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**Commission on  
State Mandates**

A Better Way of Life

November 17, 2017

Ms. Heather Halsey  
Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814

Re: Town of Apple Valley, Animal Adoption Incorrect Reduction Claim  
RESPONSE TO STATE CONTROLLER COMMENTS ON IRC, DATED, OCTOBER 17, 2017

Dear Ms. Halsey,

Please accept our responses to the State Controller's October 17, 2017 comments to our IRC.

**ISSUE 1 – DENIAL OF PORTION OF ANIMAL SHELTER CONSTRUCTION COSTS CLAIMED**

The State Controller's Office (SCO) states that the Town is not entitled for reimbursement of a portion of their Animal Shelter facility costs because:

**"The records of evidence does not include language stating that acquiring additional space and or construction of a new facility is necessary for the increased holding period requirements of the mandated program."**

We believe Council audio discussion provided in our IRC supports this requirement. Parameters and Guidelines state on page 7 that "Documentation requirements may be satisfied in whole or in part by staff agenda items, staff reports, minutes of the governing board meetings, transcripts of governing board meetings, certification by the governing board describing the findings and determinations..."

**"Remodeling is not feasible" and "Existing facilities are not properly configure."**

Documentation shows that after their contract services with Victor Valley Animal Protective League and the City of Hesperia ended in March of 2005, that a small residential building and warehouse in the Town were remodeled to temporarily care for animals. However, record states that despite the recent remodel, only two years later, the governing body found that facility was not "purpose built and did not provide necessary isolation, quarantine or kennel space for an increased number of impounded animals

***“Contracting with existing private or public shelters in the area... is not feasible.”***

The record show that the Town did contract with existing private and public shelters through 2005, however, they found the arrangements unsatisfactory (not feasible). Council expressed concerns to the Victor Valley Animal Protective League because of increased costs “without audited records to support the increased fee request.”

Later when the Town contracted with the City of Hesperia, the Town Council wished to “eliminate the need for residents to travel outside of their jurisdiction to place impounded animals...” SCO notes that the distance is a mere 11 miles away. However, it does not note that the Town covers a 75 mile land area and the driving distance from the town center to the Hesperia shelter takes an average of 22 minutes. Residents further from the Town center could be faced with substantial drive times.

These statements in the record all demonstrate that the governing body of the Town of Apple Valley did attempt to find alternate animal housing arrangements, but for various reasons, found all these arrangements not feasible.

Again, only an eligible share of the costs related directly to the increased holding period mandated were claimed. The formula in the claiming instructions limit reimbursement to those costs which are attributable to the passage of the Hayden Bill and not normal population growth or existing overcrowding. As the SCO notes and the records indicate – the Town claimed 12.9% and 51.8% of facility costs.

The Town had difficulty computing the Formula for Proportionate Share of Actual Costs, not only because of the complexity of the formula, but because the formula requires data from 1998 such as shelter square footages of facilities and animal populations. Because the facility was operated by a contract shelter (Victor Valley Animal Protective League) and that facility also housed other jurisdictions animals, these numbers were extremely difficult to obtain. We deliberately left both computations as a part of the records so that when the SCO reviewed the claim for payment, we could discuss which computation was correct.

The Town alleges that the computation formulas were included as a part of the original claims. The Town also provided the SCO with another copy during the audit process. However, even if somehow the State’s copy of the claim didn’t have those computation sheets in their original document, the percentage claimed was known and available on the detailed claim forms in the SCO’s possession (see claim copies – Forms AA-2). If the State believed some information was missing or had any questions they could have easily made the request at any time.

State Law requires that local agencies be reimbursed for the increased cost incurred to comply with Costs Mandated by the State. The Town is only requesting a percentage of construction costs that is the direct result of increased animal populations that were experienced to comply with the State Mandated Animal Adoption program, and thus should be reimbursed by the State. We are happy to discuss formula computations with the SCO .

***SCO Response 2: Many of the costs claimed occurred outside of the audit period.***

The definition of “cost incurred” according to Federal OMB A-87 guidelines (see TAB 1, OMB Guidelines, Page 8) “includes costs determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency”. Therefore, costs should include the date funds were obligated (date of invoice or contract execution date) as well as the date of actual expenditure of funds (date of payment).

***Use of RDA funding.***

This issue was not brought up during any point of the Audit process.

## ISSUE 2 - MISSING ITEM 1 - PROMPT AND NECESSARY VETERINARY CARE

SCO contradicts itself. They state that *the Town's request that costs for the Veterinary Care component be reinstated is not valid because "costs cannot be 'reinstated' or 'restored' for something that was not claimed."*

SCO then described how the Town claimed these costs and explains how the costs were comingled and difficult to segregate. (Tab 2, page 14) "To summarize, the town took the total expenditures of the animal shelter, subtracted costs for its spay and neutering program, added an overhead factor, and applied the results to the care and maintenance formula. This method is problematic because it assumes that all remaining costs were 100% related to the care and maintenance of animals...It is impossible to correctly determine or segregate out which portion of the care and maintenance costs claimed were actually attributable to the Necessary and Prompt Veterinary care cost component or any other cost component."

It is clear that costs were indeed claimed, just not in a manner that allowed the SCO to clearly identify those costs.

Next, SCO states that *they gave the Town "ample opportunity to conduct time studies in order to determine salary and benefit costs incurred."*

The Town disagrees.

Throughout the audit, Town staff spent many hours working to provide the auditor with requested documentation and were cooperative. SCO auditors confirm in their March 15, 2016 email to the Town, "During the audit, the city has provided a lot of documentation supporting various supplies and materials costs that were incurred in the animal shelter for care and maintenance, animal census data, and employee duties statements." (See SCO IRC Response, Tab 5 page 8, paragraph 2)

Audit Manager Venneman also stated that the audit was progressing to their satisfaction until his email to the Town on March 15, 2016. "Our audit of the city's Animal Adoption mandated cost claims began about nine months ago. Things seemed to be moving along rather steadily until the first part of January." (See Tab 5, page 5 of SCO's Response, paragraph 1).

The record shows that there were no complaints until Ms. Argshestani's **February 29, 2016 email** when she emails shelter staff "It has been a while since we have been in touch. Checking in to see if Gina (Shelter Director) is done or nearly done with her involvement in the animal cruelty case. We will need to pick back up on this audit and hopefully start the time studies." (See Tab 5, page 4 of SCO's Response).

Additionally Audit Manager Mr. Venneman states in his March 15, 2016 email to the Town, "If the city wishes to perform time studies for any of the cost components listed above, please let us know...We have found that a two or three week period is typically sufficient to provide enough information to support an activity that is performed in the shelter on an ongoing basis." (See Tab 5, page 10 of SCO's Response, last paragraph).

The Town replied that they were interested in conducting time studies and submitted their first time study plan to the SCO on April 12, 2016 (see TAB 1, pages 6 – 12 of Apple Valley Response below). The first time study plan was approved and completed at the end of April, 2016.

Time study language indicated that the Town was intending to continue with further time studies (see Tab 1 page 7 of Apple Valley Response below)

As soon as the first time study was completed and provided to the SCO on April 27, the SCO auditor immediately scheduled its Exit Conference on May 4, 2016 for the following day. Until May 4, 2016 there were no reports from the State showing the Town actual findings – or audit results with allowed amounts. (See IRC, Appendix A, page 58-89). SCO IRC only provided some email correspondences listing what information was still outstanding – but not reports showing the Town actual results (preliminary numbers).

Even after the exit conference the Town had to request detailed SCO reports to see how SCO came up with their computations. See IRC Appendix A, page 90 – Mr. Jim Venneman’s email stating what their office would provide, including, “Details of our allowable cost calculations for Care and Maintenance...”

The Town had one day to analyze the preliminary findings which were provided on May 4. The Exit Conference took place on May 5. The Town notified SCO immediately after the Exit Conference that they wished to prepare additional time studies and gather additional documentation to support costs cut by the auditor. Mr. Venneman, Audit Manager responded on May 6, 2015 (see IRC APPENDIX A, page 92) that SCO would not consider any additional time studies or ICPRs.

The Town was told that they had only 10 days to respond to the Draft Report. Clearly there was not enough time to conduct a 2-3 week time study as SCO originally stated would be ideal. The Town could not ask to get the time study guidelines approved in advance by the SCO because they were told no time study would be accepted. Thus, because SCO had accepted a week long sampling in the first time study, the Town proceeded with a 4 day time study (2 days studying dog procedure and 2 days to study cat procedure) to support allowable activities under the Prompt and Necessary Veterinary Component.

Had the SCO allowed the Town to complete the time studies when they requested and this feedback been provided during the audit process, all the issues they now bring up could have been corrected. A longer time study could have been conducted and the activities would have been tracked differently to satisfy the SCO. However the SCO’s rush to end the audit and refusal to consider additional support and documentation has made this IRC necessary.

SCO states that “Only additional fieldwork would have resolved this.”

This additional fieldwork was the SCO’s to grant. There were no time constraints. There was clearly a desire on the part of the Town to continue to provide information and to extend fieldwork. The Town believes that they were denied the opportunity to support costs by the SCO’s rush to end the audit.

This is the Town’s first experience with an SCO audit of State Mandate costs. We were aware that statutorily the State had two years in which to complete the audit. The Town was assured that they would have the opportunity to review, respond, and provide additional documentation in response to the Preliminary Findings both during the Exit phone conference and after the formal Draft Audit Report was issued. The SCO determined that it would end fieldwork, not the Town. It was the SCO who refused to allow any additional time studies or to allow additional documentation of Veterinary costs.

Mr. Venneman May 5, 2016 email, “Note – time study results must be submitted to us prior to issuance of our audit report. Any information submitted after that date supporting allowable costs will not be considered.”

Mr. Venneman May 6, 2016 email, "We realize your positions on these three issues. You can include your objections and/or any additional information about these issues in your response to the draft report. The report may be issued in 3-4 weeks from today."

The record shows that 1) the SCO was satisfied with the progress of the audit until the end of January, 2016. 2) the SCO was aware that time studies were just beginning in early April, 2016 and 3) the Town had notified the SCO that they had 15 pressing animal cruelty cases that had required their attention and which resulted in delays until April 2017. 4) the SCO decided to end "fieldwork" without the Town's consent ("The SCO is not obligated to get the claimant's consent to end fieldwork." (See Page 25, paragraph 1 of SCO 10-17-17 Response) 5) The SCO decision to end fieldwork and not consider the Town's additional documentation resulted in incorrect reductions of costs.

The Town would be willing to repeat the time studies to the SCO satisfaction and provide any additional material they deem necessary to support the costs they incurred to comply with the mandated program. We request that the Commission give us the opportunity denied us during the course of the audit process.

**Allowable Material and Supply Costs: Vaccine Material Costs requested by Town denied.**

SCO contradicts itself again. They state that "*the Town did not claim costs for this component.* "

**Since the total expenditures included medical supplies including vaccines, syringes, they were in fact claimed as a part of the unit cost per animal under the Care and Maintenance Component).**

Therefore, SCO's comment that these costs were never claimed and therefore cannot be reinstated is not correct. These costs were claimed and a part of the comingled total cost.

