be subject to approval by OMB. Exceptions will only be made in particular cases where adequate justification is presented.

§ 225.35 Federal agency responsibilities.

Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue regulations to implement the provisions of this part and its appendices.

§ 225.40 Effective date of changes.

This part is effective August 31, 2005.

§ 225.45 Relationship to previous issuance.

(a) The guidance in this part previously was issued as OMB Circular

A-87. Appendix A to this part contains the guidance that was in Attachment A (general principles) to the OMB circular; Appendix B contains the guidance that was in Attachment B (selected items of cost); Appendix C contains the information that was in Attachment C (state/local-wide central service cost allocation plans); Appendix D contains the guidance that was in Attachment D (public assistance cost allocation plans); and Appendix E contains the guidance that was in Attachment E (state and local indirect cost rate proposals).

(b) This part supersedes OMB Circular A-87, as amended May 10, 2004, which superseded Circular A-87, as amended and issued May 4, 1995.

§ 225.50 Policy review date.

This part will have a policy review three years from the date of issuance.

§ 225.55 Information contact.

Further information concerning this part may be obtained by contacting the Office of Federal Financial Management, Financial Standards and Reporting Branch, Office of Management and Budget, Washington, DC 20503, telephone 202-395-3993.

Appendix A to Part 225—General Principles for Determining Allowable Costs

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General Principles for Determining Allowable Costs

A. Purpose and Scope

1. Objectives. This Appendix establishes principles for determining the allowable costs incurred by State, local, and federally-recognized Indian tribal governments (governmental units) under grants, cost reimbursement contracts, and other agreements with the Federal Government (collectively referred to in this appendix and other appendices to 2 CFR part 225 as "Federal awards"). The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal or governmental unit participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

(1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

(2) Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(3) Each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

b. Federal agencies should work with States or localities which wish to test alternative mechanisms for paying costs for administering Federal programs. The Office of Management and Budget (OMB) encourages Federal agencies to test fee-for-service alternatives as a replacement for current cost-reimbursement payment methods in response to the National Performance Review's (NPR)

recommendation. The NPR recommended the fee-for-service approach to reduce the burden associated with maintaining systems for charging administrative costs to Federal programs and preparing and approving cost allocation plans. This approach should also increase incentives for administrative efficiencies and improve outcomes.

3. Application.

a. These principles will be applied by all Federal agencies in determining costs incurred by governmental units under

Federal awards (including subawards) except those with (1) publicly-financed educational institutions subject to, 2 CFR part 220, Cost Principles for Educational Institutions (OMB Circular A-21), and (2) programs administered by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring Federal agencies. However, 2 CFR part 225 does apply to all central service and department/agency costs that are allocated or billed to those educational institutions, hospitals, and other providers of medical care or services by other State and local government departments and agencies.

b. All subawards are subject to those Federal cost principles applicable to the particular organization concerned. Thus, if a subaward is to a governmental unit (other than a college, university or hospital), 2 CFR part 225 shall apply; if a subaward is to a commercial organization, the cost principles applicable to commercial organizations shall apply; if a subaward is to a college or university, 2 CFR part 220 (Circular A-21) shall apply; if a subaward is to a hospital, the cost principles used by the Federal awarding agency for awards to hospitals shall apply, subject to the provisions of subsection A.3.a. of this Appendix; if a subaward is to some other non-profit organization, 2 CFR part 230, Cost Principles for Non-Profit Organizations (Circular A-122), shall apply.

c. These principles shall be used as a guide in the pricing of fixed price arrangements where costs are used in determining the appropriate price.

d. Where a Federal contract awarded to a governmental unit incorporates a Cost Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the governmental unit and the cognizant Federal agency shall establish an appropriate advance agreement on how the governmental unit will comply with applicable CAS requirements when estimating, accumulating and reporting costs under CAS-covered contracts. The agreement shall indicate that 2 CFR part 225 (OMB Circular A-87) requirements will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the governmental unit.

e. Conditional exemptions.

(1) OMB authorizes conditional exemption from OMB administrative requirements and cost principles for certain Federal programs with statutorily-authorized consolidated planning and consolidated administrative funding, that are identified by a Federal agency and approved by the head of the Executive department or establishment. A Federal agency shall consult with OMB during its consideration of whether to grant such an exemption.

(2) To promote efficiency in State and local program administration, when Federal non-entitlement programs with common purposes have specific statutorily-authorized consolidated planning and consolidated administrative funding and where most of the State agency's resources come from non-Federal sources, Federal agencies may exempt these covered State-administered, non-entitlement grant programs from certain OMB grants management requirements. The

exemptions would be from all but the allocability of costs provisions of Appendix A subsection C.3 of 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); Appendix A, Section C.4 of 2 CFR 220, Cost Principles for Educational Institutions (Circular A-21); Appendix A, subsection A.4 of 2 CFR 230 Cost Principles for Non-Profit Organizations (Circular A-122); and from all of the administrative requirements provisions of 2 CFR part 215, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (Circular A-110), and the agencies' grants management common rule.

(3) When a Federal agency provides this flexibility, as a prerequisite to a State's exercising this option, a State must adopt its own written fiscal and administrative requirements for expending and accounting for all funds, which are consistent with the provisions of 2 CFR part 225 (OMB Circular A-87), and extend such policies to all subrecipients. These fiscal and administrative requirements must be sufficiently specific to ensure that: Funds are used in compliance with all applicable Federal statutory and regulatory provisions, costs are reasonable and necessary for operating these programs, and funds are not used for general expenses required to carry out other responsibilities of a State or its subrecipients.

B. Definitions

1. "Approval or authorization of the awarding or cognizant Federal agency" means documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a Federal award document, approval of the document constitutes approval of the costs. If the costs are covered by a State/local-wide cost allocation plan or an indirect cost proposal, approval of the plan constitutes the approval.

2. "Award" means grants, cost reimbursement contracts and other agreements between a State, local and Indian tribal government and the Federal Government.

3. "Awarding agency" means (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the Federal agency, and (b) with respect to a subaward, the party that awarded the subaward.

4. "Central service cost allocation plan" means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.

5. "Claim" means a written demand or written assertion by the governmental unit or grantor seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of award terms, or other relief arising under or relating to the award. A voucher, invoice or other routine request for payment that is not a dispute when submitted is not a claim. Appeals, such as those filed by a governmental unit in response to questioned audit costs, are not considered claims until a final management

decision is made by the Federal awarding agency.

6. "Cognizant agency" means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2 CFR part 225 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies.

7. "Common Rule" means the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments; Final Rule" originally issued at 53 FR 8034-8103 (March 11, 1988). Other common rules will be referred to by their specific titles.

8. "Contract" means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to): Awards and notices of awards; job orders or task orders issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and, bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C. 6301 *et seq.*

9. "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.

10. "Cost allocation plan" means central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal. Each of these terms is further defined in this section.

11. "Cost objective" means a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

12. "Federally-recognized Indian tribal government" means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified by the Secretary of the Interior as eligible for the special programs and services provided through the Bureau of Indian Affairs.

13. "Governmental unit" means the entire State, local, or federally-recognized Indian tribal government, including any component thereof. Components of governmental units may function independently of the governmental unit in accordance with the term of the award.

14. "Grantee department or agency" means the component of a State, local, or federally-recognized Indian tribal government which is responsible for the performance or administration of all or some part of a Federal award.

15. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect

cost rate as described in Appendix E of 2 CFR part 225.

16. "Local government" means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under State law), any other regional or interstate government entity, or any agency or instrumentality of a local government.

17. "Public assistance cost allocation plan" means a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies as described in Appendix D of 2 CFR part 225.

18. "State" means any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

i. Be the net of all applicable credits.

j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

assets and substantial relocation of Federal programs

19. General government expenses

20. Goods or services for personal use

21. Idle facilities and idle capacity

22. Insurance and indemnification

23. Interest

24. Lobbying

25. Maintenance, operations, and repairs

26. Materials and supplies costs

27. Meetings and conferences

28. Memberships, subscriptions, and professional activity costs

29. Patent costs

30. Plant and homeland security costs

31. Pre-award costs

32. Professional service costs

33. Proposal costs

34. Publication and printing costs

35. Rearrangement and alteration costs

36. Reconversion costs

37. Rental costs of building and equipment

38. Royalties and other costs for the use of patents

39. Selling and marketing

40. Taxes

41. Termination costs applicable to sponsored agreements

42. Training costs

43. Travel costs

Sections 1 through 43 provide principles to be applied in establishing the allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in Appendix A to this part. Failure to mention a particular item of cost in these sections is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment or standards provided for similar or related items of cost.

1. Advertising and public relations costs.

a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.

b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. The only allowable advertising costs are those which are solely for:

(1) The recruitment of personnel required for the performance by the governmental unit of obligations arising under a Federal award;

(2) The procurement of goods and services for the performance of a Federal award;

(3) The disposal of scrap or surplus materials acquired in the performance of a Federal award except when governmental units are reimbursed for disposal costs at a predetermined amount; or

(4) Other specific purposes necessary to meet the requirements of the Federal award.

d. The only allowable public relations costs are:

(1) Costs specifically required by the Federal award;

(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award); or

(3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary keep the public informed on matters of public concern, such as notices of Federal contract/grant awards, financial matters, etc.

e. Costs identified in subsections c and d if incurred for more than one Federal award or for both sponsored work and other work of the governmental unit, are allowable to the extent that the principles in Appendix A to this part, sections E. ("Direct Costs") and F. ("Indirect Costs") are observed.

f. Unallowable advertising and public relations costs include the following:

(1) All advertising and public relations costs other than as specified in subsections 1.c, d, and e of this appendix;

(2) Costs of meetings, conventions, convocations, or other events related to other activities of the governmental unit, including:

(a) Costs of displays, demonstrations, and exhibits;

(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;

(4) Costs of advertising and public relations designed solely to promote the governmental unit.

2. *Advisory councils.* Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards.

3. *Alcoholic beverages.* Costs of alcoholic beverages are unallowable.

4. Audit costs and related services.

a. The costs of audits required by , and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable. Also see 31 U.S.C. 7505(b) and section 230 ("Audit Costs") of Circular A-133.

b. Other audit costs are allowable if included in a cost allocation plan or indirect cost proposal, or if specifically approved by the awarding agency as a direct cost to an award.

c. The cost of agreed-upon procedures engagements to monitor subrecipients who are exempted from A-133 under section 200(d) are allowable, subject to the conditions listed in A-133, section 230 (b)(2).

5. *Bad debts.* Bad debts, including losses (whether actual or estimated) arising from

uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable.

6. Bonding costs.

a. Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the governmental unit. They arise also in instances where the governmental unit requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.

b. Costs of bonding required pursuant to the terms of the award are allowable.

c. Costs of bonding required by the governmental unit in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.

7. *Communication costs.* Costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, messenger, electronic or computer transmittal services and the like are allowable.

8. Compensation for personal services.

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;

(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and

(3) Is determined and supported as provided in subsection h.

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

c. Unallowable costs. Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.

d. Fringe benefits.

(1) Fringe benefits are allowances and services provided by employers to their

b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.

c. Market prices for comparable goods or services.

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Appendices C, D, and E to this part.

4. Applicable credits.

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

b. In some instances, the amounts received from the Federal Government to finance activities or service operations of the governmental unit should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to Federal awards. (See Appendix B to this part, item 11, "Depreciation and use allowances," for areas of potential application in the matter of Federal financing of activities.)

D. *Composition of Cost*

1. Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

2. Classification of costs. There is no universal rule for classifying certain costs as

either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the sections that follow.

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.

c. Equipment and other approved capital expenditures.

d. Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

F. Indirect Costs

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part.