***SCO stated: "We informed the town that in order to determine allowable material and supply costs for the purchase of wellness vaccines, the town would need to provide supporting documentation in the form of invoices in order to determine a unit cost per vaccine.***

The Town did not retain actual invoices from the audited period due to records retention policies, since it's been almost ten years after costs were incurred. However, other types of proof such as expenditure accounting records do exist. Our staff provided them with the printouts that we had. The documentation came from our Department database.

SCO agrees that they did allow other agencies who did not have the actual detailed invoices to use those of a more recent year to compute an average cost for these supplies. This option was not offered to the Town.

SCO states on page 19 of their IRC Response that they did their "due diligence in reaching out to the town to discuss the audit issues and provide alternatives to support reimbursable costs where needed..." However the records shows that this alternative method of using a more recent year's invoices was never proposed nor mentioned during the audit even though the Town explained their difficulty in locating those detailed invoices requested. The SCO states that "other agencies worked with SCO auditors to provide requested documentation in a timely manner." But how could the Town have provided these records when they were never notified that providing invoices from a more recent year was even an option? The SCO agrees that they offered other agencies (but not the Town of Apple Valley) this alternative approach, but do not explain why the Town was not afforded the same

opportunity. Allowing some to use that alternate approach while not allowing other agencies to do so is in fact the definition of “inconsistent, unfair and arbitrary treatment.”

**The preliminary findings provided by SCO to Town on May 4, 2016 was the first opportunity the Town had to see the comprehensive results of the audit review and were only given a day to review before the Exit Conference call to discuss the results.** SCO states that they did provide updates to the Town, however, the record does not support that the Town was provided detailed cost and financial audit findings until the issuance of preliminary findings on May 4. (see discussion of this issue under ITEM 2)

### ISSUE 3 Care and Maintenance Costs

***SCO statement on page 22 of their IRC Response that “the town did not claim salary and benefit costs” is misleading.***

The Town DID claim salary and benefits costs. SCO confirms this in their Final Audit report, page 16, “The town did not claim salaries and benefits for the audit period. Rather, it claimed costs for salaries and benefits, materials and supplies, contract services, and indirect costs under the category of services and supplies.”

SCO then described how the Town claimed these costs and explains how the costs were comingled and difficult to segregate. (SCO IRC Response, Tab 2, page 14) “To summarize, the town took the total expenditures of the animal shelter department, subtracted costs for its spay and neutering program, added an overhead factor, and applied the results to the care and maintenance formula. This method is problematic because it assumes that all remaining costs were 100% related to the care and maintenance of animals...”

***SCO also states that they (SCO) “used an appropriate and reasonable methodology and informed shelter staff of this methodology. The methodology does not become arbitrary simply because now the town disagrees with it.”***

The Town does not disagree with the methodology of allocating a percentage of employee time to the eligible activities by job classification if those allocations are based on actual time spent on those activities and not some arbitrarily constrained allocation forced upon it by the SCO auditor. What the Town disagrees with is the SCO’s artificial and arbitrary requirement to limit their actual staff time allocations to not exceed 100% between the group of employees who works on those mandated activities. Of course, each employee’s time by duty balances to 100% (See attached Tab 1, page 3)

SCO auditor Amy Arghestani emailed town staff on November 10, 2015, “Good afternoon Gina, During my visit, you provided job duty statements (job descriptions for the various employee classifications that comprise the shelter staff during the audit period (FY 2007-08 and FY 2008-09). For your reference, I have attached these as a PDF document. The purpose of requesting duty statements is to assist us in determining the percentage of the daily workload that each classification devoted to caring for and maintaining the animals (cleaning, feeding and grooming). The goal is to assign a pro-rate percentage to those classifications involved in care and maintenance activities, where the sum of all percentages equal to 100%.” (See attached Tab 1, page 4)

The Town then sent their original response back to the auditor on April 12, 2016 indicating their actual allocation of time spent on various activities, including time to provide animal care and maintenance. Each employees time spent per activity was noted and balanced to 100%. (See attached Tab 1, page 3):

Animal Shelter Supervisor = **10% time spent providing care to impounded animals**, 90% other duties

Registered Veterinary Technician = **85% time spent caring/maintaining animals**, 15% other duties

Animal Control Technician = **25% time spent maintaining shelter disinfecting kennels**, 75% other duties

Animal Shelter Attendant = **80% time spent caring/maintaining the animals and 5% overseeing volunteer and work releases (who provide care and maintenance)**, 15% other duties



Animal Control Supervisor= **5% Shelter (morning cleaning/feeding dogs)**, 95% animal control duties

Animal Control Officer I = **10% Shelter (morning cleaning/feeding dogs)**, 90% animal control duties

Animal Control Officer II = **10% Shelter (morning cleaning/feeding dogs)**, 90% animal control duties

The Auditor then makes several phone calls to Town staff and emails requesting that now ALL employee percentage allocations above be reduced so all their time allocations between them all added together totaled to not exceed 100. The April 13, 2016 email from SCO Auditor Amy Arghestani states, "Hi Adriana, For the Animal Shelter Supervisor, I see you have 5% administering medications, first aide, etc. highlighted rather than the 10% providing care to impounded animals. If we correctly use the 10% providing care to impounded animals that will make the grand total 105%. Could you revise the numbers one last time so that the grand total is 100%?"

The Audit Report **falsely implies that the percentage allocations shown in the Final Audit report were determined by the town shelter management staff.** The percentages listed above are the actual percentage allocations determined by town shelter management staff. The town was forced to artificially reduce their allocations as demanded by the SCO auditor to make them all total to 100%.

"Final Audit shows: FY 2007-08 and FY 2008-09

Animal Shelter Supervisor = 5% time spent providing care to impounded animals  
(Reduced 5% to comply with SCO restriction)

Registered Veterinary Technician = 20% time spent caring/maintaining animals  
(Reduced 65% to comply with SCO restriction)

Animal Control Technician = 5% time spent maintaining shelter disinfecting kennels  
(Reduced 20% to comply with SCO restriction)

Animal Shelter Attendant = 60% time spent caring/maintaining the animals and 5% overseeing volunteer and work releases (who provide care and maintenance)  
(Reduced 35% to comply with SCO restriction)

Animal Control Supervisor=-- 5% Shelter (morning cleaning/feeding dogs)

Animal Control Officer I = 5% Shelter (morning cleaning/feeding dogs)  
(Reduced 5% to comply with SCO restriction)

Animal Control Officer II = 0% Shelter (morning cleaning/feeding dogs)  
(Reduced 10% to comply with SCO restriction)

**To make all employees time add to 100% per SCO request**

This statement and the percentages are false and misleading because those were NOT the percentages of daily workload devoted to caring for and maintaining animals as determined by town staff, but rates that were artificially created to satisfy the demands of the SCO auditor. Twice the auditor came back to Town staff and asked them to reduce their allocation of time between all the employee classifications to balance to 100%.

The record indicates that the auditor did not question activities or allocations made by staff based on the duties performed. SCO only refer to the need to reduce the percentage allotments to total 100% between all employees. This was not based upon any review of the town's assessment of tasks and time spent per task based on the record and town employee attesting to what occurred.

These demands made by the auditor were incorrect and arbitrary and resulted in improper reductions of eligible Town costs. While it is logical that each individual's time spent on various activities total to 100%, there is no reason why the total time spent by a GROUP of different individuals on a mandated activity must add to 100% between them. Time allocations should be based on actual time spent by each employee – not some arbitrary, limited amount imposed by the SCO auditors.

This is the issue and what we disagree with, not the general methodology or assigning of percentages.

**SCO responds in their IRC Response that the Town “did not provide any analysis to support this conclusion (that their original allocations were correct.”** This is also not true – staff reviewed each duty statement in detail and assigned time allocations to each distinct activity as requested. (See attached TAB 1 – page 3) These allocations represent what the ACTUAL time allocations by activity were according to staff analysis.

There is no discussion on how the SCO determined that 60% was a reasonable allotment of time for the Animal Shelter attendant to spend caring for and maintaining animals, other than now, in hindsight that they point to one of 11 job duty statements and say that that was the only one they thought was related to the activity of animal care and maintenance. They say in their IRC Response, “if fact, it is possible that the allocation is actually lower than 60%.”

We question how the SCO auditor can determine, just by looking at the Job Descriptions, how much time is spent on each job duty. There is no indication of how much employee time is required to be spent on each activity on the Job Description documents. Clearly some job duties take much more employee time than others. For example, activity bullet point #10 in the Job Description statement for the Animal Shelter Attendant, (Tab 10 of SCO IRC Response) states, “Assists in evacuation of animals during local emergencies or disasters.” This may never occur, however, bullet point 1, “Maintains animal facilities, including cleaning and disinfecting kennels”, and Bullet point 2, “Provides care to impounded animals” may take most of their time. Reviewing job descriptions alone cannot provide allocation of time per activity as the SCO suggests.

Looking at other audits of the same program, most other agencies also responded that their primary animal shelter attendant positions spent an average of 80-95% of their time on care and maintenance of animals. There is nothing unreasonable or excessive in the Town's initial response/assessment of care and maintenance time allocation. In the other audits we examined, the records show that the other agencies also provided job descriptions, the managers provide percentage estimates, and “based on SCO auditor observations and inquires, we (SCO) concur with the city's assessment.” No other agency was asked to provide further study or analysis. (See attached Tab 1, EXCERPTS FROM OTHER SCO ANIMAL ADOPTION AUDITS)

Upon examining other State Audits of the same Animal Adoption program we discovered inconsistent computational methodologies used by the auditor. In most audits, the SCO did NOT require that all staff time spent on care and maintenance be limited to 100%. The SCO did not require arbitrary reduction of staff time for almost all of the other Audits conducted. Therefore, the statement that “we view the activity as a whole where the responsibilities are divided among various employee classifications, and the sum of the responsibilities performed by the employees equals 100%” is not the common methodology used.

Besides the Town of Apple Valley, only three other agencies (Antioch, Placer and Santa Barbara audits) of the over 43 audits were similarly forced to reduce their employee time allocations to total to 100%

between a group of employees. All other agencies that used the "Actual Cost Method to compute Care and Maintenance Costs were allowed to use their actual allocations.

Perhaps this is just an instance of auditor misunderstanding or misapplication of a formula. We are aware that the SCO has hired many new auditors in a short amount of time. Training and properly reviewing the work of so many new staff members must be challenging.

Below are the results of our review of the other audits and proof that it was not the common computation methodology to restrict agency allocation of time to not exceed 100%. All these agencies that also used the Actual Cost Method of computing Animal Care and Maintenance were allowed to use their actual allocation of time.

Contra Costa Audit – Technicians = 91.667%  
Senior Technicians = 91.38%  
Utility Workers = 91.38%  
Special Services Workers = 55%

City of El Cajon Audit – Animal Control Attendant (4) = 33%  
Animal Control Officers (3) = 12%

El Dorado County – Kennel Attendants = 95% related to care and maintenance of animals.  
Kennel Supervisor = 18.75%

City of Hayward – Animal Care Attendants = 80%

Los Angeles – Animal Care Technicians = 80%  
Animal Care Technician Supervisor = 40%

Sacramento County – Animal Care Attendants = 80%  
Senior Animal Control Officers = 50%  
Supervisor Animal Control Officers = 10%

City of Sacramento – Animal Care Shelter Department = 90%  
Animal Enforcement Department = 20%

Sacramento County – Animal Care Attendants = 80%  
Senior Animal Care Officer = 50%  
Supervising Animal Control Officer = 10%

City and County of San Francisco –  
Animal Care Attendant = 85%  
Shelter Veterinarian – 5%  
Health Technicians 15%  
Animal Care Supervisor = 10%  
Animal Care Assistant Supervisor – 80%

Southeast Area Animal Control Agency  
Animal Care Technicians = 89%  
Lead Animal Care Technician Supervisor = 60%

City of Turlock –            Kennel Attendants = 46% related to care and maintenance of animals.  
   Animal Control Officer = 12%  
   Animal Control Supervisor = 2%

Clearly, most other agencies were NOT required to have all their employee time allocations total to 100% as we were wrongly required to do. We request that our costs be computed based on our actual (original) allocations of time on eligible activities.

## **ISSUE 7 Overhead costs allowed by the SCO were understated**

**SCO states the ICRP option “ultimately agreed upon” by the Town (Assistant Finance Director) was to use the 10% default rate.**

We question the definition of “ultimately agreed upon” when the records show that the Town clearly wished to change their minds and be allowed to compute their actual overhead rates. In April, 2016 when the Assistant Finance Director spoke with the Auditor, he was not aware that the consultant did in fact possess the actual records needed to compute those rates. A couple weeks later, when the Finance Director did become aware that actual documents had been retained by the consultant, the Town stated that they did wish to submit computations for actual overhead (ICRP rates).

SCO would not even consider the request. They insisted that the City agreed and they stated they would not consider the actual ICRP.

During the Exit Conference phone call and in subsequent emails as well as on June 17, 2016, when the Town submitted its formal response to the Draft Audit Report requests were made to use actual ICRP rates. The response document was signed by the Town’s authorized and legal representative, Finance Director Marc Puckett, that the Town wished to use actual ICRP rates rather than the 10% default rates.

We disagree that the ICRP option used was “ultimately agreed upon” by the Town.

**SCO statement “the town did not claim indirect costs, therefore no reductions were made” is not true.**

Indirect costs were included in the computed cost per animal per day.

The Final Audit Report on page 42 states under SCO’s Comment “the town incorporated overhead costs into the Care and Maintenance cost component by adding a 40% overhead factor for the Municipal Services Director when computing total annual shelter costs.” See also,

Pages 405, 528, 643 and 668 of the IRC, which shows the overhead changes included in the claim: 40% Overhead of the Shelter Director’s time. This is overhead computed and included in the claims.

**The 10-17-17 SCO IRC Response, points out deficiencies in the computations that would have required additional “fieldwork”. -- SCO statement the town included “any expenditure which was not included as direct costs within the town’s mandate claims are considered to be indirect costs ” Is not true.**

There were over eight staff positions in the Animal Shelter and Control divisions. Only three of those eight were included in the Town’s proposed Actual ICRP, contrary to the SCO’s assertion that any expenditures not included as a direct cost, was included as an indirect cost.

The positions included in the Town’s ICRP rate were “Animal Shelter” and “Animal Control Supervisors” who provide administrative and supervisory support. (See SCO Response Tab 11) SCO auditor confirms that the Animal Shelter Supervisor’s, “primary responsibilities are supervisory and administrative.”

In addition the “Animal Control Technician”, who act as the receptionists – answering calls at the front counter - was included as indirect as this is a clerical and support function and eligible to be included in the overhead according to OMB A-87 guidelines.

The duty statements included in SCO IRC Response which the Auditor highlighted/circled **Of the Services and Supplies included in the ICRP – all items included are allowable under OMB A-87 guidelines. (For evidence of this See Tab 1 - attached OMB A-87 Guidelines Attachment B beginning on page 13)**

- Uniform Expense (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 17)
- Office Supplies (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 29)
- Hardware/Software Supplies (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 29)
- Printing (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 35)
- Subscriptions (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 30)
- Misc. Costs (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28, 29 30)
- Special Dept Supplies (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 29)
- Contract Services (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 19 & 33)
- Drugs/Vaccines (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 29)
- Stiles Removal/D&D Removal (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 33)
- Emergency Vet Services (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 33)
- Membership & Dues (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 30)
- Meetings & Conference (ALLOWABLE SEE OMB 87, ATTACHMENT B, ITEM 40)
- Mileage Expense (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 41)
- Education & Training (ALLOWABLE SEE OMB 87, ATTACHMENT B, ITEM 40)
- Advertising (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 2)
- Gasoline (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 41)
- Vehicle Maint (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- Equip Maint (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- Communication Equip(ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 19)
- Small Tools (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 19)
- Animal Food ((ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 29)
- Capital Equip(ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 19)
- Utilities : Electricity (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- Utilities : Natural Gas (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- Utilities : Water (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- Security(ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- Bldg Maintenance (ALLOWABLE – SEE OMB 87, ATTACHMENT B, ITEM 28)
- County Public Health (ALLOWABLE SEE OMB 87, ATTACHMENT B, ITEM 33)

**SCO statement “another misrepresentation is the town’s use of the term ‘fieldwork’ when arguing that fieldwork is not needed for the SCO to consider its ICRPS’ and time studies.**

The SCO clarifies that fieldwork can be done on-site and off-site.

The Town apologizes for their misconception. The term “field” suggests – work done on-site and we saw no definition of the term in earlier correspondence from the SCO. We thought that the reason why SCO wouldn’t consider the Town’s requests to consider additional documentation for supporting actual costs reduced in the audit was because the SCO was unwilling to dedicate additional time and resources to travel to the Town to review their additional documentation.

Now that we realize that this review could have also been done off-site and would only require some extra auditor staff time to review our documentation, we are even more discouraged that the SCO would not allow us that little extra time to support cut costs. The audit was closed after less than a year had elapsed from the entrance conference and the Town demonstrated that they still wished to provide support for cut costs. SCO material provided at the entrance conference stated that the audit could take up to two years to complete.

SCO states that “**the SCO is not obligated to get the claimant’s consent to end fieldwork**, and that they gave the town more than adequate notice of its intent to do so.” (See our discussion in ITEM 2 addressing our dispute of this contention that adequate notice was provided).

Apparently the SCO is also not obligated to let the claimants change their minds during the course of the audit either (See ICRP discussion). Or provide them with time to support their costs after notifying of the audit reductions.

The Town believes that they have demonstrated that they were cooperative and diligent in responding to the SCO requests for information during the course of the audit. They notified the SCO that they changed their minds on using the default ICRP rate vs actual rates during the response period of the audit. As soon as preliminary findings were provided, the Town did its best to quickly gather data to support actual costs that had been reduced. They should have been afforded the courtesy of a few additional weeks to provide the additional documentation to support costs cut in the audit.

Based on this experience, it appears to the Town that the SCO has complete discretion to control the audit process and timing; the SCO has the ability to apply different methodologies to computing costs to different agencies (which results incorrect reductions for some agencies); that the SCO auditor can allow more relaxed documentation requirements for some agencies but not others; that the SCO can offer and explain these alternative methodologies to some, but not others; the SCO can end the audit at any point in the process when they come up with the results they are comfortable with; and finally, SCO can deny local agencies the opportunity to provide additional documentation to support their costs after they release of their preliminary findings.

## CONCLUSION

The Town requests that the Commission have the SCO consider the additional documentation that the SCO would not consider during the course of the audit process.

That their methodology be corrected to use actual time allocations and not preset arbitrary limits.

And that actual ICRPs prepared by the Town in compliance with State and Federal guidelines be reviewed and considered.

**SCO's statement that "We do not believe that keeping an audit open is effective or efficient because a claimant may change its mind on cost claiming options, discover additional documentation that may support reimbursable costs..."**

Perhaps it is not 'effective or efficient' for the auditor to allow the claimant the opportunity to respond and to provide that additional documentation after they receive their first preliminary findings in their exit conference. But, it would have been the fair and reasonable thing to do.

In hindsight, considering all the extra time and expense incurred by both sides to compile, analyze and file these over 1,000 pages of IRC documents; not to mention the Commission's staff time to review all this paperwork; perhaps allowing the claimant the courtesy of a little extra time – a couple of additional weeks at most - to properly respond to and to provide the additional documentation would have been the more 'efficient' decision after all.

Please contact me at (760) 240-7000 or our consultant Annette Chinn at (916) 939-7901 with any questions.

Sincerely,



Mr. Marc Puckett  
Assistant Town Manager  
Finance and Administrative Services



**TAB 1**

Subj: **FW: Percent of Care and Maintenance per Employee Classification**  
Date: 5/5/2016 3:46:38 P.M. Pacific Daylight Time  
From: [AAtteberry@applevalley.org](mailto:AAtteberry@applevalley.org)  
To: [ACHinnCRS@aol.com](mailto:ACHinnCRS@aol.com)

*Thank you,*  
*Adriana Atteberry*  
*Administrative Secretary*  
22131 Powhatan Rd. | Apple Valley, CA 92307  
760-240-7000 ext. 7558 | Fax 760-247-6487

[aatteberry@applevalley.org](mailto:aatteberry@applevalley.org)  
[AVanimalservices@applevalley.org](mailto:AVanimalservices@applevalley.org)



**From:** Adriana Atteberry  
**Sent:** Wednesday, April 13, 2016 8:57 AM  
**To:** 'AArghestani@sco.ca.gov'  
**Subject:** RE: Percent of Care and Maintenance per Employee Classification

Yes, is 10:00 am okay?

*Thank you,*  
*Adriana Atteberry*  
*Administrative Secretary*  
22131 Powhatan Rd. | Apple Valley, CA 92307  
760-240-7000 ext. 7558 | Fax 760-247-6487

[aatteberry@applevalley.org](mailto:aatteberry@applevalley.org)  
[AVanimalservices@applevalley.org](mailto:AVanimalservices@applevalley.org)



**From:** [AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov) [<mailto:AArghestani@sco.ca.gov>]  
**Sent:** Wednesday, April 13, 2016 8:20 AM  
**To:** Adriana Atteberry  
**Subject:** RE: Percent of Care and Maintenance per Employee Classification

*Good morning Adriana,*

*Do you have a few moments to discuss this morning? Whatever time is good with you.*

*Thank you.*

Tuesday, May 10, 2016 AOL: AChinnCRS

*Tab 1 Page 1*

Thank you,  
Adriana Atteberry  
Administrative Secretary  
22131 Powhatan Rd. | Apple Valley, CA 92307  
760-240-7000 ext. 7558 | Fax 760-247-6487

[aatteberry@applevalley.org](mailto:aatteberry@applevalley.org)  
[AVanimalservices@applevalley.org](mailto:AVanimalservices@applevalley.org)



**From:** [A.Arghastani@sco.ca.gov](mailto:A.Arghastani@sco.ca.gov) [mailto:[A.Arghastani@sco.ca.gov](mailto:A.Arghastani@sco.ca.gov)]  
**Sent:** Wednesday, April 13, 2016 11:43 AM  
**To:** Adriana Atteberry  
**Subject:** RE: Percent of Care and Maintenance

Hi Adriana,

For the Animal Shelter Supervisor, I see you have 5% administering medications, first aid, etc. highlighted rather than the 10% providing care to impounded animals. If we correctly use the 10% providing care to impounded animals, that will make the grand total 105%. Could you revise the numbers one last time so that the grand total is 100%?