3. Limitation on indirect or administrative costs.

a. In addition to restrictions contained in 2 CFR part 225, there may be laws that further limit the amount of administrative or indirect cost allowed.

b. Amounts not recoverable as indirect costs or administrative costs under one Federal award may not be shifted to another Federal award, unless specifically authorized by Federal legislation or regulation.

G. Interagency Services. The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs. A standard indirect cost allowance equal to ten percent

of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Appendix C to this part.

H. Required Certifications. Each cost allocation plan or indirect cost rate proposal required by Appendices C and E to this part must comply with the following:

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices C and E to this part. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental unit that submits the proposal or component covered by the proposal.

2. No cost allocation plan or indirect cost rate shall be approved by the Federal Government unless the plan or rate proposal has been certified. Where it is necessary to establish a cost allocation plan or an indirect cost rate and the governmental unit has not submitted a certified proposal for establishing such a plan or rate in accordance with the requirements, the Federal Government may either disallow all indirect costs or unilaterally establish such a plan or rate. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal Government because of failure of the governmental unit to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

Appendix B to Part 225—Selected Items of Cost

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(2) The use allowance for equipment will be computed at an annual rate not exceeding 6½ percent of acquisition cost.

(3) When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell. The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the 6½ percent equipment use allowance limitation.

g. A reasonable use allowance may be negotiated for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged to the government, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

h. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

12. Donations and contributions.

a. Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable.

b. Donated services received:

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the Federal Grants Management Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

13. Employee morale, health, and welfare costs.

a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental unit's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.

b. Such costs will be equitably apportioned to all activities of the governmental unit. Income generated from any of these activities will be offset against expenses.

14. *Entertainment.* Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

15. Equipment and other capital expenditures.

a. For purposes of this subsection 15, the following definitions apply:

(1) "Capital Expenditures" means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit's regular accounting practices.

(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5000.

(3) "Special purpose equipment" means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.

(4) "General purpose equipment" means equipment, which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

b. The following rules of allowability shall apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.

(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding agency.

(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

(4) When approved as a direct charge pursuant to section 15.b(1), (2), and (3) of this appendix, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement.

(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix, Depreciation and use allowance, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see section 37 of this appendix, Rental costs, concerning the allowability of rental costs for land, buildings, and equipment.

(6) The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

(7) When replacing equipment purchased in whole or in part with Federal funds, the governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

16. *Fines and penalties.* Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

17. Fund raising and investment management costs.

a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.

b. Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this and other appendices of 2 CFR part 225 are allowable.

c. Fund raising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in subsection C.3.b. of Appendix A to this part.

18. Gains and losses on disposition of depreciable property and other capital assets

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee;

(b) They must account for the total activity for which each employee is compensated;

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix;

(ii) The entire time period involved must be covered by the sample; and

(iii) The results must be statistically valid and applied to the period being sampled.

(b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.

(c) Less than full compliance with the statistical sampling standards noted in subsection 8.h.(6)(a) of this appendix may be accepted by the cognizant agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.

(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those

claimed as allowable costs under Federal awards.

i. Donated services.

(1) Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with the provisions of the Common Rule.

(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the governmental unit's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs.

(3) To the extent feasible, donated services will be supported by the same methods used by the governmental unit to support the allocability of regular personnel services.

9. *Contingency provisions.* Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see section 22.c. of this appendix), pension plan reserves (see section 8.e.), and post-retirement health and other benefit reserves (section 8.f.) computed using acceptable actuarial cost methods.

10. *Defense and prosecution of criminal and civil proceedings, and claims.*

a. The following costs are unallowable for contracts covered by 10 U.S.C. 2324(k), "Allowable costs under defense contracts."

(1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded nolo contendere to a charge of fraud or similar proceeding (including filing of a false certification).

(2) Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k).

b. Legal expenses required in the administration of Federal programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable.

11. *Depreciation and use allowances.*

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided for in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be determined on the same basis used for the government-wide financial statements.

b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the governmental unit by an unrelated third party shall be its fair market value at the time of donation. Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.

c. The computation of depreciation or use allowances will exclude:

(1) The cost of land;

(2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and

(3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.

d. Where the depreciation method is followed, the following general criteria apply:

(1) The period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used.

(2) Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

e. When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

f. Where the use allowance method is followed, the following general criteria apply:

(1) The use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs.

employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.

(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.

(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

e. Pension plan costs. Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant

agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the governmental unit's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the pension fund.

(3) Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit's contribution in future periods.

(4) When a governmental unit converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP.

(5) The Federal Government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection 8.e. of this appendix for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

(1) For PRHB financed on a pay as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

(2) PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.

(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.

(4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

(5) To be allowable in the current year, the PRHB costs must be paid either to:

(a) An insurer or other benefit provider as current year costs or premiums, or

(b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

(6) The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

g. Severance pay.

(1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by law, employer-employee agreement, or established written policy.

(2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.

(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

and substantial relocation of Federal programs.

a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

(2) Gains and losses on the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:

(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under sections 11 and 15 of this appendix.

(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.

(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subsection 22.d of this appendix.

(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.

b. Substantial relocation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.

c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection 18.a. of this appendix, e.g., land or included in the fair market value used in any adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.

19. General government expenses.

a. The general costs of government are unallowable (except as provided in section 43 of this appendix, Travel costs). These include:

(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal government;

(2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;

(3) Costs of the judiciary branch of a government;

(4) Costs of prosecutorial activities unless treated as a direct cost to a specific program if authorized by program statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General); and

(5) Costs of other general types of government services normally provided to

the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.

b. For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable.

20. Goods or services for personal use. Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

21. Idle facilities and idle capacity.

As used in this section the following terms have the meanings set forth below:

(1) "Facilities" means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the governmental unit.

(2) "Idle facilities" means completely unused facilities that are excess to the governmental unit's current needs.

(3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between: that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays; and the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.

(4) "Cost of idle facilities or idle capacity" means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, property taxes and depreciation or use allowances.

b. The costs of idle facilities are unallowable except to the extent that:

(1) They are necessary to meet fluctuations in workload; or

(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.

c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.

22. Insurance and indemnification.

a. Costs of insurance required or approved and maintained, pursuant to the Federal award, are allowable.

b. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:

(1) Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.

c. Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the Federal award or as described below. However, the Federal Government will participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

d. Contributions to a reserve for certain self-insurance programs including workers compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:

(1) The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the governmental unit's settlement rate for those liabilities and its investment rate of return.

(2) Earnings or investment income on reserves must be credited to those reserves.

(3) Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.

(4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the governmental unit. If individual departments or agencies of the governmental

unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.

(5) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.

e. Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 8.f. for post retirement health benefits), are allowable in the year of payment provided the governmental unit follows a consistent costing policy and they are allocated as a general administrative expense to all activities of the governmental unit.

f. Insurance refunds shall be credited against insurance costs in the year the refund is received.

g. Indemnification includes securing the governmental unit against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal award, except as provided in subsection 22.d of this appendix.

h. Costs of commercial insurance that protects against the costs of the contractor for correction of the contractor's own defects in materials or workmanship are unallowable.

23. Interest.

a. Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation.

b. Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980 is allowable subject to the conditions in section 23.b.(1) through (4) of this appendix. Financing costs (including interest) paid or incurred on or after September 1, 1995 for land or associated with otherwise allowable costs of equipment is allowable, subject to the conditions in section 23.b. (1) through (4) of this appendix.

(1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;

(2) The assets are used in support of Federal awards;

(3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitration requirements are excludable.

(4) For debt arrangements over \$1 million, unless the governmental unit makes an initial equity contribution to the asset purchase of 25 percent or more, the governmental unit

shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-Federal entities shall prepare a cumulative (from the inception of the project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.

(5) Interest attributable to fully depreciated assets is unallowable.

24. Lobbying.

a. General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants, contracts, cooperative agreements, and loans shall be governed by the common rule, "New Restrictions on Lobbying" (see Section J.24 of Appendix A to 2 CFR part 220), including definitions, and the Office of Management and Budget "Government-wide Guidance for New Restrictions on Lobbying" and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.

b. Executive lobbying costs. Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally-sponsored agreement or regulatory matter on any basis other than the merits of the matter.

25. Maintenance, operations, and repairs. Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they: keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, do not add to the permanent value of property or appreciably prolong its intended life, and are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 11 and 15 of this appendix).

26. Materials and supplies costs.

a. Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award are allowable.

b. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs.

c. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs.

d. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

27. Meetings and conferences. Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. But see section 14, Entertainment costs, of this appendix.

28. Memberships, subscriptions, and professional activity costs.

a. Costs of the governmental unit's memberships in business, technical, and professional organizations are allowable.

b. Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

d. Costs of membership in organizations substantially engaged in lobbying are unallowable.

29. Patent costs.

a. The following costs relating to patent and copyright matters are allowable: cost of preparing disclosures, reports, and other documents required by the Federal award and of searching the art to the extent necessary to make such disclosures; cost of preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government; and general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements (but see sections 32, Professional service costs, and 38, Royalties and other costs for use of patents and copyrights, of this appendix).

b. The following costs related to patent and copyright matter are unallowable: Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures not required by the award; costs in connection with filing and prosecuting any foreign patent application; or any United States patent application, where the Federal award does not require conveying title or a royalty-free license to the Federal Government (but see section 38, Royalties and other costs for use of patents and copyrights, of this appendix).

30. Plant and homeland security costs.

Necessary and reasonable expenses incurred for routine and homeland security to protect facilities, personnel, and work products are allowable. Such costs include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; contractual security services; consultants; etc. Capital expenditures for homeland and plant security purposes are subject to section 15, Equipment and other capital expenditures, of this appendix.

31. Pre-award costs. Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

32. Professional service costs.

a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the governmental unit, are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. In addition, legal and related services are limited under section 10 of this appendix.

b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

(1) The nature and scope of the service rendered in relation to the service required.

(2) The necessity of contracting for the service, considering the governmental unit's capability in the particular area.

(3) The past pattern of such costs, particularly in the years prior to Federal awards.

(4) The impact of Federal awards on the governmental unit's business (*i.e.*, what new problems have arisen).

(5) Whether the proportion of Federal work to the governmental unit's total business is such as to influence the governmental unit in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.

(6) Whether the service can be performed more economically by direct employment rather than contracting.

(7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.

(8) Adequacy of the contractual agreement for the service (*e.g.*, description of the service, estimate of time required, rate of compensation, and termination provisions).

c. In addition to the factors in subparagraph b, retainer fees to be allowable must be supported by available or rendered evidence of bona fide services available or rendered.

33. Proposal costs. Costs of preparing proposals for potential Federal awards are

allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.

34. Publication and printing costs.

a. Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications.

b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the governmental unit.

c. Page charges for professional journal publications are allowable as a necessary part of research costs where:

(1) The research papers report work supported by the Federal Government; and

(2) The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.

35. Rearrangement and alteration costs.

Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal awarding agency.

36. Reconversion costs. Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.

37. Rental costs of buildings and equipment.

a. Subject to the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

b. Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.

c. Rental costs under "less-than-arm's-length" leases are allowable only up to the amount (as explained in section 37.b of this appendix) that would be allowed had title to the property vested in the governmental unit. For this purpose, a less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not

limited to those between divisions of a governmental unit; governmental units under common control through common officers, directors, or members; and a governmental unit and a director, trustee, officer, or key employee of the governmental unit or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, a governmental unit may establish a separate corporation for the sole purpose of owning property and leasing it back to the governmental unit.

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount (as explained in subsection 37.b of this appendix) that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. The provisions of Financial Accounting Standards Board Statement 13, Accounting for Leases, shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 23 of this appendix. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the governmental unit purchased the facility.

38. Royalties and other costs for the use of patents.

a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper performance of the award are allowable unless:

(1) The Federal Government has a license or the right to free use of the patent or copyright.

(2) The patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.

(3) The patent or copyright is considered to be unenforceable.