Thanks so much.

Amy Arghastani

Auditor  
State Controller's Office  
Division of Audits / Mandated Cost Audits Bureau  
Office: (916) 327-0490 / Fax: (916) 324-7223  
[A.Arghastani@sco.ca.gov](mailto:A.Arghastani@sco.ca.gov)

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**From:** Adriana Atteberry [mailto:[AAtteberry@applevalley.org](mailto:AAtteberry@applevalley.org)]  
**Sent:** Wednesday, April 13, 2016 11:20 AM  
**To:** Arghastani, Amy <[A.Arghastani@sco.ca.gov](mailto:A.Arghastani@sco.ca.gov)>  
**Subject:** RE: Percent of Care and Maintenance

Classifications in which care and maintenance activities are mentioned in the Class Characteristics or elsewhere in the statement:

1. ANIMAL SHELTER SUPERVISOR – 50 % Assisting management, meet vendors, conduct facility inspections, create reports, train and motivate personnel, other duties as assigned and 10 % providing care to impounded animals, 5 % administering medications, first aid and vaccinations on animals, 15 % monitor euthanasia process and help with euthanasia, 20% monitor controlled substance.
2. REGISTERED VETERINARY TECHNICIAN – 10% Reviewing applications for adoptions and counseling citizens, 10%

Page 2

Amy Arghestani

Auditor  
State Controller's Office  
Division of Audits / Mandated Cost Audits Bureau  
Office: (916) 327-0490 / Fax: (916) 324-7223  
[AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov)

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From: Adriana Atteberry [<mailto:AAtteberry@applevalley.org>]  
Sent: Tuesday, April 12, 2016 4:44 PM  
To: Arghestani, Amy <[AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov)>  
Subject: RE: Percent of Care and Maintenance per Employee Classification

The percentage for the following are:

Classifications in which care and maintenance activities are mentioned in the Class Characteristics or elsewhere in the duty statement:

- 1. ANIMAL SHELTER SUPERVISOR – 50 % Assisting management, meet vendors, conduct facility inspections, create reports, train and motivate personnel, other duties as assigned and 10 % providing care to impounded animals, 10 % administering medications, first aid and vaccinations on animals, 15 % monitor euthanasia process and help with euthanasia, 15% monitor controlled substance.
- 2. REGISTERED VETERINARY TECHNICIAN – 2.5% Reviewing applications for adoptions and counseling citizens, 2.5% Assisting on screening calls, 2% Overseeing volunteer and work release, 85% caring/maintaining the animals, 3% Maintaining inventory on all controlled substances as required by law and 5% other duties as assigned
- 3. ANIMAL CONTROL TECHNICIAN – 26 % Maintaining shelter disinfecting kennels and 75% front counter, clerical, issue dog licenses, screens calls, dispatching.
- 4. ANIMAL SHELTER ATTENDANT – 5% Reviewing applications for adoptions and counseling citizens, 5% Assisting on screening calls, 5% Overseeing volunteer and work release, 80% caring/maintaining the animals and 5% other duties as assigned.
- 5. ANIMAL SHELTER ASSISTANT – 5% Reviewing applications for adoptions and counseling citizens, 5% Assisting on screening calls, 5% Overseeing volunteer and work release, 80% caring/maintaining the animals and 5% other duties as assigned

Classifications in which care and maintenance activities are NOT mentioned in the Class Characteristics or elsewhere in the duty statement:

- 6. ANIMAL CONTROL SUPERVISOR – Barbara Cornett – 5 % Shelter (morning cleaning/feeding of dogs) and 95% Animal Control (running calls, paperwork follow up, door to door canvassing, Administrative Hearings and employee evaluations)
- 7. ANIMAL CONTROL OFFICER I – Joshua Hall, Wayland Moyer – 10% (morning cleaning/feeding of dogs) and 90% Animal Control (running calls, paperwork follow up, door to door canvassing, Administrative Hearings)
- 8. ANIMAL CONTROL OFFICER II – Brent Thibodeaux, Dianne Sulzberger - 10% (morning cleaning/feeding of dogs) and 90% Animal Control (running calls, paperwork follow up, door to door canvassing, Administrative Hearings)

Thank you,

Adriana Atteberry  
Administrative Secretary  
22131 Powhatan Rd. | Apple Valley, CA 92307  
760-240-7000 ext. 7558 | Fax 760-247-6487

[aatteberry@applevalley.org](mailto:aatteberry@applevalley.org)  
[AVanimalservices@applevalley.org](mailto:AVanimalservices@applevalley.org)



**From:** [AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov) [mailto:[AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov)]  
**Sent:** Monday, November 30, 2015 2:30 PM  
**To:** Gina Schwin-Whiteside; Adriana Atteberry  
**Cc:** Kofi Antobam  
**Subject:** FW: Percent of Care and Maintenance per Employee Classification

*Below is the additional email I would like to follow up on. Due to file size, the email and accompanying PDF attachment that is mentioned will not go through as one email. Therefore, I will be breaking the PDF file into two separate documents and sending them separately.*

*Thank you.*

**Amy Arghestani**

Auditor  
State Controller's Office  
Division of Audits / Mandated Cost Audits Bureau  
Office: (916) 327-0490 / Fax: (916) 324-7223  
[AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov)

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**From:** Arghestani, Amy  
**Sent:** Tuesday, November 10, 2015 1:07 PM  
**To:** 'Gina Schwin-Whiteside' <[gwhiteside@applevalley.org](mailto:gwhiteside@applevalley.org)>  
**Cc:** 'Adriana Atteberry' <[AAtteberry@applevalley.org](mailto:AAtteberry@applevalley.org)>  
**Subject:** Percent of Care and Maintenance per Employee Classification

Good afternoon Gina,

During my visit, you provided duty statements (job descriptions) for the various employee classifications that comprised the shelter staff during the audit period (FY 2007-08 and FY 2008-09). For your reference, I have attached these as a PDF document. The purpose of requesting duty statements is to assist us in determining the percentage of the daily workload that each classification devoted to caring for and maintaining the animals (cleaning, feeding and grooming). The goal is to assign a pro-rata percentage to those classifications involved in care and maintenance activities, where the sum of all percentages equal to 100%. After reviewing the job duty statements that were provided, we found the following:

Classifications in which care and maintenance activities are mentioned in the Class Characteristics or elsewhere in the duty statement:

1. ANIMAL SHELTER SUPERVISOR

2. REGISTERED VETERINARY TECHNICIAN
3. ANIMAL CONTROL TECHNICIAN
4. ANIMAL SHELTER ATTENDANT
5. ANIMAL SHELTER ASSISTANT

Classifications in which care and maintenance activities are NOT mentioned in the Class Characteristics or elsewhere in the duty statement:

6. ANIMAL CONTROL SUPERVISOR
7. ANIMAL CONTROL OFFICER I
8. ANIMAL CONTROL OFFICER II

From this analysis, it appears that five out of eight classifications were involved in care and maintenance activities to varying degrees. For these five classifications, please assign a percentage of care and maintenance involvement and provide a brief description as to why you assigned that percentage. If you believe that the remaining three classifications were also involved in care and maintenance activities to a certain extent, please explain their involvement that is not currently reflected in the duty statement and also provide a percentage of involvement.

Please contact me should you have any questions.

*Amy Arghestani*

Auditor  
State Controller's Office  
Division of Audits / Mandated Cost Audits Bureau  
Office: (916) 327-0490 / Fax: (916) 324-7223  
[AArghestani@sco.ca.gov](mailto:AArghestani@sco.ca.gov)

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2

**Town of Apple Valley  
Animal Services Department (AVAS)**

**Animal Adoption (Maintaining Non-Medical Records)  
Time Study Plan**

This document contains Apple Valley's plan for conducting a time study of the maintaining non-medical records component of Animal Adoption state mandated local program. This plan is organized in the following three sections:

**Section 1 – Plan Overview**

This section contains the general information that is applicable to the study of the Animal Adoption State Mandate Reimbursement Program.

**Section 2 – General Methodology**

This section describes the methodology for conducting the time study, the time increments to be used as well as the method for documenting the time study.

**Section 3 – Animal Adoption: Study Components and Form**

This section describes the study provisions that are applicable to this mandate.

The results of this study are intended for use in preparing and/or amending the cost claimed for this state mandated cost program.

**1.0 PLAN OVERVIEW**

**Date Submitted:** April 12, 2016

**Agency:** Town of Apple Valley Animal Services

**Town's Contacts:** Time Study Direction and Time Study Data Collection  
Adriana Atteberry, Administrative Secretary

**Town of Apple Valley**  
**Animal Services Department (AVAS)**

**Mandate:**

**Animal Adoption**

The reason for this time study is to document the time spent to carry out the maintaining non-medical records component contained in this mandate. There may be other activities in this mandate that are repetitive in nature and that the

→ Town of Apple Valley reserves the right to perform a separate time study at a later date.

**Participants:**

The participants or persons to be studied include the:

**Administrative Office Professionals:**

Adriana Atteberry	Administrative Secretary
Becky Weast	Animal Services Technician
Dona Smith	Animal Services Technician
Christie Gonzales	Animal Services Technician
Cassandra Stallard	Animal Services Technician
Katrina McDonald	Animal Services Technician
Vickie Tuozzo	Office Assistant

**Employee Classification: Shelter Staff**

Kristin Hall	Register Vet Tech
Kathy Buharp	Health Tech
Brandie Iraburro	Shelter Specialist

**Employee Classification: Shelter Attendants**

Kristin Reagan	Shelter Attendant
Carol Jenkins	Shelter Attendant
Cynthia Olvera	Shelter Attendant
Jessica Perry	Shelter Attendant
Katrina Brinkley	Shelter Attendant
Stephanie Chabrowski	Shelter Attendant
Katherine Cisneros	Shelter Attendant
Kasey Gower	Shelter Attendant
Lacey Miranda	Shelter Attendant

**Employee Classification: Animal Control Officers**

Phil Kuhns	Sr. Animal Control Officer = Supervisor
Dianne Sulzberger	Sr. Animal Control Officer = Supervisor
Joshua Hall	Animal Control Officer
Don Hartzler	Animal Control Officer
Jim Garcia	Animal Control Officer



***Town of Apple Valley  
Animal Services Department (AVAS)***

**Employee Sample Selection for Maintaining non-Medical Records:**

All of the above mentioned employees are located in the animal shelter.

**Time Study Period:** The time study period will be conducted for 2 week period and will coincide with the Town of Apple Valley payroll period. The study will be initiated 4-16-2016 and be completed on 4-29-2016.

The time period selected for this time study plan is representative of a fiscal year and the results can be reasonably projected to approximate actual costs.

The processes and procedures to carry out the mandated activity have not significantly fluctuated by fiscal year so the results can be reasonably projected to approximate actual costs.

**2.0 GENERAL METHODOLOGY**

The purpose of this plan is to determine the amount of employee time spent on the specific eligible state mandated activity referenced in this document. The time spent will be studied by specific employee classifications engaged in the mandated activity. The study finding will be presented in the final study report.

In preparation for this study, the following tasks will be completed:

Complete arrangements with all study participants. All participants will be contacted in order to explain their role and responsibilities in completing the time study.

Provide on-going monitoring and technical assistance during the time study process to insure that the study participants are completing the necessary time documentation properly.

On a weekly basis, the employee will sign and forward the time study to the Director of Animal Services who will review and sign for completeness.

Following the completion of the time study period, all data will be presented to the Animal Services Administrative Secretary. An example of the calculations that will be made based on the time studies follows:

**Town of Apple Valley  
Animal Services Department (AVAS)**

Sample of calculation that will be used:

Animal ID#	Activity Performed	Mode of Contact	Intake (I) or Outcome (O)	Date	Start time (HH:MM)	Stop Time (HH:MM)	Calc (In Min.)	Fiscal Verification
XXXXX	A	Field	I	4/15/15	1:05	1:08	3	
XXXXX	B	Drop off	I	4/16/15	1:45	1:47	2	
XXXXX	C	Release	O	4/16/15	2:10	2:12	2	
XXXXX	D, E	Euthanize	O	4/16/15	3:15	3:18	3	

See end of document for explanation of codes for the activities performed.

The time study results will be calculated using the following methodology. For each employee, the total amount of time for the reimbursable activity will be measured per occurrence in minute increments. The total amount of minutes per employee classification will be multiplied by the number of animal records processed, resulting in total minutes per classification. The results will be converted to hours. The hours will then be applied to the appropriated hourly rate, benefit percentage, and indirect cost rate.

### 3.0 ANIMAL ADOPTION

This section provides the specific details of the reimbursable activity that is the subject of this time study. The following is a list of the eligible activities:

**Maintaining Non-Medical Records**      Maintaining non-medical records on animals that are not medically treated by a veterinarian:

- Maintaining records of circumstances under which animal was picked up in the field or dropped off at the shelter.
- Maintaining records of circumstances under which animal was released from shelter or euthanized.

**Town of Apple Valley**  
**Animal Services Department (AVAS)**

**Measurement**                    The time will be measured in minute increments for each employee classification performing the activity.

The total time for each employee classification will be added together.

**Employee Sample**                    Those employees that will be participating in this time study have been identified in section one of this time study plan.

**Sample Size**

Based upon the sample size of the employee classification and the duration of the study period, it is reasonable to state than an adequate sample of occurrences for the reimbursable activity will accurately reflect the amount of time it takes to perform the activity.

**Documentation: time Study**

The supporting documentation for this time study will include:

A timecard for each employee performing the time study activities.

The time study will track the time spent (using minute increments) on the above component activities and will include the following:

- Employee's name, classification, and shelter location
- Date activity was perform
- Start and Stop times for the activity performed
- Employee's signature
- Employee's supervisor's signature



***Town of Apple Valley***  
***Animal Services Department (AVAS)***

Supervisor Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Instructions regarding what **SHOULD** and **SHOULD NOT** be included in documenting your time on this form.

**What SHOULD be included:**

- Time spent to perform the following activities related to maintaining non-medical records for animals that are not treated by a veterinarian:
  - A. Time spent maintaining non-medical records related to the pickup of an animal in the field.
  - B. Time spent maintaining non-medical records related to drop off of an animal the Town's Shelter.
  - C. Time spent maintaining records related to the release of an animal to owner or an adopting party.
  - D. Time spent maintaining records related to the euthanasia of an animal.

**What SHOULD not be included:**

- Time spent taking care of an animal while en route to the Town's Shelter.
- Time spent taking care of an animal while impounded and care for at the Town's Shelter.
- Time spent assisting the contracted veterinarian while he is treating the animal.

**EXCERPTS FROM  
OTHER SCO ANIMAL  
ADOPTION AUDITS**

the average number of all other animals at a facility housed on any given day in a 365-day period.

3. Multiply the average daily census of dogs, cats and other animals by 365 = yearly census of dogs and cats and the yearly census of other animals.
4. Divide the total annual cost of care by the yearly census of dogs and cats = cost per dog and cat per day and yearly census of other animals = cost per other animal per day.
5. Multiply the cost per animal per day by the number of impounded stay or abandoned dogs, cats, and other animals that die during the increased holding period or are ultimately euthanized by each reimbursable day. The reimbursable day for cats and dogs is the difference between three days from the day of capture, and four or six business days from the day after impoundment.

#### *Care and Maintenance Formula*

As the county elected to use the Actual Cost Method to claim costs, the parameters and guidelines provide for a formula-driven methodology to determine allowable mandated costs for the care and maintenance of dogs, cats, and other animals. The use of this method requires claimants to calculate the total amount of eligible costs incurred to provide care and maintenance for the animals housed in its shelter. This total is divided by the annual census of animals housed in the shelter to determine a cost per animal per day. The next element of the formula is adding the number of stray and abandoned animals that died of natural causes during the holding period plus those animals that were euthanized after the required holding period. This total number of animals is then multiplied by the cost per animal per day. The resulting amount represents allowable costs for providing care and maintenance.

The mandate reimburses claimants for the costs associated with animals that were not relinquished, redeemed, adopted, or released to a nonprofit agency and animals for which the local agency was unable to assess fees to recover such costs. During the course of the audit, we made adjustments to salaries and benefits, materials and supplies, and related indirect cost amounts incurred by the county. As a result, the costs per animal per day were also adjusted. We also made adjustments to the animal data that was used to claim costs. Adjustments to salary and benefit and material and supply costs are noted below.

The county claimed reimbursement using the Actual Cost Method, which consists of the following four calculations:

1. Total annual care and maintenance costs incurred;
2. Yearly census of dogs and cats;
3. Reimbursable days; and
4. Stray dogs, cats, and other "eligible" animals that died during the increased holding period or were ultimately euthanized.

## Audit Adjustments

1. A large portion of the audit adjustment was necessary because the county claimed reimbursement for salary and benefit costs as material and supply costs. We also determined that the county estimated salary and benefit costs incurred, understated allowable costs, misstated animal census data, claimed unsupported and ineligible costs, overstated time-study results, understated employee productive hourly rates and employee benefit rates, made transposition and calculation errors, and misstated indirect cost rates.

The following was noted during our review of the care and maintenance salary and benefit costs:

- Salaries and benefits were not based on actual payroll costs;
- 100% of the employees' time was claimed, even though they performed other services that are not mandated; and
- For FY 1999-2000, the county claimed reimbursement for lieutenants, although their job duties do not relate to caring for and maintaining animals.

During audit fieldwork, the shelter's Administrative Services Officer advised that tasks performed by the following four employee classifications are most directly related to the care and maintenance of animals:

- Technician
- Senior Technician
- Special Service Worker
- Utility Worker

We requested that the county provide actual salary and benefit amounts paid to these employee classifications for each fiscal year of the audit period. The Auditor-Controller's Office was able to provide actual salary and benefit amounts only for FY 2002-03 through FY 2007-08. Therefore, for FY 1998-99 through FY 2001-02, we used the January payroll amounts already provided for the testing of productive hourly rates.

In addition, we requested a duty statement for each of the four employee classifications to calculate how much of their daily workload was devoted to the care and maintenance of animals. The county provided the duty statements for Technician and Utility Worker. Based partly on this information and staff interviews, we determined that the time spent for care and maintenance of animals was 91.667% for Technicians and Senior Technicians, 91.38% for the Utility Workers, and 55% for the Special Service Workers.

We allocated supported salary and benefit costs proportionately based on the number of dogs and cats to total animals impounded at the shelter and the number of other eligible animals to total impounds. For example, for FY 2006-07, 90.66% of the impounded animals were dogs and cats and 7.03% of the impounded animals



1999-2000 and FY 2000-01 and then again in FY 2005-06 and FY 2006-07. The city then multiplied the cost per animal per day by an unsupported number of eligible animals, and then by 2 or 3 reimbursable days to calculate claimable care and maintenance costs.

Schedule 2 (Summary of Care and Maintenance Costs) summarizes the adjustments that we made to claimed costs for animal care and maintenance. These adjustments consisted of changes to total annual costs incurred by the city for animal care and maintenance (salaries and benefits, and materials and supplies) and animal census data used to determine the cost per animal per day. The table also shows the changes to the number of eligible animals and the number of reimbursable days that we used to determine reimbursable costs for each year of the audit period.

### **Salaries and Benefits**

During the course of the audit, we requested that the city provide the actual salary amounts paid to those employee classifications directly involved with the care and maintenance function. We also requested the duty statements for such classifications to assist in determining the percentage of the daily workload that was devoted to caring for and maintaining animals. Animal shelter management provided a list of personnel who participate in the care and maintenance functions. Management also provided information relating to the level of involvement of each classification according to the job duty description and staffing requirements during the audit period.

The following table details the number of and percentage involvement for animal care and maintenance per employee classification.

<u>Employee Classification</u>	<u>Percentage Involvement</u>
Animal Control Officer (3)	12%
Animal Care Attendant (4)	33%

### ***Animal Care Attendant***

The Animal Care Attendant's main duty is to provide care and maintenance of the animals. The city provided its job description for this employee classification, which contained a bullet-point list consisting of 13 duties performed. In response to our inquiries, a 14-year employee at the Animal Shelter provided percentage estimates of time spent on all 13 activities, which appears reasonable. Time spent on care and maintenance activities comprised 33%, which we used to determine allowable costs. Based on our observations and inquiries, we concurred with the city's assessment.

### ***Animal Control Officers***

Animal Control Officers (ACO), in general, are not reimbursable under this cost component because their main duty is to provide animal control services in the field, not care and maintenance of animals in the shelter.

However, shelter management indicated that ACOs spend about 15 minutes performing care and maintenance for each stray animal brought into the shelter. Shelter management also estimated that strays accounted for 70-75% of animals processed at the city's animal shelter.

The city provided animal census information for FY 2004-05 through FY 2006-07. Based on our analysis of the data from these three years, we found that strays accounted for an average of 67.89% of the animal population. We used this percentage to determine the number of strays for the earlier years of the audit period. We accepted shelter management's statement that ACOs spent 15 minutes with stray animals, based on our observations of shelter operations. Using this data, we found that ACOs spent from 6.44% to 19.69% of their annual productive hours on care and maintenance activities, as shown in the table below:

Fiscal Year	Number of Strays (A)	Hours (B)=(A)*15/60	Percentage of Year (C) = (B)/1,800
1998-99	464	116	6.44%
1999-2000	515	128.75	7.15%
2000-01	593	148.25	8.24%
2001-02	661	165.25	9.18%
2002-03	728	182	10.11%
2004-05	843	210.75	11.71%
2005-06	1,005	251.25	13.96%
2006-07	1,418	354.5	19.69%

Once we determined the employee classifications involved in the care and maintenance of animals and the extent of their involvement, we calculated allowable costs for labor, which includes the applicable percentages of actual salaries and benefits paid.