(4) The patent or copyright is expired.

b. Special care should be exercised in determining reasonableness where the royalties may have been arrived at as a result of less-than-arm's-length bargaining, *e.g.*:

(1) Royalties paid to persons, including corporations, affiliated with the governmental unit.

(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.

(3) Royalties paid under an agreement entered into after an award is made to a governmental unit.

c. In any case involving a patent or copyright formerly owned by the governmental unit, the amount of royalty allowed should not exceed the cost which would have been allowed had the governmental unit retained title thereto.

39. Selling and marketing. Costs of selling and marketing any products or services of the governmental unit are unallowable (unless allowed under section 1. of this appendix as allowable public relations costs or under section 33. of this appendix as allowable proposal costs).

40. Taxes.

a. Taxes that a governmental unit is legally required to pay are allowable, except for self-

assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision is applicable to taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1998, and applies thereafter.

b. Gasoline taxes, motor vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government are allowable.

c. This provision does not restrict the authority of Federal agencies to identify taxes where Federal participation is inappropriate. Where the identification of the amount of unallowable taxes would require an inordinate amount of effort, the cognizant agency may accept a reasonable approximation thereof.

41. *Termination costs applicable to sponsored agreements.* Termination of awards generally gives rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the Federal award not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this appendix in termination situations.

a. The cost of items reasonably usable on the governmental unit's other work shall not be allowable unless the governmental unit submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the governmental unit, the awarding agency should consider the governmental unit's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the governmental unit shall be regarded as evidence that such items are reasonably usable on the governmental unit's other work. Any acceptance of common items as allocable to the terminated portion of the Federal award shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

b. If in a particular case, despite all reasonable efforts by the governmental unit, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this and other appendices of 2 CFR part 225, except that any such costs continuing after termination due to the negligent or willful failure of the governmental unit to discontinue such costs shall be unallowable.

c. Loss of useful value of special tooling, machinery, and equipment is generally allowable if:

(1) Such special tooling, special machinery, or equipment is not reasonably capable of use in the other work of the governmental unit,

(2) The interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency, and

(3) The loss of useful value for any one terminated Federal award is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as

the terminated portion of the Federal award bears to the entire terminated Federal award and other Federal awards for which the special tooling, machinery, or equipment was acquired.

d. Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated Federal award less the residual value of such leases, if:

(1) The amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the Federal award and such further period as may be reasonable, and

(2) The governmental unit makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the Federal award, and of reasonable restoration required by the provisions of the lease.

e. Settlement expenses including the following are generally allowable:

(1) Accounting, legal, clerical, and similar costs reasonably necessary for:

(a) The preparation and presentation to the awarding agency of settlement claims and supporting data with respect to the terminated portion of the Federal award, unless the termination is for default (see Subpart ___.44 of the Grants Management Common Rule (see § 215.5) implementing OMB Circular A-102); and

(b) The termination and settlement of subawards.

(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the Federal award, except when grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Subparts ___.31 and ___.32 of the Grants Management Common Rule (see § 215.5) implementing OMB Circular A-102.

f. Claims under subawards, including the allocable portion of claims which are common to the Federal award, and to other work of the governmental unit are generally allowable. An appropriate share of the governmental unit's indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in Appendix A to this part. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.

42. *Training costs.* The cost of training provided for employee development is allowable.

43. *Travel costs.*

a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the

trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities. Notwithstanding the provisions of section 19 of this appendix, General government expenses, travel costs of officials covered by that section are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards.

b. Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

c. Commercial air travel.

(1) Airfare costs in excess of the customary standard commercial airfare (coach or equivalent), Federal Government contract airfare (where authorized and available), or the lowest commercial discount airfare are unallowable except when such accommodations would:

(a) Require circuitous routing;

(b) Require travel during unreasonable hours;

(c) Excessively prolong travel;

(d) Result in additional costs that would offset the transportation savings; or

(e) Offer accommodations not reasonably adequate for the traveler's medical needs. The governmental unit must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases.

(2) Unless a pattern of avoidance is detected, the Federal Government will generally not question a governmental unit's determinations that customary standard airfare or other discount airfare is unavailable for specific trips if the governmental unit can demonstrate either of the following:

(aa) That such airfare was not available in the specific case; or

(b) That it is the governmental unit's overall practice to make routine use of such airfare.

d. Air travel by other than commercial carrier. Costs of travel by governmental unit-owned, -leased, or -chartered aircraft include the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. The portion of such costs that exceeds the cost of allowable commercial air travel, as provided for in subsection 43.c. of this appendix, is unallowable.

e. Foreign travel. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip

Appendix D to Part 225—Public Assistance Cost Allocation Plans**Table of Contents****A. General****B. Definitions**

1. State public assistance agency
2. State public assistance agency costs

C. Policy**D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans****E. Review of Implementation of Approved Plans****F. Unallowable Costs**

A. General. Federally-financed programs administered by State public assistance agencies are funded predominately by the Department of Health and Human Services (HHS). In support of its stewardship requirements, HHS has published requirements for the development, documentation, submission, negotiation, and approval of public assistance cost allocation plans in Subpart E of 45 CFR part 95. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the public assistance cost allocation plan. This appendix extends these requirements to all Federal agencies whose programs are administered by a State public assistance agency. Major federally-financed programs typically administered by State public assistance agencies include: Temporary Assistance to Needy Families (TANF), Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance and Foster Care, and Social Services Block Grant.

B. Definitions.

1. "State public assistance agency" means a State agency administering or supervising the administration of one or more public assistance programs operated by the State as identified in Subpart E of 45 CFR part 95. For the purpose of this appendix, these programs include all programs administered by the State public assistance agency.

2. "State public assistance agency costs" means all costs incurred by, or allocable to, the State public assistance agency, except expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.

C. Policy. State public assistance agencies will develop, document and implement, and the Federal Government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR part 95. The plan will include all programs administered by the State public assistance agency. Where a letter of approval or disapproval is transmitted to a State public assistance agency in accordance with Subpart E, the letter will apply to all Federal agencies and programs. The remaining sections of this appendix (except for the requirement for certification) summarize the provisions of Subpart E of 45 CFR part 95.

D. Submission, Documentation, and Approval of Public Assistance Cost Allocation Plans.

1. State public assistance agencies are required to promptly submit amendments to the cost allocation plan to HHS for review and approval.

2. Under the coordination process outlined in subsection E, affected Federal agencies will review all new plans and plan amendments and provide comments, as appropriate, to HHS. The effective date of the plan or plan amendment will be the first day of the quarter following the submission of the plan or amendment, unless another date is specifically approved by HHS. HHS, as the cognizant agency acting on behalf of all affected Federal agencies, will, as necessary, conduct negotiations with the State public assistance agency and will inform the State agency of the action taken on the plan or plan amendment.

E. Review of Implementation of Approved Plans.

1. Since public assistance cost allocation plans are of a narrative nature, the review during the plan approval process consists of evaluating the appropriateness of the proposed groupings of costs (cost centers) and the related allocation bases. As such, the Federal Government needs some assurance that the cost allocation plan has been implemented as approved. This is accomplished by reviews by the funding agencies, single audits, or audits conducted by the cognizant audit agency.

2. Where inappropriate charges affecting more than one funding agency are identified, the cognizant HHS cost negotiation office will be advised and will take the lead in resolving the issue(s) as provided for in Subpart E of 45 CFR part 95.

3. If a dispute arises in the negotiation of a plan or from a disallowance involving two or more funding agencies, the dispute shall be resolved in accordance with the appeals procedures set out in 45 CFR part 75. Disputes involving only one funding agency will be resolved in accordance with the funding agency's appeal process.

4. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, the Office of Management and Budget will lend assistance, as required, to resolve such problems in a timely manner.

F. Unallowable Costs. Claims developed under approved cost allocation plans will be based on allowable costs as identified in 2 CFR part 225. Where unallowable costs have been claimed and reimbursed, they will be refunded to the program that reimbursed the unallowable cost using one of the following methods: a cash refund, offset to a subsequent claim, or credits to the amounts charged to individual awards.

Appendix E to Part 225—State and Local Indirect Cost Rate Proposals**Table of Contents****A. General****B. Definitions**

1. Indirect cost rate proposal
2. Indirect cost rate
3. Indirect cost pool
4. Base
5. Predetermined rate
6. Fixed rate
7. Provisional rate
8. Final rate
9. Base period

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates**1. General**

2. Simplified method
3. Multiple allocation base method
4. Special indirect cost rates

D. Submission and Documentation of Proposals

1. Submission of indirect cost rate proposals
2. Documentation of proposals
3. Required certification

E. Negotiation and Approval of Rates**F. Other Policies**

1. Fringe benefit rates
2. Billed services provided by the grantee agency
3. Indirect cost allocations not using rates
4. Appeals
5. Collections of unallowable costs and erroneous payments
6. OMB assistance

A. General.

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

2. Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and the costs of central governmental services distributed through the central service cost allocation plan (as described in Appendix C to this part) and not otherwise treated as direct costs.

3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards. Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20401.

4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain State/local-wide central service costs, general administration of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation

or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc.

5. This appendix does not apply to State public assistance agencies. These agencies should refer instead to Appendix D to this part.

B. Definitions.

1. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.

2. "Indirect cost rate" is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

3. "Indirect cost pool" is the accumulated costs that jointly benefit two or more programs or other cost objectives.

4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

5. "Predetermined rate" means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods.

6. "Fixed rate" means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

7. "Provisional rate" means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a "final" rate for that period.

8. "Final rate" means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.

9. "Base period" for the allocation of indirect costs is the period in which such

costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year, but in any event, shall be so selected as to avoid inequities in the allocation of costs.

C. Allocation of Indirect Costs and Determination of Indirect Cost Rates.

1. General.

a. Where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures as described in subsection 2 of this appendix.

b. Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

c. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in subsections 2, 3 and 4 of this appendix.

2. Simplified method.

a. Where a grantee agency's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by classifying the grantee agency's total costs for the base period as either direct or indirect, and dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where a governmental unit's department or agency has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to that department or agency is relatively small.

b. Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable.

c. The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution.

3. Multiple allocation base method.

a. Where a grantee agency's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate

cost groupings. Each grouping shall then be allocated individually to benefitted functions by means of a base which best measures the relative benefits.

b. The cost groupings should be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

c. Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitted functions. When an allocation can be made by assignment of a cost grouping directly to the function benefitted, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the Federal Government and the governmental unit. In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided that: it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like), and it is common to the benefitted functions during the base period.

d. Except where a special indirect cost rate(s) is required in accordance with subsection 4, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual Federal awards included in that function by use of a single indirect cost rate.

e. The distribution base used in computing the indirect cost rate for each function may be total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution. An indirect cost rate should be developed for each separate indirect cost pool developed. The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool.

4. Special indirect cost rates.

a. In some instances, a single indirect cost rate for all activities of a grantee department or agency or for each major function of the agency may not be appropriate. It may not take into account those different factors which may substantially affect the indirect costs applicable to a particular program or group of programs. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources

employed, the organizational arrangements used, or any combination thereof. When a particular award is carried out in an environment which appears to generate a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that award. The separate indirect cost pool should be developed during the course of the regular allocation process, and the separate indirect cost rate resulting therefrom should be used, provided that: the rate differs significantly from the rate which would have been developed under subsections 2. and 3. of this appendix, and the award to which the rate would apply is material in amount.

b. Although 2 CFR part 225 adopts the concept of the full allocation of indirect costs, there are some Federal statutes which restrict the reimbursement of certain indirect costs. Where such restrictions exist, it may be necessary to develop a special rate for the affected award. Where a "restricted rate" is required, the procedure for developing a non-restricted rate will be used except for the additional step of the elimination from the indirect cost pool those costs for which the law prohibits reimbursement.