The following table summarizes the salaries and benefits amounts that we used in the care and maintenance formula by fiscal year:

Fiscal Year	Salaries and Benefits		
	Amount Claimed	Amount Allowable	Audit Adjustment
1998-99	\$ -	\$ 54,493	\$ 54,493
1999-2000	-	57,388	57,388
2000-01	-	58,141	58,141
2001-02	-	63,478	63,478
2002-03	-	68,012	68,012
2004-05	-	93,815	93,815
2005-06	-	108,227	108,227
2006-07	-	121,730	121,730
Total	\$ -	\$ 625,284	\$ 625,284

animal census data used to determine the cost per animal per day. The table also shows changes to the number of eligible animals and the number of reimbursable days that were used to determine reimbursable costs for each year of the audit period.

*Labor—Actual Salaries, Benefits, and Related Indirect Costs*

For all years of the audit period, the county claimed 100% of salary and benefit costs incurred for various employee classifications under this cost component. However, we determined that it is not reasonable to claim 100% of employee salaries, as costs for these employees would also be included in other cost components of the county's claims. In order to allocate the amount of time spent by various employee classifications on care and maintenance activities, we relied on discussion with shelter management, personal observation during audit fieldwork, and the results of the various time studies that were conducted during the audit process.

For Kennel Attendants, we determined that 95% of their time is spent on the activity of care and maintenance of animals.

For Public Service Assistants, we determined that their main duty is to work at the front desk to assist the public and perform various clerical tasks. The Public Service Assistants are not responsible for the care and maintenance of the animals. Therefore, costs for this employee classification are ineligible under the Care and Maintenance cost component.

Animal Control Officers, in general, are not reimbursable under this cost component because their main duty is to provide animal control services in the field, not care and maintenance of animals in the shelter. However, the only Kennel Attendant in South Lake Tahoe is usually off on Sundays and Mondays. On those two days, one of the two Animal Control Officers (ACO) on duty is responsible for the care and maintenance of animals. The two officers rotate between care and maintenance activities and field services. We averaged the two ACOs' salaries and determined allowable costs by allowing one ACO position for two days per week. Accordingly, we determined that 28.57% of one ACO position is spent on care and maintenance activities. However, to be consistent with the percentage allowed for the Kennel Attendants, we then multiplied the calculated ACO salary by 95%. We also noted that the Animal Control Officers in South Lake Tahoe also fill in for the one Public Service Assistant on staff during their off-duty time.

The Placerville shelter has one Kennel Attendant Supervisor. Her main duty is to perform supervisory duties, not care and maintenance. However, based on auditor observation, she does assist the full-time Kennel Attendants in caring for, feeding, and maintaining the animals before the shelter opens to the public at 9:30 a.m. We determined that allowable time spent on care and maintenance activities consists of 1.5 hours per day, which represents 18.75% of her time. We noted that the South Lake Tahoe shelter does not have a Kennel Attendant Supervisor.

This same allocation was applied to all years of the audit period except FY 2001-02. In that year, the Kennel Attendant Supervisor did not have any Kennel Attendants on staff and took care of all of the animals. Therefore, she spent 95% of her time on care and maintenance activities during that fiscal year.

Once we determined the employee classifications involved in the care and maintenance of animals and the extent of their involvement, we calculated allowable costs for labor, which includes the applicable percentages of actual salaries and benefits paid plus related indirect costs.

*Materials and Supplies*

The county included materials and supplies expenses in its actual cost formulas from two expenditure accounts (account 4300—Professional & Specialized Service and account 4500—Special Department Expense) for food and supply costs incurred. The county provided reports detailing the expenditures recorded in these two accounts.

We worked in conjunction with animal shelter management, who advised that costs recorded in account 4300 were not for care and maintenance activities. Instead, account 4300 contains veterinary services costs totaling \$238,422 (\$75,157 for FY 2006-07, \$86,903 for FY 2007-08, and \$76,362 for FY 2008-09) which were included in the care and maintenance formulas within the county’s claims. These costs are not related to the Care and Maintenance cost component and are analyzed under the Necessary and Prompt Veterinary Care cost component.

Costs recorded in account 4500 primarily included animal supplies, food, and other necessities for the shelters. However, some costs in this account were not eligible for reimbursement (such as euthanasia medication, microchip expenses, and medical supplies). Shelter management reviewed the detailed expenses recorded in account 4500 and determined that \$49,405 was related to the care and maintenance of animals. These are the costs that we used for materials and supplies in the actual cost formulas, as detailed in Schedule 2.

The following table summarizes the claimed and allowable costs used in the care and maintenance actual cost formulas for materials and supplies:

<u>Category</u> <u>Fiscal Year</u>	<u>Amount</u> <u>Claimed</u>	<u>Amount</u> <u>Allowable</u>	<u>Audit</u> <u>Adjustment</u>
Materials and supplies:			
2001-02	\$ 9,172	\$ 8,579	\$ (593)
2002-03	22,445	11,818	(10,627)
2006-07	97,371	8,491	(88,880)
2007-08	108,240	8,504	(99,736)
2008-09	108,870	12,013	(96,857)
Total	<u>\$ 346,098</u>	<u>\$ 49,405</u>	<u>\$ (296,693)</u>

*Labor—Salaries, Benefits, and Related Indirect Costs*

For all years of the audit period, the city claimed 80% of labor costs incurred for its full-time animal care attendants as time spent on care and maintenance. The city did so in consideration of the fact that costs for these employees were also included in other components of the city's claims. We determined that the 80% amount claimed is reasonable. However, the city should have also included 80% of actual salaries paid to part-time animal care attendants in the computation of labor costs.

The city also claimed 30% of labor costs incurred for the Senior Animal Care Attendant/Animal Care Attendant Supervisor Position. The main duty of this employee classification is to provide supervisory assistance to animal care attendants. We concluded that the city did not support that this employee classification spent 30% of his time performing care and maintenance activities. Accordingly, all costs claimed for supervisory Animal Care Attendant positions are unallowable.

**Materials and Supplies***Food*

The city has a contract with a supplier that provides animal food to the shelter for a specified amount per year. The city determined its costs to be \$8,752 per year for FY 2005-06 through FY 2007-08. However, the city's shelter staff was able to compile additional invoices for food that were not claimed. We determined that additional costs totaling \$23,470 are allowable (\$3,329 for FY 2005-06, \$14,127 for FY 2006-07 and \$6,014 for FY 2007-08); these costs will be included in the materials and supplies portion of the actual cost formula.

*Supplies*

The city claimed \$27,800 for supplies in every year of the audit period as "other stuff." This amount was based on estimates and is unallowable. During the audit, shelter staff was able to compile invoices to adequately support costs incurred for supplies in the total amount of \$183,083 (\$47,152 for FY 2005-06, \$66,933 for FY 2006-07 and \$68,997 for FY 2007-08). We included these costs in the materials and supplies portion of the actual cost formula.

We used the average amount of supplies for these three years (\$61,028) as the allowable cost for supplies in the actual cost formulas for all five earlier years of the audit period.

The following table summarizes the claimed and allowable costs for materials and supplies:

Fiscal Year	Food			Supplies		
	Claimed	Allowable	Adjustment	Claimed	Allowable	Adjustment
1998-99	Unknown	\$ 8,752	\$ 8,752	Unknown	\$ 61,028	\$ 61,028
1999-2000	Unknown	8,752	8,752	Unknown	61,028	61,028
2000-01	Unknown	8,752	8,752	Unknown	61,028	61,028
2001-02	Unknown	8,752	8,752	Unknown	61,028	61,028
2002-03	Unknown	8,752	8,752	Unknown	61,028	61,028
2005-06	Unknown	12,081	12,081	36,552	47,152	10,600
2006-07	Unknown	22,879	22,879	36,552	66,933	30,381
2007-08	Unknown	14,766	14,766	36,552	68,997	32,445
Total	\$ —	\$ 93,486	\$ 93,486	\$ 109,656	\$ 488,222	\$ 378,566

### **Comingled Costs**

For FY 1999-2000 through FY 2002-03, the city included the costs of veterinary care related to the performance of initial physical exams and administration of wellness vaccinations into its actual cost formulas for care and maintenance. These costs are not reimbursable under this cost component and were removed from the actual cost formulas for those years.

### **Annual Census Data**

The yearly census refers to the total number of days that all animals were housed in the shelter. The actual cost formula requires the eligible cost of care to be divided by the yearly census to arrive at an average cost per animal per day. The cost per animal per day is then multiplied by the eligible number of animals and the number of increased days.

We determined the eligible number of animals to apply to the actual cost formula for all years of the audit period. We consistently applied the exclusions per the parameters and guidelines to the raw animal data provided by the animal shelter.

We applied costs per animal per day to the eligible number of dogs and cats impounded at the city's shelter for the two additional days required by the mandated program. We also applied costs per animal per day to the eligible number of "other animals" for all five days of the required holding period.

### **Increased Holding Period**

A recent Appellate Court ruling in the case of *Purifoy v. Howell* determined that Saturday is not considered a business day for the purposes of this mandated program. Therefore, we determined that the increased holding period for dogs and cats changed from 2 days to 3 days and the increased holding period for other animals increased from 5 days to 6 days.

### Recommendation

We recommend that the city establish and implement procedures to ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

### City's Response

The city did not respond to this audit finding.

**FINDING 3—  
Overstated care and  
maintenance costs**

The city claimed \$3,110,161 for care and maintenance costs during the audit period. We determined that \$2,142,278 is allowable and \$967,883 is unallowable. The costs were unallowable because the city incorrectly reported annual expenditures attributed to the care and maintenance function, incorrectly calculated the yearly census of dogs and cats and other animals, and subsequently overstated the claimed costs per animal per day in each fiscal period. In addition, the city incorrectly calculated the number of eligible stray dogs and cats and other animals that died during the increased holding period or were ultimately euthanized. The city also used an incorrect number of reimbursable days for this component.

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

Fiscal Year	Amount Claimed			Amount Allowable			Audit Adjustment
	Dogs/Cats	Other Animals	Total Claimed	Dogs/Cats	Other Animals	Total Allowable	
<b>Care and maintenance:</b>							
1998-99	\$ 186,383	\$ 5,510	\$ 191,893	\$ —	\$ 3,156	\$ 3,156	\$ (188,737)
1999-2000	577,369	40,450	617,819	375,062	7,031	382,093	(235,726)
2000-01	463,535	13,107	476,642	487,021	7,157	494,178	17,536
2001-02	686,106	21,184	707,290	307,530	7,358	314,888	(392,402)
2002-03	291,737	12,018	303,755	228,809	5,642	234,451	(69,304)
2005-06	244,197	37,227	281,424	233,359	15,318	248,677	(32,747)
2006-07	193,875	99,093	292,968	196,262	17,929	214,191	(78,777)
2007-08	194,118	44,252	238,370	231,063	19,581	250,644	12,274
<b>Total</b>	<b>\$ 2,837,320</b>	<b>\$ 272,841</b>	<b>\$ 3,110,161</b>	<b>\$ 2,059,106</b>	<b>\$ 83,172</b>	<b>\$ 2,142,278</b>	<b>\$ (967,883)</b>

The care and maintenance formula calculations of claimed, allowable, and unallowable costs by fiscal year are presented in Schedule 2—Summary of Care and Maintenance Costs.

During our review, we noted the following issues:

- The city did not use actual expenditure amounts relating to care and maintenance to calculate the cost per animal per day. Instead, the city used budgeted expenditure amounts that were not actual costs. In addition, the costs that the city reported were not pro-rated to the portion of the costs relating to the care and maintenance functions.
- The city did not use accurate annual animal census information to calculate the cost per animal per day.
- The city overstated the cost per animal per day in each fiscal year of the audit period.
- The city did not use the accurate number of eligible dogs and cats and other animals that died during the increased holding period or were ultimately euthanized. This error occurred primarily because the city did not account for all animal population exclusions noted in the parameters and guidelines.
- The city did not use the correct number of reimbursable increased holding period days to calculate claimed costs.

Our analysis of each issue identified in this list is presented below in the same order as listed above.

*Total Annual Expenditures Related to Care and Maintenance*

The city did not use the actual expenditure amounts relating to care and maintenance that it incurred to calculate the cost per animal per day. Instead, the city used budgeted expenditure amounts that were not actual costs and were not pro-rated to the portion of the costs relating to the care and maintenance functions.

The following table summarizes claimed, allowable, and unallowable expenditure amounts used for the calculation of care and maintenance costs:

Fiscal Year	Amount Claimed	Amount Allowable		
		Salaries, Benefits and Indirect Cost	Materials and Supplies	Audit Adjustment
Care and maintenance expenditures:				
1998-99	\$ 3,398,931	\$ 4,294,154	\$ 103,013	\$ 998,236
1999-2000	4,304,979	4,801,703	136,599	633,323
2000-01	4,890,106	5,299,831	74,446	484,171
2001-02	6,899,953	4,792,766	131,473	(1,975,714)
2002-03	6,257,289	4,405,861	141,952	(1,709,476)
2005-06	10,487,509	6,775,244	223,754	(3,488,511)
2006-07	11,585,706	8,687,989	329,620	(2,568,097)
2007-08	12,856,179	10,432,321	539,706	(1,884,152)
Total	<u>\$ 60,680,652</u>	<u>\$ 49,489,869</u>	<u>\$ 1,680,563</u>	<u>\$ (9,510,220)</u>

**Labor Costs Related to Care and Maintenance (Salaries, Benefits, and Indirect Costs)**

During the course of the audit, we requested that the city provide the actual salary amounts paid to those employee classifications directly involved with the care and maintenance function. We also requested the duty statements for such classifications to assist us in determining the percentage of daily workload that was devoted to caring and maintaining animals. The Animal Services Department provided a list of personnel who participate in the care and maintenance functions. The department also provided information relating to the involvement level of each classification and submitted job duty statements that supported the its proposed pro-rated percentages.

As proposed by the department, we used the following employee classifications and percentages of their annual salary, benefit, and related indirect costs to calculate labor costs relating to the Care and Maintenance cost component for each fiscal year:

- Animal Care Technicians (80%)
- Animal Care Technician Supervisor (40%)

We used actual annual payroll information for each employee classification for the last three years of the audit period (FY 2005-06 through FY 2007-08). However, the actual payroll information was not



available for the earlier five years of the audit period. We used a consumer price index to deflate the amounts paid for labor in these prior years.

#### Materials and Supplies Costs Related to Care and Maintenance

Subsequent to the issuance of the draft audit report, the city submitted documentation supporting actual materials and supplies expenditures incurred for care and maintenance activities. The city submitted summary reports containing year end expenditures by vendor for two accounts:

1. Account 4580 – Animal Food
2. Account 6020 – Shelters Operating Supplies

For the audit period, the year end expenses submitted totaled \$2,488,030 for both accounts. We examined the detailed spreadsheets with expenditures by vendor in both accounts to determine whether any of the submitted costs could be potentially included in our calculation of allowable care and maintenance costs. Of the \$2,488,030 in costs submitted, we concluded that costs totaling \$1,680,563 were allowable. Accordingly, we included these costs in the care and maintenance formula calculations.

The following table summarizes the amounts submitted, allowable, and audit adjustment by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<b>Account 4580 – Animal Food:</b>			
1998-99	\$ 79,175	\$ 79,175	\$ —
1999-2000	118,361	112,034	(6,327)
2000-01	48,325	48,325	—
2001-02	71,335	71,335	—
2002-03	76,695	76,695	—
2005-06	115,602	107,736	(7,866)
2006-07	178,828	178,828	—
2007-08	288,067	288,067	—
<b>Total animal food</b>	<b>976,388</b>	<b>962,195</b>	<b>(56,259)</b>
<b>Account 6020 – Operating supplies</b>			
1998-99	148,213	23,838	(124,375)
1999-2000	89,209	24,565	(64,644)
2000-01	126,057	26,121	(99,936)
2001-02	136,362	60,138	(76,224)
2002-03	125,345	65,257	(60,088)
2005-06	200,587	116,018	(84,569)
2006-07	325,315	150,792	(174,523)
2007-08	360,554	251,639	(108,915)
<b>Total operating supplies</b>	<b>1,511,642</b>	<b>718,368</b>	<b>(793,274)</b>
<b>Total</b>	<b>\$ 2,488,030</b>	<b>\$ 1,680,563</b>	<b>\$ (807,467)</b>

#### *Expenses Unrelated to the function of caring and maintaining animals:*

During fieldwork, we discussed with department staff the reimbursable criteria for this cost component. With the department's assistance, we identified specific types of materials and supplies expenditures that

- For FY 2001-02, the city claimed 100% of salaries and benefits costs incurred for all three departments even though not all of the employees in these departments performed care and maintenance activities. In addition, some of the employees performed reimbursable activities that already were included within other reimbursable cost components of the mandated program (e.g., Increased Holding Period, Maintaining Non-Medical Records, and Necessary and Prompt Veterinary Care).
- For FY 2002-03, FY 2007-08, and FY 2008-09, the city claimed 50% of the salaries and benefits for the Animal Care Administration Department and Animal Enforcement Department. The primary responsibility of staff in the Animal Care Administration Department is to perform a variety of general clerical work, such as record keeping, transaction processing, and public contracts. In addition, the primary responsibility of staff in the Animal Enforcement Department is to perform animal control activities, such as patrolling assigned areas, issuing citations and warnings, monitoring and enforcing animal control regulations, and responding to animal control inquiries and complaints. Therefore, we found that 50% is an over-estimation of the time that staff within these two departments spent on care and maintenance activities.

Based on our review of the job duty statements for staff within both departments, and discussions with shelter staff, we found that 90% of salaries and benefits for the Animal Care Shelter Department and 20% of the salaries and benefits for both the Animal Care Administration Department and Animal Enforcement Department were reimbursable under the care and maintenance cost component.

#### *Materials and supplies*

As noted above, the city determined the total annual costs of care and maintenance based on a percentage of total costs incurred by three divisions within the Animal Care Services Department (Animal Care Shelter, Animal Care Administration, and Animal Enforcement) for each year of the audit period. The methodology used by the city to determine the total annual costs of care and maintenance is unallowable for the following reasons:

- For FY 2001-02, the city claimed 100% of the services and supplies costs incurred by all three departments, even though most of these costs are unrelated to the care and maintenance of animals.
- For FY 2002-03, FY 2007-08, and FY 2008-09, the city claimed 50% of the services and supplies costs incurred by the Animal Care Administration Department and the Animal Enforcement Department, even though most of these costs are unrelated to the care and maintenance of animals.
- For FY 2001-02, FY 2007-08, and FY 2008-09, the city included costs incurred for euthanasia procedures, which is not a reimbursable activity under the mandated program.

Schedule 2 (Summary of Care and Maintenance Costs) summarizes the adjustments made to claimed costs for animal care and maintenance. These adjustments consisted of changes to total annual costs incurred by the county for animal care and maintenance (salaries and benefits, related indirect costs, and materials and supplies) and animal census data used to determine the cost per animal per day. The schedule also shows changes to the number of eligible animals and the number of reimbursable days that were used to determine reimbursable costs for the audit period.

### **Salaries, Benefits, and Related Indirect Costs**

During the audit period, the county claimed an estimated percentage of total salaries and benefits for various employee classifications. During audit fieldwork, the county provided salary and benefit amounts paid to those employee classifications directly involved with the care and maintenance of the animals. We reviewed the duty statements for such classifications to assist in determining the percentage of the daily workload devoted to caring for and maintaining animals. In addition, shelter management provided information relating to the level of involvement of each classification.

For the audit period, the county claimed a percentage of total salaries and benefits for the following classifications: 70% for Animal Care Attendants (ACA), 70% for Office Assistant IIs (OAI), 70% for Senior Animal Control Officers (SRACO), and 90% for Supervising Animal Control Officers (SUPACO). We reviewed the employee job descriptions for the various classifications and determined that costs for an OAI are unallowable because this classification is not involved in the care and maintenance of animals. The duty statements also showed that the SRACO is primarily involved in field enforcement and the SUPACO is a supervisory position responsible for field and shelter operations. Therefore, we concluded that the SRACO and SUPACO would not typically be involved in the day-to-day activities of care and maintenance of animals. Accordingly, we reduced the claimed percentage for each classification. Based on input from animal shelter management, we determined a reimbursable percentage to be: 80% for ACAs, 50% for SRACOs, and 10% for a SUPACO. Audit adjustments for salaries and benefits consist of unallowable hours claimed and adjustments for allowable positions salary and benefit amounts.

#### *Fiscal Year 2007-08*

The county claimed salary costs based on a percentage of total annual salaries and benefits for all of the positions allocated to the kennel unit from the department's Personnel Worksheet by Program Budget for FY 2006-07. The county claimed benefit costs using the average benefit rate per classification from the county's Personnel Budget Schedule (PBR). Consequently the county claimed benefit costs twice.

During the course of the audit, our goal was to calculate the allowable care and maintenance costs by using a consistent method throughout the audit period. We asked the city and county to provide annual expenditure amounts incurred that were related to the costs for care and maintenance of animals. The ACCD was able to retrieve the labor and materials and supplies costs incurred for this component. We used this information in the calculation of eligible care and maintenance costs. We also used annual animal census data that the ACCD provided from its Chameleon software system in each fiscal period to calculate the unit cost to care for each animal per day.

Once we calculated the unit cost, we applied it to the *eligible* number of euthanized dogs, cats, and other animals. The parameters and guidelines list the specific animals that are excluded from reimbursement under this component.

*Labor Costs Related to Care and Maintenance (Salaries, Benefits, and Indirect Costs):*

During the course of the audit, the ACCD provided actual salary amounts paid to those employee classifications directly involved with the care and maintenance functions. The ACCD also provided job duty statements for each employee classification to document the level of involvement with this cost component. The ACCD used the duty statements to determine the percentage of each employee classification's daily workload that was devoted to care and maintenance functions.