D. Submission and Documentation of Proposals.

1. Submission of indirect cost rate proposals.

a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

b. A governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency. The Office of Management and Budget (OMB) will periodically publish lists of governmental units identifying the appropriate Federal cognizant agencies. The cognizant agency for all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds. In these cases, a governmental unit must develop an indirect cost proposal in accordance with the requirements of 2 CFR 225 and maintain the proposal and related supporting documentation for audit. These governmental units are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient's plan.

c. Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency).

d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central

service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

2. Documentation of proposals. The following shall be included with each indirect cost proposal:

a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b of this appendix. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency and is available to the funding agency.

b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency in a subsequent proposal.

c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.

d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

3. Required certification. Each indirect cost rate proposal shall be accompanied by a certification in the following form:

Certificate of Indirect Costs

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and 2 CFR part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87). Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal

Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

E. Negotiation and Approval of Rates.

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant Federal agency.

2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency has reasonable assurance based on past experience and reliable projection of the grantee agency's costs, that the rate is not likely to exceed a rate based on actual costs. Long-term agreements utilizing predetermined rates extending over two or more years are encouraged, where appropriate.

3. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use.

4. Refunds shall be made if proposals are later found to have included costs that are unallowable as specified by law or regulation, as identified in Appendix B to this part, or by the terms and conditions of Federal awards, or are unallowable because they are clearly not allocable to Federal awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

F. Other Policies.

1. Fringe benefit rates. If overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process. In these cases, a proposed fringe benefit rate computation should accompany the indirect cost proposal. If fringe benefit rates are not used at the grantee agency level (*i.e.*, the agency specifically identifies fringe benefit costs to individual employees), the governmental unit should so advise the cognizant agency.

2. Billed services provided by the grantee agency. In some cases, governmental units provide and bill for services similar to those covered by central service cost allocation plans (*e.g.*, computer centers). Where this

must receive such approval. For purposes of this provision, "foreign travel" includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions. However, the term "foreign travel" for a governmental unit located in a foreign country means travel outside that country.

Appendix C to Part 225—State/Local-Wide Central Service Cost Allocation Plans

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A. General.

1. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

2. Guidelines and illustrations of central service cost allocation plans are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure may be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20401.

B. Definitions.

1. "Billed central services" means central services that are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.

2. "Allocated central services" means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.

3. "Agency or operating agency" means an organizational unit or sub-division within a governmental unit that is responsible for the performance or administration of awards or activities of the governmental unit.

C. Scope of the Central Service Cost Allocation Plans. The central service cost allocation plan will include all central service costs that will be claimed (either as a billed or an allocated cost) under Federal awards and will be documented as described in section E. Costs of central services omitted from the plan will not be reimbursed.

D. Submission Requirements.

1. Each State will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include a projection of the next year's allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year or the year immediately preceding the most recently completed year.

2. Each local government that has been designated as a "major local government" by the Office of Management and Budget (OMB) is also required to submit a plan to its cognizant agency annually. OMB periodically lists major local governments in the **Federal Register**.

3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this appendix and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating indirect cost rates and/or monitoring the sub-recipient's plan.

4. All central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency on a case-by-case basis.

E. Documentation Requirements for Submitted Plans. The documentation requirements described in this section may be modified, expanded, or reduced by the cognizant agency on a case-by-case basis. For example, the requirements may be reduced

for those central services which have little or no impact on Federal awards. Conversely, if a review of a plan indicates that certain additional information is needed, and will likely be needed in future years, it may be routinely requested in future plan submissions. Items marked with an asterisk (*) should be submitted only once; subsequent plans should merely indicate any changes since the last plan.

1. General. All proposed plans must be accompanied by the following: An organization chart sufficiently detailed to show operations including the central service activities of the State/local government whether or not they are shown as benefiting from central service functions; a copy of the Comprehensive Annual Financial Report (or a copy of the Executive Budget if budgeted costs are being proposed) to support the allowable costs of each central service activity included in the plan; and, a certification (see subsection 4.) that the plan was prepared in accordance with this and other appendices to this part, contains only allowable costs, and was prepared in a manner that treated similar costs consistently among the various Federal awards and between Federal and non-Federal awards/activities.

2. Allocated central services. For each allocated central service, the plan must also include the following: A brief description of the service*, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. shall also be included.

3. Billed services.

a. General. The information described below shall be provided for all billed central services, including internal service funds, self-insurance funds, and fringe benefit funds.

b. Internal service funds.

(1) For each internal service fund or similar activity with an operating budget of \$5 million or more, the plan shall include: A brief description of each service; a balance sheet for each fund based on individual accounts contained in the governmental unit's accounting system; a revenue/expenses statement, with revenues broken out by source, e.g., regular billings, interest earned, etc.; a listing of all non-operating transfers (as defined by Generally Accepted Accounting Principles (GAAP)) into and out of the fund; a description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined; a schedule of current rates; and, a schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service, as determined under this and other appendices of this part, with an explanation of how variances will be handled.

(2) Revenues shall consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users shall be provided. Expenses shall be broken out by object cost categories (e.g., salaries, supplies, etc.).

c. Self-insurance funds. For each self-insurance fund, the plan shall include: The fund balance sheet; a statement of revenue and expenses including a summary of billings and claims paid by agency; a listing of all non-operating transfers into and out of the fund; the type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation, etc.); an explanation of how the level of fund contributions are determined, including a copy of the current actuarial report (with the actuarial assumptions used) if the contributions are determined on an actuarial basis; and, a description of the procedures used to charge or allocate fund contributions to benefitted activities. Reserve levels in excess of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted must be identified and explained.

d. Fringe benefits. For fringe benefit costs, the plan shall include: A listing of fringe benefits provided to covered employees, and the overall annual cost of each type of benefit; current fringe benefit policies*; and procedures used to charge or allocate the costs of the benefits to benefitted activities. In addition, for pension and post-retirement health insurance plans, the following information shall be provided: the governmental unit's funding policies, e.g., legislative bills, trust agreements, or State-mandated contribution rules, if different from actuarially determined rates; the pension plan's costs accrued for the year; the amount funded, and date(s) of funding; a copy of the current actuarial report (including the actuarial assumptions); the plan trustee's report; and, a schedule from the activity showing the value of the interest cost associated with late funding.

4. Required certification. Each central service cost allocation plan will be accompanied by a certification in the following form:

Certificate of Cost Allocation Plan

This is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish cost allocations or billings for [identify period covered by plan] are allowable in accordance with the requirements of 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87), and the Federal award(s) to which they apply. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the awards to which they are allocated in

accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently.

I declare that the foregoing is true and correct.

Governmental Unit: _____

Signature: _____

Name of Official: _____

Title: _____

Date of Execution: _____

F. Negotiation and Approval of Central Service Plans.

1. All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis. The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable. Once an agreement with the governmental unit has been reached, the agreement will be accepted and used by all Federal agencies, unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special consideration, the funding agency will, prior to the time the plans are negotiated, notify the cognizant agency.

2. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to reopening if the agreement is subsequently found to violate a statute or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The results of the negotiation shall be made available to all Federal agencies for their use.

3. Negotiated cost allocation plans based on a proposal later found to have included costs that: Are unallowable as specified by law or regulation, as identified in Appendix B of this part, or by the terms and conditions of Federal awards, or are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made at the option of the Federal cognizant agency. These adjustments or refunds are designed to correct the plans and do not constitute a reopening of the negotiation.

G. Other Policies.

1. Billed central service activities. Each billed central service activity must separately account for all revenues (including imputed revenues) generated by the service, expenses incurred to furnish the service, and profit/loss.

2. Working capital reserves. Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full

recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

3. Carry-forward adjustments of allocated central service costs. Allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry-forward" basis. Under this procedure, the fixed amounts for the future year covered by agreement are not subject to adjustment for that year. However, when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward and used as an adjustment to the fixed amounts established for a later year. This "carry-forward" procedure applies to all central services whose costs were fixed in the approved plan. However, a carry-forward adjustment is not permitted, for a central service activity that was not included in the approved plan, or for unallowable costs that must be reimbursed immediately.

4. Adjustments of billed central services. Billing rates used to charge Federal awards shall be based on the estimated costs of providing the services, including an estimate of the allocable central service costs. A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs. These adjustments will be made through one of the following adjustment methods: A cash refund to the Federal Government for the Federal share of the adjustment, credits to the amounts charged to the individual programs, adjustments to future billing rates, or adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (Federal share and non-Federal) share exceeds \$500,000.

5. Records retention. All central service cost allocation plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

6. Appeals. If a dispute arises in the negotiation of a plan between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

7. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

occurs, the governmental unit should be guided by the requirements in Appendix C to this part relating to the development of billing rates and documentation requirements, and should advise the cognizant agency of any billed services. Reviews of these types of services (including reviews of costing/billing methodology, profits or losses, etc.) will be made on a case-by-case basis as warranted by the circumstances involved.

3. Indirect cost allocations not using rates. In certain situations, a governmental unit, because of the nature of its awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for review, negotiation, and approval.

4. Appeals. If a dispute arises in a negotiation of an indirect cost rate (or other rate) between the cognizant agency and the governmental unit, the dispute shall be resolved in accordance with the appeals procedures of the cognizant agency.

5. Collection of unallowable costs and erroneous payments. Costs specifically identified as unallowable and charged to Federal awards either directly or indirectly will be refunded (including interest chargeable in accordance with applicable Federal agency regulations).

6. OMB assistance. To the extent that problems are encountered among the Federal agencies and/or governmental units in connection with the negotiation and approval process, OMB will lend assistance, as required, to resolve such problems in a timely manner.

[FR Doc. 05-16649 Filed 8-30-05; 8:45 am]

BILLING CODE 3110-01-P

OFFICE OF MANAGEMENT AND BUDGET

2 CFR Part 230

Cost Principles for Non-Profit Organizations (OMB Circular A-122)

AGENCY: Office of Management and Budget.

ACTION: Relocation of policy guidance to 2 CFR chapter II.

SUMMARY: The Office of Management and Budget (OMB) is relocating Circular A-122, "Cost Principles for Non-Profit Organizations," to Title 2 in the Code of Federal Regulations (CFR), subtitle A, chapter II, part 230. This relocation is part of our broader initiative to create 2 CFR as a single location where the public can find both OMB guidance for grants and agreements and the associated Federal agency implementing regulations. The broader initiative provides a good foundation for streamlining and simplifying the policy framework for grants and agreements, one objective of OMB and Federal

agency efforts to implement the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. 106-107).

DATES: Part 230 is effective August 31, 2005. This document republishes the existing OMB Circular A-122, which already is in effect.

FOR FURTHER INFORMATION CONTACT: Gil Tran, Office of Federal Financial Management, Office of Management and Budget, telephone 202-395-3052 (direct) or 202-395-3993 (main office) and e-mail: Hai_M.Tran@omb.eop.gov.

SUPPLEMENTARY INFORMATION: On May 10, 2004 [69 FR 25970], we revised the three OMB circulars containing Federal cost principles. The purpose of those revisions was to simplify the cost principles by making the descriptions of similar cost items consistent across the circulars where possible, thereby reducing the possibility of misinterpretation. Those revisions, a result of OMB and Federal agency efforts to implement Public Law 106-107, were effective on June 9, 2004.

In this document, we relocate OMB Circular A-122 to the CFR, in Title 2 which was established on May 11, 2004 [69 FR 26276] as a central location for OMB and Federal agency policies on grants and agreements.

Our relocation of OMB Circular A-122 does not change the substance of the circular. Other than adjustments needed to conform to the formatting requirements of the CFR, this document relocates in 2 CFR the version of OMB Circular A-122 as revised by the May 10, 2004 notice.

List of Subjects in 2 CFR Part 230

Accounting, Grant programs, Grants administration, Non-profit organizations, Reporting and recordkeeping requirements.

Dated: August 8, 2005.

Joshua B. Bolten,
Director.

Authority and Issuance

■ For the reasons set forth above, the Office of Management and Budget amends 2 CFR Subtitle A, chapter II, by adding a part 230 as set forth below.

PART 230—COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-122)

Sec.

230.5 Purpose.

230.10 Scope.

230.15 Policy.

230.20 Applicability.

230.25 Definitions.

230.30 OMB responsibilities.

230.35 Federal agency responsibilities.

230.40 Effective date of changes.

230.45 Relationship to previous issuance.

230.50 Information Contact.

Appendix A to Part 230—General Principles
Appendix B to Part 230—Selected Items of Cost

Appendix C to Part 230—Non-Profit Organizations Not Subject to This Part

Authority: 31 U.S.C. 503; 31 U.S.C. 1111; 41 U.S.C. 405; Reorganization Plan No. 2 of 1970; E.O. 11541, 35 FR 10737, 3 CFR, 1966-1970, p. 939

§ 230.5 Purpose.

This part establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations.

§ 230.10 Scope.

(a) This part does not apply to colleges and universities which are covered by 2 CFR part 220 Cost Principles for Educational Institutions (OMB Circular A-21); State, local, and federally-recognized Indian tribal governments which are covered by 2 CFR part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); or hospitals.

(b) The principles deal with the subject of cost determination, and make no attempt to identify the circumstances or dictate the extent of agency and non-profit organization participation in the financing of a particular project. Provision for profit or other increment above cost is outside the scope of this part.

§ 230.15 Policy.

The principles are designed to provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law. The principles do not attempt to prescribe the extent of cost sharing or matching on grants, contracts, or other agreements. However, such cost sharing or matching shall not be accomplished through arbitrary limitations on individual cost elements by Federal agencies.

§ 230.20 Applicability.

(a) These principles shall be used by all Federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, cost reimbursement contracts, and other contracts in which costs are used in pricing, administration, or settlement. All of these instruments are hereafter referred to as awards. The principles do not apply to awards under which an organization is not required to account to the Federal Government for actual costs incurred.

Tab 8
SCO Audit Correspondence

From: [Cruz, Andrew B.](#)
To: [Tyree, Joji](#)
Cc: [Venneman, Jim](#); [Paul Zeglovitch](#)
Subject: RE: Question on liability percentage on contracts
Date: Thursday, January 8, 2026 9:02:23 AM
Attachments: [image001.png](#)
[image002.png](#)
[image003.png](#)
[image004.png](#)

CAUTION:

This email originated from outside of the organization Email System.

Do not click links or open attachments unless you recognize the sender's email address and know the content is safe.

Good morning, Ms. Tyree,

Happy New Year.

For background, the Board of Supervisors established a Liability Trust Fund to provide insurance coverage for general liability claims arising from services provided to contract cities. The Trust Fund is financed through a surcharge applied to contract city services fees, which is deposited into the Fund. The Fund operates on a current-cost financing basis.

I have cc'd Mr. Paul Zeglovitch from the California Joint Powers Insurance Authority (CJPIA), who may be better suited to address your question of "what kind of items go into the county's liability percentage calculation."

Paul, would you or a member of your staff be able to assist Ms. Tyree from the Office of the State Controller in responding to this inquiry?

Thank you,
Andrew

From: Tyree, Joji <JTyree@sco.ca.gov>
Sent: Wednesday, January 7, 2026 3:26 PM
To: Cruz, Andrew B. <a1cruz@asd.org>
Cc: Venneman, Jim <jvenneman@sco.ca.gov>
Subject: Question on liability percentage on contracts

This message is from an EXTERNAL SENDER - be CAUTIOUS, particularly with links and attachments

Good afternoon Andrew and happy new year,

We need some assistance from your office. The City of Rancho Cucamonga filed an Incorrect Reduction Claim (IRC) with the Commission on State Mandates related to our audit there of the city's Identity Theft claims. In the IRC, the city included a portion of LASD's contract with the City of Lynwood for FY 2011-12 (the Service Level Authorization, Hours of Service and Estimated Charges, and Deployment Survey). The purpose, we believe, was pointing out that cities contracting with L.A.

County for law enforcement services get to include an administrative component in their contract hourly rates, while other counties do not.

Since the city is raising this as justification for calculating administrative costs for cities that contract with other California counties for law enforcement services, we wanted to ask what kind of items go into the county's liability percentage calculation. This will assist us in responding to the city's statement.

We are only asking about this because of Rancho Cucamonga's IRC filing. Our office has no issues with L.A County including an administrative cost component in its contracts for law enforcement services, as they are valid costs that the county incurs.

Thank you,



Josefina (Joji) B. Tyree | Auditor
Office of the State Controller Malia M. Cohen
Division of Audits | Compliance Audits Bureau
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Sacramento, CA 95816 | 916.720.3006 | 916.479.0633 (Cell)

JTyree@sco.ca.gov



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From: [Tyree, Joji](#)
To: [Tamara Oatman \(Tamara.Oatman@cityofrc.us\)](#)
Cc: [Annette Chinn \(achinnncrs@aol.com\)](#); [Amanda Diaz \(ADiaz@sbcasd.org\)](#); [Venneman, Jim](#)
Subject: Identity Theft Program
Date: Tuesday, August 30, 2022 1:18:39 PM
Attachments: [C.1.1 Parameters and Guidelines \(Commission Generated\).pdf](#)
[C.1.5 SCO Claiming Instructions for the Identity Theft Program, dated July 2012 \(SCO Generated\).pdf](#)
[C.1.6 SCO Claiming Instructions for the Identity Theft Program, dated July 2013 \(SCO Generated\).pdf](#)

Good afternoon Tamara,

On Page 3 of the Entrance Conference Information (Attached), the Audit Methodology stated that we will determine whether the costs claimed are in accordance with the program's parameters and guidelines.

Also attached are the Applicable Statutes, Laws, and Regulations, the program parameters and guidelines as well as the SCO's claiming instructions.

The Parameters and Guidelines state that indirect costs may include (1) the overhead costs of the unit performing the mandate, and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan. For the City of Rancho Cucamonga (city), the "unit performing the mandate" was San Bernardino County Sheriff's Department (SBCSD), not the city. In addition, the ICRPs for the audit period submitted with the claims were not distributing the costs of the city's central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

The city claimed related indirect costs totaling \$223,706 for the audit period based on salaries claimed totaling \$276,392. We found those amounts unallowable because no city staff member performed any of the reimbursable activities under this program during the audit period. Instead, the city contracted with SBCSD for all of its law enforcement services during the audit period. Therefore, the city did not incur any direct salary costs, but rather incurred contract services costs. Since the city did not incur any direct salary costs during those years to perform the mandated activities, there are no indirect costs related to direct salaries.

In the SCO's Claiming Instructions for the Identity Theft Program (see attached), specifically the Identity Theft Claim Summary Instructions for Form 1, indirect costs are computed as percentage of direct labor costs, either 10% or ICRP. Additionally, the Identity Theft Activity Cost Detail Instructions for Form 2, contract services are clearly differentiated from Salaries (or direct labor) for purposes of calculating indirect costs.

For the audit period, the city provided copies of its Indirect Cost Rate Proposals (ICRP). All of the city's ICRPs use a distribution base of direct salaries and wages for SBCSD staff. This is inconsistent with 2 CFR Part 225 (Office of Management and Budget Circular A-87) because the City of Rancho Cucamonga did not incur any direct salaries and wages costs for SBCSD staff. San Bernardino County incurred those costs and the city incurred contract services costs. The indirect costs erroneously included salaries of Deputies, Sergeants and Sheriff's Service Specialists, which are contract services direct costs to the identity theft program.

After my manager reviews my work papers for this audit, I will contact you for a status meeting to discuss preliminary findings and allowable costs, prior to holding an exit conference.

Thank you.

Josefina (Joji) Tyree | Auditor
Office of the State Controller Betty T. Yee
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Hello Joji,

Tamara shared your questions and comments. Here are our responses:

The structure of the San Bernardino County Sheriff's Department law enforcement services contracts is very different from the LA County Sheriff's contracts. San Diego Sheriff's Office contracts are more similar in structure.

As can be seen from the City of Rancho Cucamonga (City) agreement and the annual Schedule of Costs, the City is purchasing all the components of a Police Department, including direct and indirect (overhead) costs. Looking at their expenditures is similar to looking at a full-service city's departmental expenditure report. San Bernardino County Deputy billing rates only include salary and benefit costs, while in the case of LA County – their hourly sworn rate already includes most overhead (except for Liability and supplemental staffing which can be purchased a la carte - See attached.)

If you compare the FY 11-12 Deputy rates between LA County (**\$114.82**/hour = \$419,087 unit cost/3,650 hours) and San Bernardino (**\$78.98**/hour = \$13,648,451 total cost /96 staff /1,800 hours, there is a huge difference due to the fact that LA County has overhead costs included and the other does not. When overhead is added, you can see the rates then are much more similar.

Your question about hours of "yearly hours per service unit for Deputy, Sergeant, and Service Specialist. I need these in order to arrive at contract rate per hour per service unit."

The answer is that the City purchases these positions as if they were employees of the City – they are expected to work full time (2,080 hours) just as any regular City employee. As you know, the Claiming Instructions and Parameters and Guidelines allow the use of a Productive Hourly Rate of 1,800 hours – and this is how the hourly rates were computed. The Actual Costs and number of positions are listed in the Schedule A you have been provided. A productive hourly rate was computed by dividing the actual salary charge for that position by 1,800 hours to derive an hourly rate.

Regarding Overhead Costs: Tamara thought you said that overhead was not an eligible cost because they contract for law enforcement services. Perhaps there was a miscommunication, but I wanted to address this topic.

Not allowing reimbursement of indirect or overhead costs would be contrary to Claiming Instructions, Parameters and Guidelines, as well as Federal CFR-200 standards which all specifically allow for the inclusion and reimbursement of both direct AND indirect costs. (attached for your convenience)

To simply exclude or not allow legitimate overhead from the costs would be contrary to State and Federal rules, and also would be inconsistent with your own office's prior audit determinations. As you mentioned, for the LA County case, additional overhead was allowed for the liability charges billed separately from the officer's hourly rate.

In the case of San Diego Sheriff Department (SDSO) contracting agencies, additional overhead/indirect cost were allowed (See City of San Marcos 2017 – Crime Statistics Reporting Audit Report on page 23). State Controller's Office auditors recognized there were additional indirect/overhead costs and those costs were allowed as valid overhead charges. Below is an extract from the Audit Report on page 23 that addressed the Contract Indirect Costs:

“Contract Indirect Costs

We reviewed the contract agreements between the city and the SDSO. For FY 2007-08 through FY 2011-12, the SDSO contract agreements provided schedules and identified supplemental contracted labor costs and contracted overhead costs. We determined that overhead costs identified in the contract were appropriate as they related to the performance of mandated activities. We computed indirect cost rates for contract services for these years by dividing total contract overhead costs, station support staff costs, and Sergeant Admin position costs, by the contracted labor costs identified in the contract supplemental schedules.”

The audit permitted a number of overhead items including:

- 1) proration of Sergeant support/admin
- 2) proration of Other Support costs allocated (which includes Station level Staff Support including: Captain, Admin Secretary, Lieutenant, Volunteer Coordinator, Senior Clerk, Department Aide, Receptionist, Intermediate Clerk)
- 3) Law Enforcement Support including Station Detectives, Communication Center (Central Dispatch support), Crime Prevention, Juvenile Intervention, Regional Services
- 4) Services and Supplies Costs
- 5) Support Costs including Vehicles, Facilities/Space, County Management Support (Admin, Fiscal, Data Services, Personnel & Other)
- 6) Liability (charged separately)

The items we included in our ICRP are all similar indirect costs which comply with Federal CFR standards of allowable indirect costs and provide necessary support to the function of the department and benefit the mandate program we are costing out. If you believe there is a charge that does not comply with the guidelines, please let us know why and we would like to discuss.

You can access job descriptions or duty statements from the San Bernardino County website if you'd like to review the activities performed by the various administrative and support positions included in our overhead rate calculations.

We look forward to answering any questions you may have.

Annette Chinn

Cost Recovery Systems, Inc.

Comparison of Contract City Rates: FY 11-12

			<u>Total</u>
	<u>Productive</u>		<u>Productive</u>
	<u>Hourly Rate</u>		<u>Hourly Rate</u>
	<u>(without</u>		<u>with</u>
	<u>overhead)</u>	<u>Overhead</u>	<u>overhead</u>
San Bernardino Sheriff	\$78.98	\$58.45	\$137.43
LA County Sheriff	\$114.82	\$12.63	\$127.45
San Diego Sheriff	\$79.32	\$67.98	\$147.30

From: [Tyree, Joji](#)
To: [Tamara Oatman \(Tamara.Oatman@cityofrc.us\)](#)
Cc: [Annette Chinn \(achinnncrs@aol.com\)](#); [Venneman, Jim](#)
Subject: Status Update
Date: Friday, December 9, 2022 9:30:00 AM
Attachments: [City of Rancho Cucamonga Preliminary Finding - Auditor Prepared.docx](#)
[Schedule - Preliminary Summary of Program Costs - Auditor Prepared.xlsx](#)

Good morning,

The attached status update is for discussion purposes only. This information is confidential and disclosure to any parties not involved with this engagement is prohibited. However, the distribution of the final report is a matter of public record when it is issued, unless otherwise restricted.

You may send your comments/response by email next week.

Thank you and have a nice weekend.

Josefina (Joji) Tyree | Auditor
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Schedule--
Preliminary Summary of Program Costs
July 1, 2002, through June 30, 2013

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<i>The following status update is for discussion purposes only. This information is confidential and disclosure to any parties not involved with this engagement is prohibited. However, the distribution of the final report is a matter of public record when it is issued, unless otherwise restricted.</i>				
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 20,587	\$ -	\$ (20,587)	
Beginning an investigation of facts	7,356	-	(7,356)	
Total salaries	27,943	-	(27,943)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	10,999	10,999	
Beginning an investigation of facts	-	9,057	9,057	
Total contract services	-	20,056	20,056	
Total direct costs	27,943	20,056	(7,887)	
Indirect costs	26,267	-	(26,267)	
Total program costs	<u>\$ 54,210</u>	20,056	\$ (34,154)	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 20,056</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 20,865	\$ -	\$ (20,865)	
Beginning an investigation of facts	7,456	-	(7,456)	
Total salaries	28,321	-	(28,321)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	11,098	11,098	
Beginning an investigation of facts	-	9,161	9,161	
Total contract services	-	20,259	20,259	
Total direct costs	28,321	20,259	(8,062)	
Indirect costs	24,838	-	(24,838)	
Total program costs	<u>\$ 53,159</u>	20,259	\$ (32,900)	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 20,259</u>		

Schedule--
Preliminary Summary of Program Costs
July 1, 2002, through June 30, 2013

Cost Elements	Actual Costs	Allowable	Audit	
	Claimed	per Audit	Adjustments	Reference ¹
<i>The following status update is for discussion purposes only. This information is confidential and disclosure to any parties not involved with this engagement is prohibited. However, the distribution of the final report is a matter of public record when it is issued, unless otherwise restricted.</i>				
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 18,065	\$ -	\$ (18,065)	
Begin an investigation of facts	6,443	-	(6,443)	
Total salaries	24,508	-	(24,508)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	8,696	8,696	
Begin an investigation of facts	-	7,124	7,124	
Total contract services	-	15,820	15,820	
Total direct costs	24,508	15,820	(8,688)	
Indirect costs	19,312	-	(19,312)	
Total program costs	<u>\$ 43,820</u>	15,820	<u>\$ (28,000)</u>	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 15,820</u>		

July 1, 2007, through June 30, 2008

Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 11,859	\$ -	\$ (11,859)	
Begin an investigation of facts	4,219	-	(4,219)	
Total salaries	16,077	-	(16,078)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	5,993	5,993	
Begin an investigation of facts	-	4,884	4,884	
Total contract services	-	10,877	10,877	
Total direct costs	16,077	10,877	(5,200)	
Indirect costs	12,718	-	(12,718)	
Total program costs	<u>\$ 28,795</u>	10,877	<u>\$ (17,918)</u>	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 10,877</u>		

Schedule--
Preliminary Summary of Program Costs
July 1, 2002, through June 30, 2013

Cost Elements	Actual Costs	Allowable	Audit	Reference ¹
	Claimed	per Audit	Adjustments	
<i>The following status update is for discussion purposes only. This information is confidential and disclosure to any parties not involved with this engagement is prohibited. However, the distribution of the final report is a matter of public record when it is issued, unless otherwise restricted.</i>				
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 27,094	\$ -	\$ (27,094)	
Beginning an investigation of facts	9,688	-	(9,688)	
Total salaries	36,781	-	(36,782)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	12,910	12,910	
Beginning an investigation of facts	-	10,674	10,674	
Total contract services	-	23,584	23,584	
Total direct costs	36,781	23,584	(13,197)	
Indirect costs	29,499	-	(29,499)	
Total program costs	<u>\$ 66,280</u>	23,584	<u>\$ (42,696)</u>	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 23,584</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 28,650	\$ -	\$ (28,650)	
Beginning an investigation of facts	10,147	-	(10,147)	
Total salaries	38,796	-	(38,796)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	14,241	14,241	
Beginning an investigation of facts	-	11,569	11,569	
Total contract services	-	25,810	25,810	
Total direct costs	38,796	25,810	(12,986)	
Indirect costs	31,542	-	(31,542)	
Total program costs	<u>\$ 70,338</u>	25,810	<u>\$ (44,528)</u>	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 25,810</u>		

Schedule--
Preliminary Summary of Program Costs
July 1, 2002, through June 30, 2013

Cost Elements	Actual Costs	Allowable	Audit	
	Claimed	per Audit	Adjustments	Reference ¹
<i>The following status update is for discussion purposes only. This information is confidential and disclosure to any parties not involved with this engagement is prohibited. However, the distribution of the final report is a matter of public record when it is issued, unless otherwise restricted.</i>				
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 8,615	\$ -	\$ (8,615)	
Begin an investigation of facts	3,060	-	(3,060)	
Total salaries	11,675	-	(11,675)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	4,473	4,473	
Begin an investigation of facts	-	3,629	3,629	
Total contract services	-	8,102	8,102	
Total direct costs	11,675	8,102	(3,573)	
Indirect costs	9,282	-	(9,282)	
Total program costs	<u>\$ 20,957</u>	8,102	<u>\$ (12,855)</u>	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 8,102</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Salaries				
Taking police report in violation of Penal Code 530.5	\$ 9,803	\$ -	\$ (9,803)	
Begin an investigation of facts	3,480	-	(3,480)	
Total salaries	13,283	-	(13,283)	
Contract services				
Taking police report in violation of Penal Code 530.5	-	5,557	5,557	
Begin an investigation of facts	-	4,508	4,508	
Total contract services	-	10,065	10,065	
Total direct costs	13,283	10,065	(3,218)	
Indirect costs	10,786	-	(10,786)	
Total program costs	<u>\$ 24,069</u>	10,065	<u>\$ (14,004)</u>	Finding 1
Less amount paid by the State ²		-		
Allowable costs claimed in excess of amount paid		<u>\$ 10,065</u>		

City of Rancho Cucamonga
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The following handout is for discussion purposes only. This information is confidential and disclosure to any parties not involved with this engagement is prohibited. However, the distribution of the final report is a matter of public record when it is issued, unless otherwise restricted.

FINDING – Overstated Identity Theft Program costs

The city claimed \$500,098 (\$276,391 in salary costs and \$223,707 in related indirect costs) for the Identity Theft Program. We found that \$195,540 is allowable and \$304,558 is unallowable.¹

We found that the city incorrectly classified claimed costs as salary costs because it contracted with the San Bernardino County Sheriff's Department (SBCSD) for all of its law enforcement services during the audit period. Therefore, the city did not incur any salary costs, but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

The city used the correct methodology to calculate its salary costs: it multiplied the number of identity theft police reports by the time required to perform the reimbursable activities, and then by the hourly rates obtained from the city's contracts with San Bernardino County. The county's contracts included costs for the salaries and benefits of various employee classifications as well as additional administrative costs. However, because no city staff members performed the reimbursable activities, these costs should have been classified as contract services costs, not as salaries.

The costs are unallowable primarily due to the city claiming misclassified costs, overstating the number of identity theft reports taken, misstating the time increments needed to perform the reimbursable activities, and claiming unallowable indirect costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts by fiscal year:

Fiscal Year	Salaries		Related		Contract		Total	
	Amount Claimed ¹	Amount Allowable	Audit Adjustment	Indirect Cost Adjustment	Services Adjustment	Contract Adjustment	Audit Adjustment	
2002-03	\$ 27,943	\$ -	\$ (27,943)	\$ (26,267)	\$ 20,056	\$ (20,056)	\$ (34,154)	
2003-04	28,321	-	(28,321)	(24,838)	20,259	20,259	(32,900)	
2004-05	36,781	-	(36,781)	(29,499)	23,584	23,584	(42,696)	
2005-06	38,796	-	(38,796)	(31,542)	25,810	25,810	(44,528)	
2006-07	24,508	-	(24,508)	(19,312)	15,820	15,820	(28,000)	
2007-08	16,077	-	(16,077)	(12,718)	10,877	10,877	(17,918)	
2008-09	11,675	-	(11,675)	(9,282)	8,102	8,102	(12,855)	
2009-10	13,283	-	(13,283)	(10,786)	10,065	10,065	(14,004)	
2010-11	17,157	-	(17,157)	(12,697)	10,098	10,098	(19,756)	
2011-12	21,912	-	(21,912)	(16,214)	14,188	14,188	(23,938)	
2012-13	39,938	-	(39,938)	(30,552)	36,681	36,681	(33,809)	
Total	<u>\$ 276,391</u>	<u>\$ -</u>	<u>\$ (276,391)</u>	<u>\$ (223,707)</u>	<u>\$ 195,540</u>	<u>\$ 195,540</u>	<u>\$ (304,558)</u>	

¹ Amounts claimed for FY 2004-05, FY 2007-08, FY 2010-11, and FY 2011-12 adjusted by \$1 due to claim rounding errors

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Based on these three years, we selected a statistical sample from the documented number of identity theft incident reports (the population) based on a 95% confidence level, a precision rate of $\pm 8\%$, and an expected error rate of 50%. We used statistical samples in order to project the results to the population for each fiscal year. We randomly selected 264 out of 695 identity theft incident reports for review.

Our review of sample incident reports disclosed the following:

- For FY 2010-11, we found that 29 out of 76 identity theft incident reports were unallowable because of the following reasons:
 - Seven reports did not meet the requirements of PC section 530.6(a), in which the victim(s) of identity theft did not initiate the investigation by contacting the local law enforcement agency,
 - Two reports were not for violations of PC section 530.5,
 - One report did not indicate that a crime occurred, and
 - Nineteen reports were courtesy reports (police reports taken and prepared by other law enforcement agencies).

Therefore, we calculated an error rate of 38.16% for FY 2010-11.

- For FY 2011-12, we found that 31 out of 82 identity theft incident reports were unallowable because of the following reasons:
 - Nine reports did not meet the requirements of PC section 530.6(a), in which the victim(s) of identity theft did not initiate the investigation by contacting the local law enforcement agency,
 - Two reports did not indicate that a crime occurred,
 - Two reports were incident reports only (not for violations of PC section 530.5),
 - Four reports did not include PC section 530.5 as an offense,
 - Two reports were for victims that were not residents of Rancho Cucamonga, and
 - Twelve reports were unallowable because they were courtesy reports.

Therefore, we calculated an error rate of 37.80% for FY 2011-12.

- For FY 2012-13, we found that 16 out of 106 identity theft incident reports were unallowable because of the following reasons:
 - Two reports were not for violations of PC section 530.5,
 - Three reports did not indicate that a crime occurred,
 - Five reports were for victims that were not residents of Rancho Cucamonga, and
 - Six reports were unallowable because they were courtesy reports.

Therefore, we calculated an error rate of 15.09% for FY 2012-13.

Using the testing results for these three fiscal years, we calculated an average error rate of 30.35%, which we applied to the untested years of FY 2002-03 through FY 2009-10.

The following table shows the average error rates for FY 2010-11 through FY 2012-13:

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Contract Services Costs

The city contracted with the SBCSD to perform all of its law enforcement services during the audit period. These services included the reimbursable activities claimed for the mandated program. The city contracted for various SBCSD staff positions each fiscal year, which included, but were not limited to, Deputy Sheriffs, Office Specialists, Service Specialists, and Sergeants, and paid the SBCSD annual contract rates for these positions. No city staff performed any of the reimbursable activities under this program; therefore, the city did not incur salary and related indirect costs as claimed, but rather incurred contract services costs. We reallocated the costs to the appropriate cost category of Contract Services.

Identity Theft Incident Reports

The city claimed that it took 2,749 identity theft incident reports during the audit period. We found that the city overstated the number of reports taken by 715, and 2,034 reports are allowable.

The following table summarizes the counts of claimed, supported, and allowable identity theft cases, and the audit adjustment by fiscal year:

Fiscal Year	(A) Claimed Reports	(B) Audited Population	(C) Allowable Reports	(D)=(C)-(A) Audit Adjustment
2002-03	370	386	269	(101)
2003-04	375	376	262	(113)
2004-05	397	393	274	(123)
2005-06	404	408	284	(120)
2006-07	232	228	159	(73)
2007-08	144	148	103	(41)
2008-09	103	109	76	(27)
2009-10	120	135	94	(26)
2010-11	155	156	96	(59)
2011-12	163	181	113	(50)
2012-13	286	358	304	18
Total	<u>2,749</u>	<u>2,878</u>	<u>2,034</u>	<u>(715)</u>

For each fiscal year, the SBCSD provided Excel spreadsheets to support the claimed number of identity theft incident reports taken for the city. SBCSD generated these spreadsheets using its crime reports record management system (Tiburon). Tiburon provided unduplicated counts of initial police reports filed for violations of PC section 530.5 and identifies the specific origin of each report. The spreadsheets supported 2,878 identity theft police reports filed during the audit period for the City of Rancho Cucamonga.

We verified the accuracy of the unduplicated counts of initial police reports recorded in SBCSD's Tiburon by determining whether:

- Each identity theft case was supported by a contemporaneously prepared and approved police report; and
- The police report supported a violation of PC section 530.5.

We selected FY 2010-11 through FY 2012-13 for testing purposes because our audit plan called for testing 25% of claimed costs at a minimum. Claimed costs for these three fiscal years totaled \$79,007 (\$17,158, \$21,911, and \$39,938 respectively) which represents 28.6% of the \$276,392 amount claimed for the audit period.

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Fiscal Year	(A)	(B)	(C)=(A)÷(B)
	Number of Unallowable Cases Sampled	Sample Size	Error Rate
2010-11	29	76	38.16%
2011-12	31	82	37.80%
2012-13	16	106	15.09%
		Total	91.05%
	Number of FY's sampled	÷	3
	Average Error Rate		<u><u>30.35%</u></u>

We extrapolated the average error rate to the audited population of reports for FY 2002-03 through FY 2009-10 and applied the actual audited error rate for each of the other fiscal years to determine the allowable and unallowable number of incident reports taken.

The following table shows the number of allowable and unallowable incident reports taken by fiscal year:

Fiscal Year	(A)	(B)	(C)=(A)×(B)	(D)=(A)-(C)
	Audited Population	Average Error Rate	Total Unallowable Reports	Total Allowable Reports
2002-03	386	N/A	30.35%	117
2003-04	376	N/A	30.35%	114
2004-05	393	N/A	30.35%	119
2005-06	408	N/A	30.35%	124
2006-07	228	N/A	30.35%	69
2007-08	148	N/A	30.35%	45
2008-09	109	N/A	30.35%	33
2009-10	135	N/A	30.35%	41
2010-11	156	38.16%	N/A	60
2011-12	181	37.80%	N/A	68
2012-13	358	15.09%	N/A	54
Total	<u><u>2,878</u></u>		<u><u>844</u></u>	<u><u>2,034</u></u>

Time increments

The city claimed the following time increments during the audit period:

- 55 minutes for a Deputy Sheriff taking/drafting a police report (Activity 1a.1) for FY 2002-03 through FY 2010-11 and 74 minutes for FY 2011-12 and FY 2012-13,
- 15 minutes for an Office Specialist to provide clerical support for taking/drafting a police report (Activity 1a.1) for FY 2011-12 and FY 2012-13,
- 12 minutes for a Sergeant to review and approve the police report for the audit period (Activity 1a.2) for FY 2002-03 through FY 2010-11 and 16.5 minutes for FY 2011-12 and FY 2012-13, and
- 25 minutes for a Deputy Sheriff to begin an investigation (Activity 2) for FY 2002-03 through FY 2010-11 and 0 minutes for FY 2011-12 and FY 2012-13.

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The city based its time increments for FY 2002-03 through FY 2010-11 on a phone interview in 2011 with an SBCSD Sergeant, who estimated the amount of time required to perform the mandated activities. The city also included a time log signed by a Service Specialist for an unspecified activity that took place from March 9th through May 20th of an unspecified year.

For FY 2011-12 and FY 2012-13, an SBCSD Office Specialist estimated that this employee classification spent 15 minutes per case providing clerical support related to taking/Preparing police reports. In addition, the city conducted a time study in 2012 and provided two Summary Time Logs containing time entries for 16 cases dated from January 5, 2012 through August 21, 2012 for completion by various employees for the activities of taking/Preparing police reports and reviewing/approving police reports. An SBCSD Office Specialist signed and dated the summary time log for taking/Preparing a report, certifying the accuracy of the entries. An SBCSD Sergeant signed and dated the summary time log for reviewing/approving reports, certifying the accuracy of the results. However, the city did not provide any contemporaneously prepared documentation supporting any of the time log entries, such as the related police reports or information from the county's Computer-Aided Dispatch (CAD) system. In addition, the city did not provide a time study plan indicating how the city acquired and analyzed this data.. Therefore, we had no basis from which to determine whether the city based these time entries on actual time or estimates.

Allowable Time Increments

Taking a police report

The county's CAD system did not record time spent drafting, reviewing, and editing identity theft police reports (Activities 1a and 1a.1 – Sergeant review). We interviewed various SBCSD employees, who provided testimonial evidence of the approximate time spent on reimbursable activities not recorded by the CAD system. We found that this information provided a reasonable representation of the time needed to perform these reimbursable activities.

For Activity 1a, we interviewed three Deputy Sheriffs, three Service Specialists, and one Sergeant about drafting, reviewing, and editing identity theft police reports taken by Officers. Based on these interviews, we determined that SBCSD staff spent an average of 35 minutes drafting, reviewing, and editing identity theft police reports taken by Officers.

For Activity 1a.1 – Sergeant review, we interviewed three Detectives and three Sergeants about reviewing identity theft police reports taken at the police station counter. Based on these interviews, we determined that SBCSD staff spent an average of 13 minutes reviewing police reports taken at the police station counter.

For Activity 2 , the SBCSD's Rancho Cucamonga Patrol Station provided copies of CAD reports at our request for the same police reports that we sampled for FY 2010-11, FY 2011-12, and FY 2012-13. These reports provided time stamps detailing when an Officer arrived on scene and departed, and the time spent for the specific incident. The reports also identified the employee classification (Deputy Sheriff or Service Specialist) that performed the activity of beginning an investigation by interviewing the victim to determine where the crime occurred and what pieces of personal identifying information were used for an unlawful purpose. We used these contemporaneously prepared time reports as support for the time spent beginning an investigation.

Based on our analysis, we determined the following time increments for each allowable police report that originated in the City of Rancho Cucamonga:

- 35 minutes (0.58 hours) for Deputy Sheriffs or Service Specialists to perform Activity 1a.1 – taking a police report on violations of PC section 530.5;

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3. Calculated the extent (percentage of involvement) that various employee classifications performed the mandated activities for the sampled identity theft cases.

While the city claimed time for Deputy Sheriffs, Office Specialists, and Sergeants to perform the mandated activities, we found that Deputy Sheriffs and Sheriff Service Specialists prepared and edited police reports (Activity 1a.1) and began investigations (Activity 2). We also found that Sergeants reviewed and approved the police reports (Activity 1a.2). We based this conclusion on the copies of the uniform crime reports (police reports) that SBCSD's Rancho Cucamonga station provided for the identity theft cases for our sample selections from FY 2011-11 through FY 2012-13. Using this information, we analyzed the extent to which these various employee classifications performed the mandated activities and concluded the following:

- Sheriff Deputies performed Activity 1a.1 and Activity 2 at an average of 74% for FY 2002-03 through FY 2010-11 while Service Specialists averaged 26% performing these activities,
- For FY 2011-12, Sheriff Deputies performed Activity 1a.1 and Activity 2 at an average of 75%, while Service Specialists averaged 25% performing these activities,
- For FY 2012-13, Sheriff Deputies performed Activity 1a.1 and Activity 2 at an average of 72%, while Service Specialists averaged 28% performing these activities,
- Sergeants performed 100% of Activity 1a.2 for all years of the audit period, and
- We found no evidence that SBCSD Office Specialists provided clerical support for the taking of police reports.

Contract Hourly Rates

The city's claims included copies of its annual contract that it negotiated with San Bernardino County for each year of the audit period. Each contract specifies the level of services performed for the city by indicating the number of various employee classifications involved in the city's law enforcement (level of service) and the county's cost for providing these employees. The county uses this form to indicate the authorized SBCSD staffing level for each year of the audit period. We used this information to determine the contract hourly rates for various employee classifications by using the cost for each employee classification divided by the number of personnel that the county provided. For example, the city's contract for FY 2012-13 indicates that 96.75 Deputy Sheriffs and 12 Sergeants provided law enforcement for the city during the year. The table below shows the contract hourly rate calculation for Deputy Sheriffs and Sergeants during FY 2012-13:

Employee Classification	Annual Cost	Level of Service	Cost per Employee	Productive Hours	Hourly Rate
Deputy Sheriff	\$ 14,351,923	96.75	\$ 148,340	1,800	\$ 82.41
Sergeant	2,250,050	12.00	187,504	1,800	\$ 104.17

The city used this same calculation of hourly rates for its FY 2012-13 claim.

The city's contracts with SBCSD also include additional employee classifications and other items, such as vehicles, dispatch services, and equipment that are all part of the direct cost to provide law enforcement for the city. However, the contracts also include items that are clearly administrative in nature. During the audit, we had discussions with city representatives concerning the issue of recovering costs for these administrative costs. The city argued that it should be able to prepare Indirect Cost Rate Proposals to recover these costs. However, A-87 methodology does not allow for the recovery of indirect costs based on contract services.

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- 13.minutes (0.22 hours) for Sergeants to perform Activity 1a.2 – reviewing incident reports on violations of PC section 530.5; and
- 44 minutes (0.73 hours) for Deputy Sheriffs or Service Specialists to begin an investigation of the facts (Activity 2) for FY 2002-03 through FY 2009-10, 38 minutes (0.63 hours) for FY 2010-11, 50 minutes (0.83 hours) for FY 2011-12, and 43 minutes (0.72 hours) for FY 2012-13.

The following table summarizes the time increments claimed and allowable for the reimbursable activities by fiscal year:

Fiscal Year	Claimed Minutes				Allowable Minutes		
	Activity 1a.1	Activity 1a.1	Activity 1a.2	Activity 2	Activity 1a.1	Activity 1a.2	Activity 2
	Taking a Report	Clerical Support	Reviewing a Police Report	Beginning an Investigation	Taking a Police Report *	Reviewing a Police Report	Beginning an Investigation *
Deputy Sheriff	Office Specialist	Sergeant	Deputy Sheriff	Deputy Sheriff and Service Specialist	Sergeant	Deputy Sheriff and Service Specialist	Deputy Sheriff and Service Specialist
2002-03	55	-	12	25	35	13	44
2003-04	55	-	12	25	35	13	44
2004-05	55	-	12	25	35	13	44
2005-06	55	-	12	25	35	13	44
2006-07	55	-	12	25	35	13	44
2007-08	55	-	12	25	35	13	44
2008-09	55	-	12	25	35	13	44
2009-10	55	-	12	25	35	13	44
2010-11	55	-	12	25	35	13	38
2011-12	74	15	16.5	-	35	13	50
2012-13	74	15	16.5	-	35	13	43

* As stated in the narrative, Deputy Sheriffs took police reports and began investigations for 74% of cases during FY 2002-03 through FY 2010-11, 75% for FY 2011-12, and 72% for FY 2012-13. Service Specialists took police reports for 26% of cases for FY 2002-03 through FY 2010-11, 25% for FY 2011-12, and 28% for FY 2012-13.

Classification of SBCSD Staff Who Performed the Reimbursable Activities

Claimed Job Classifications

As noted previously, the city claimed that Deputy Sheriffs and Office Specialists (for FY 2011-12 and FY 2012-13 only) prepared police reports (Activity 1a.1), Sergeants reviewed the reports (Activity 1a.1 – Sergeant review), and Deputy Sheriffs began investigations (Activity 2). However, the city did not claim any costs for beginning investigations in its claims for FY 2011-12 and FY 2012-13.

Staff Allowable

In order to clarify which SBCSD staff members performed the mandated activities, we:

1. Prepared a schedule of the police reports selected for testing;
2. Reviewed the police reports for each case to determine the actual job classification that prepared each report; and

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Fiscal Year	Deputy Sheriff		Rate Difference	Administrative Percentage	Revised Hourly Rate	Revised Rate Difference
	Claimed Hourly Rate	Allowable Hourly Rate				
2002-03	\$ 47.72	\$ 47.72	\$ -	9.45%	\$ 52.10	\$ 4.38
2003-04	47.72	51.14	3.42	6.18%	54.30	6.58
2004-05	58.57	56.97	(1.60)	5.18%	59.92	1.35
2005-06	60.28	60.28	-	4.56%	63.03	2.75
2006-07	66.65	66.65	-	4.86%	69.89	3.24
2007-08	70.31	70.30	(0.01)	5.51%	74.17	3.86
2008-09	71.31	71.31	-	5.39%	75.15	3.84
2009-10	69.60	69.60	-	8.19%	75.30	5.70
2010-11	69.60	75.03	5.43	5.33%	79.03	9.43
2011-12	78.98	78.98	-	5.42%	83.26	4.28
2012-13	82.41	82.43	0.02	6.14%	87.49	5.08

The following table summarizes the claimed and allowable contract hourly rates for Service Specialists during the audit period, and the difference between those rates:

Fiscal Year	Service Specialists		Rate Difference	Administrative Percentage	Revised Hourly Rate	Revised Rate Difference
	Claimed Hourly Rate	Allowable Hourly Rate				
2002-03	\$ -	\$ 25.81	\$ 25.81	9.45%	\$ 28.25	\$ 2.44
2003-04	-	28.25	28.25	6.18%	30.00	1.75
2004-05	-	32.42	32.42	5.18%	34.10	1.68
2005-06	-	33.13	33.13	4.56%	34.64	1.51
2006-07	-	34.80	34.80	4.86%	36.49	1.69
2007-08	-	36.12	36.12	5.51%	38.11	1.99
2008-09	-	35.18	35.18	5.39%	37.08	1.90
2009-10	-	34.87	34.87	8.19%	37.73	2.86
2010-11	-	35.74	35.74	5.33%	37.64	1.90
2011-12	-	37.16	37.16	5.42%	39.17	2.01
2012-13	-	38.34	38.34	6.14%	40.69	2.35

The following table summarizes the claimed and allowable contract hourly rates for Sergeants during the audit period, and the difference between those rates:

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We concluded that it is appropriate to add an additional percentage to the calculation of contract hourly rates as a mechanism to recover the annual administrative costs related to the performance of the reimbursable activities. We made these calculations and used the following percentages as an add-on to the hourly rate calculations:

<u>Fiscal Year</u>	<u>Administrative Cost Rate</u>
2002-03	9.45%
2003-04	6.18%
2004-05	5.18%
2005-06	4.56%
2006-07	4.86%
2007-08	5.51%
2008-09	5.39%
2009-10	8.19%
2010-11	5.33%
2011-12	5.42%
2012-13	6.14%

In order to calculate these rates, we added all of the items within each contract classified as administrative costs and divided the total by each year's total contract cost to determine the extent that administrative costs were represented in each year's contract. The table below shows how we made this calculation for FY 2012-13:

<u>Cost Category</u>	<u>Contract Amount</u>
Administrative support	\$ 124,976
Office automation	65,223
Vehicle insurance	110,792
Personnel liability & bonding	407,133
County administrative cost	1,270,734
Board approved COWCAP subsidy	(254,147)
Startup costs	<u>6,987</u>
Total administrative costs	\$ 1,731,698
Divided by total contract amount	<u>28,209,685</u>
Administrative cost percentage	<u><u>6.14%</u></u>

Therefore, claimed hourly rates for Deputy Sheriffs and Sergeants increased as follows for FY 2012-13:

<u>Employee Classification</u>	<u>Hourly Rate</u>	<u>Administrative Percentage</u>	<u>Revised Rate</u>
Deputy Sheriff	\$ 82.41	6.14%	\$ 87.47
Sergeant	\$ 104.17	6.14%	\$ 110.57
:			

The following table summarizes the claimed and allowable contract hourly rates for Deputy Sheriffs during the audit period, and the difference between those rates:

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We performed similar calculations of allowable contract services costs for each fiscal year of the audit period.

Indirect Costs

The city claimed related indirect costs totaling \$223,707 for the audit period based on salaries claimed totaling \$276,393. We found that the entire amount is unallowable because no city staff member performed any of the reimbursable activities under this program during the audit period. Instead, the city contracted with SBCSD for all of its law enforcement services during the audit period. Therefore, the city did not incur any direct salary costs, but rather incurred contract services costs.

The city provided copies of its Indirect Cost Rate Proposals for all years of the audit period. However, the city used a distribution base of direct salaries and wages for SBCSD staff to calculate its indirect cost rates. Since the city only incurred contract services costs, there are no related indirect costs.

We discussed this issue with the city during audit fieldwork. The city pointed out that its annual contract for law enforcement services with San Bernardino County included items that are clearly administrative in nature rather than directly related to the costs for providing law enforcement services. We were receptive to this argument and added an additional percentage to the calculation of contract hourly rates to allow for these costs, as noted above in the explanation of how we calculated contract hourly rates.

The following table summarizes the claimed, allowable, and audit adjustment amounts by fiscal year:

Fiscal Year	Claimed		(A)	(B)	(C)=(B)-(A)	
	Salaries		Indirect	Indirect	Indirect	Audit
	Claimed	Cost Rate	Costs ¹	Costs Allowed	Adjustment	
2002-03	\$ 27,943	94.00%	\$ 26,267	\$ -	\$ (26,267)	
2003-04	28,321	87.70%	24,838	-	(24,838)	
2004-05	36,781	80.20%	29,499	-	(29,499)	
2005-06	38,796	81.30%	31,542	-	(31,542)	
2006-07	24,508	78.80%	19,312	-	(19,312)	
2007-08	16,077	79.10%	12,718	-	(12,718)	
2008-09	11,675	79.50%	9,282	-	(9,282)	
2009-10	13,283	81.20%	10,786	-	(10,786)	
2010-11	17,158	74.00%	12,697	-	(12,697)	
2011-12	21,912	74.00%	16,214	-	(16,214)	
2012-13	<u>39,938</u>	<u>76.50%</u>	<u>30,552</u>	<u>-</u>	<u>(30,552)</u>	
Total	<u>\$ 276,392</u>		<u>\$ 223,707</u>	<u>\$ -</u>	<u>\$ (223,707)</u>	

¹ Differences in Indirect Costs column are due to rounding.

Criteria

Section III (Period of Reimbursement) of the parameters and guidelines states, in part, “Actual costs for one fiscal year shall be included in each claim”.

Section IV (Reimbursable Activities) of the parameters and guidelines begins:

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To be eligible for mandated cost reimbursement for any given fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable to and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheet, invoices, and receipts.

Section IV of the parameters and guidelines continues:

For each eligible claimant, the following ongoing activities are eligible for reimbursement:

1. Either a) or b) below:
 - a) Take a police report supporting a violation of Penal Code section 530.5 which includes information regarding the personal identifying information involved and any uses of that personal information that were non-consensual and for an unlawful purpose, including, if available, information surrounding the suspected identity theft, places where the crime(s) occurred, and how and where the suspect obtained and used the personal identifying information. This activity includes drafting, reviewing, and editing the identity theft police report; or
 - b) Reviewing the identity theft report completed on-line by the identity theft victim.
2. Begin an investigation of the facts, including the gathering of facts sufficient to determine where the crime(s) occurred and what pieces of personal identifying information were used for an unlawful purpose. The purpose of the investigation is to assist the victims in clearing their names. Reimbursement is not required to complete the investigation for purposes of criminal prosecution.

In addition, Section IV states that, “Referring the matter to the law enforcement agency where the suspected crime was committed for further investigation of the facts is also not reimbursable under this program.”

Section V.A (Claim Preparation and Submission – Direct Cost Reporting) of the parameters and guidelines states, in part:

1. Salaries and benefits

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to these activities.

Section V.B (Claim Preparation and Submission – Indirect Costs) of the parameters and guidelines states, in part:

Indirect costs may include: (1) the overhead costs of the unit performing the mandate; and (2) the costs of the central government services distributed to the other departments based on a systematic and rational basis through a cost allocation plan.

Recommendation

The State Legislature suspended the Identity Theft Program in the FY 2013-14 through FY 2022-23 Budget Acts. If the program becomes active again, we recommend that the city:

- Adhere to the program’s parameters and guidelines and claiming instructions when claiming reimbursement for mandated costs; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

I am a resident of the County of Sacramento and I am over the age of 18 years, and not a party to the within action. My place of employment is 980 Ninth Street, Suite 300, Sacramento, California 95814.

On January 29, 2026, I served the:

- **Current Mailing List dated January 27, 2026**
- **Controller's Comments on the Incorrect Reduction Claim filed January 28, 2026**

Identity Theft, 25-0308-I-01

Statutes 2000, Chapter 956 (AB 1897); Penal Code Section 530.6(a)

Fiscal Years: 2002-2003, 2003-2004, 2004-2005, 2005-2006, 2006-2007, 2007-2008, 2008-2009, 2009-2010, 2010-2011, 2011-2012, 2012-2013

City of Rancho Cucamonga, Claimant

By making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on January 29, 2026 at Sacramento, California.



David Chavez
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814
(916) 323-3562

COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 1/27/26

Claim Number: 25-0308-I-01

Matter: Identity Theft

Claimant: City of Rancho Cucamonga

TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

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