As proposed by the department, we agreed to use the following employee classifications and percentages of their annual salary and benefit costs to calculate labor costs relating to care and maintenance for each fiscal year:

- Animal Care Attendants (85%)
- Shelter Veterinarian (5%)
- Health Technician (15%)
- Animal Care Supervisor (10%)
- Animal Care Assistant Supervisor (80%)

To calculate allowable labor costs for each classification, we calculated annual totals for salaries, benefits, and related indirect costs and applied the percentages noted above.

*Materials and Supplies Costs Related to Care and Maintenance*

During the course of the audit, the ACCD submitted a list of vendors that provided materials and supplies related to the care and maintenance of animals. In addition, the ACCD was able to retrieve the annual expenditure amounts paid to each of the vendors. The city and county's SB 90 coordinator was able to verify the expenditure amounts through the county's accounting system and confirm that these amounts were not also included as part of the indirect cost pool within the ACCD's indirect cost rate proposals.

*Salary and Benefit Costs*

The agency did not claim any salary and benefit costs. We determined that the agency incurred \$952,445 in salaries and benefits for caring and maintaining animals during the audit period.

During audit fieldwork, the agency provided actual salary and benefit costs for the audit period for the following three positions that provide care and maintenance to the animals housed at the shelter:

- Animal Care Technicians
- Senior Animal Care Technicians
- Lead Animal Care Technicians

However, only a percentage of shelter staff time is devoted to care and maintenance of the animals because staff members also perform non-mandated activities such as recruiting, training, and scheduling. The agency determined that 89% of the Animal Care Technician's and Senior Animal Care Attendants' time, and 60% of the Lead Animal Care Technician's time, was devoted to care and maintenance of animals.

To determine the allowable care and maintenance salaries and benefits, we multiplied the actual salary and benefit amounts provided by the mandated percentage, as shown in the following table:

Position	Amount Claimed	Allowable per Audit		Amount Allowable	Audit Adjustments
		Salaries & Benefits	Mandated Percentage		
FY 2001-02:					
Animal Care Tech.	\$ —	\$ 149,645	89%	\$ 133,184	\$ 133,184
Lead Animal Care Tech.	—	72,135	60%	43,281	43,281
Total FY 2001-02	—	221,780		176,465	176,465
FY 2002-03:					
Animal Care Tech.	—	169,565	89%	150,913	150,913
Lead Animal Care Tech.	—	74,667	60%	44,800	44,800
Total FY 2002-03	—	244,232		195,713	195,713
FY 2006-07:					
Animal Care Tech.	—	106,755	89%	95,012	95,012
Lead Animal Care Tech.	—	43,764	60%	26,258	26,258
Total FY2006-07	—	150,519		121,270	121,270
FY 2007-08:					
Animal Care Tech.	—	182,899	89%	162,780	162,780
Lead Animal Care Tech.	—	51,621	60%	30,973	30,973
Total FY 2007-08	—	234,520		193,753	193,753
FY 2008-09:					
Animal Care Tech.	—	226,528	89%	201,610	201,610
Sr. Animal Care Tech.	—	31,509	89%	28,043	28,043
Lead Animal Care Tech.	—	59,319	60%	35,591	35,591
Total FY 2008-09	—	317,356		265,244	265,244
Total	\$ —	\$1,168,407		\$ 952,445	\$ 952,445

Costs incurred by the city for care and maintenance consisted of salaries and benefits, materials and supplies, and related indirect costs (related indirect costs are addressed separately in Finding 13).

To calculate the cost per animal per day care in its claims for the audit period, the city allocated some of the expenditures incurred by its Animal Control Department between dogs and cats and other animals. Using forms provided by the city’s mandated cost consultant, the city indicated the annual cost of care and maintenance of animals without providing any details on how the amounts were determined. The source of expenditures used was inconsistent because the amounts varied from 10.1% to 97.9% of total expenditures incurred within the Animal Control Department for any one fiscal year. To determine the cost per animal per day, the expenditures were divided by a number that was intended to represent the total animal census, although the numbers claimed were not always reasonable. For example, in some years, the animal census numbers used in the care and maintenance formula resulted in more claimed costs than the total amount of expenditures used in the calculation. The city multiplied the cost per animal per day times an unsupported number of eligible animals and then by either 2 or 6 reimbursable days to calculate claimable care and maintenance costs.

Schedule 2 (Summary of Care and Maintenance Costs) summarizes the adjustments that we made to claimed costs for animal care and maintenance. These adjustments consisted of changes to total annual costs incurred by the city for animal care and maintenance (salaries, benefits, and materials and supplies) and animal census data used to determine the cost per animal per day. The table also shows the changes to the number of eligible animals and the number of reimbursable days that we used to determine reimbursable costs for each year of the audit period.

**Salaries and Benefits**

The city performed a time study during the months of June, August, and December of 2008 and February of 2009 to determine the employee classifications involved in the care and maintenance of animals and the percentage of their time that was devoted to the reimbursable activities. The city also provided the actual salary and benefit amounts paid to the employee classifications directly involved with the care and maintenance function. Based on the results of the city’s time study, we determined the shelter staff and their level of involvement in care and maintenance activities.

The following table details the number of and percentage of involvement for animal care and maintenance per employee classification:

<u>Employee Classification</u>	<u>Percentage Involvement</u>
Animal Control Supervisor	2%
Animal Control Officer (2)	12%
Kennel Attendant	46%

**FEDERAL  
OMB A-87  
GUIDELINES**

August 29, 1997

**MEMORANDUM FOR THE RECORD**

**FROM:** Norwood J. Jackson

Deputy Controller

Office of Federal Financial Management

**SUBJECT:** Recompilation of OMB Circular A-87

I certify that the attached document constitutes a recompilation of Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." The recompilation consists of the last complete revision of the Circular published at 60 FR 26484 (dated May 4, 1995, published May 17, 1995), as further amended at 62 FR 45934 (August 29, 1997).

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**OMB CIRCULAR A-87 (REVISED 5/4/95, As Further Amended 8/29/97)**

CIRCULAR NO. A-87

Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost Principles for State, Local, and Indian Tribal Governments

1. **Purpose.** This Circular 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).
2. **Authority.** This Circular 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").
3. **Background.** An interagency task force was established in 1987 to review existing cost principles for Federal awards to State, local, and Indian tribal governments. The task force studied Inspector General reports and recommendations, solicited suggestions for changes to the Circular from governmental units, and compared for consistency the provisions of other OMB cost principles circulars covering non-profit organizations and universities. A proposed revised Circular reflecting the results of those efforts was issued on October 12, 1988, and August 19, 1993. Extensive comments on the proposed revisions, discussions with interest groups, and related developments were considered in developing this revision.
4. **Rescissions.** This Circular rescinds and supersedes Circular A-87, issued January



5. **Policy.** This Circular 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 Circular.

6. **Definitions.** Definitions of key terms used in this Circular are contained in Attachment A, Section B.

7. **Required Action.** Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue codified regulations to implement the provisions of this Circular and its Attachments by September 1, 1995.

8. **OMB Responsibilities.** The Office of Management and Budget (OMB) will review agency regulations and implementation of this Circular, 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.

9. **Information Contact.** Further information concerning this Circular 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.

10. **Policy Review Date.** OMB Circular A-87 will have a policy review three years from the date of issuance.

11. **Effective Date.** This Circular is effective as follows:

- For costs charged indirectly or otherwise covered by the cost allocation plans described in Attachments C, D and E, this revision shall be applied to cost allocation plans and indirect cost proposals submitted or prepared for a governmental unit's fiscal year that begins on or after September 1, 1995.

- For other costs, this revision shall be applied to all awards or amendments, including continuation or renewal awards, made on or after September 1, 1995.

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**COST PRINCIPLES FOR  
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ATTACHMENT A  
Circular No. A-87

**GENERAL PRINCIPLES FOR DETERMINING  
ALLOWABLE COSTS**

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### A. Purpose and Scope

1. Objectives. This Attachment 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 Circular 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 this Circular.

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 OMB Circular A-21, "Cost Principles for Educational Institutions," 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, this Circular 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), this Circular 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, 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 Attachment; if a subaward is to some other non-profit organization, Circular A-122, "Cost Principles for Non-Profit Organizations," 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 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 circulars 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 OMB Circulars A-87 (Attachment A, subsection C.3), "Cost Principles for State, Local, and Indian Tribal Governments," A-21 (Section C, subpart 4), "Cost Principles for Educational Institutions," and A-122 (Attachment A, subsection A.4), "Cost Principles for Non-Profit Organizations," and from all of the administrative requirements provisions of OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," 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 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 be 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 this Circular 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 are 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 Attachment E of this Circular.

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 Attachment D of this Circular.

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 this Circular.

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 this Circular, 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.
- b. The restraints or requirements imposed by such factors as: sound business practices; arms 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 this Circular 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. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.
- 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 Attachments C, D, and E.

### 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 Attachment B, item 15, "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: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) 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 Attachments C, D, and E.

3. Limitation on indirect or administrative costs.

a. In addition to restrictions contained in this Circular, 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 Attachment C.

**H. Required Certifications.** Each cost allocation plan or indirect cost rate proposal required by Attachments C and E 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 Attachments C and E. 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.

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ATTACHMENT B  
Circular No. A-87

## SELECTED ITEMS OF COST

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35. Publication and printing costs
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Sections 1 through 42 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 Attachment A to this Circular. 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. **Accounting.** The cost of establishing and maintaining accounting and other information systems is allowable.

2. **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 programs, direct mail, exhibits, 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. Advertising costs are allowable only when incurred for the recruitment of personnel, the procurement of goods and services, the disposal of surplus materials, and any other specific purposes necessary to meet the requirements of the Federal award. Advertising costs associated with the disposal of surplus materials are not allowable where all disposal costs are reimbursed based on a standard rate as specified in the grants management common rule.

d. Public relations costs are allowable when:

(1) Specifically required by the Federal award and then only as a direct cost;

(2) Incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the Federal award and then only as a direct cost; or

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

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

(1) All advertising and public relations costs other than as specified in subsections c. and d.;

(2) Except as otherwise permitted by these cost principles, costs of conventions, meetings, 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; and

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

3. **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.

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

5. **Audit services.** The costs of audits are allowable provided that the audits were performed in accordance with the Single Audit Act, as implemented by Circular A-128, "Audits of State and Local Governments." [Note: In June 1997, OMB rescinded Circular A-128 and co-located all audit requirements in a re-titled Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."] Generally, the percentage of costs charged to Federal awards for a single audit shall not exceed the percentage derived by dividing Federal funds expended by total funds expended by the recipient or subrecipient (including program matching funds) during the fiscal year. The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs.

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

6. **Automatic electronic data processing.** The cost of data processing services is allowable (but see section 19, Equipment and other capital expenditures).

7. **Bad debts.** Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable unless provided for in Federal program award regulations.

8. **Bonding costs.** Costs of bonding employees and officials are allowable to the extent that such bonding is in accordance with sound business practice.

9. **Budgeting.** Costs incurred for the development, preparation, presentation, and execution of budgets are allowable.

10. **Communications.** Costs of telephone, mail, messenger, and similar communication services are allowable.

11. **Compensation for personnel 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 Circular, 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 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: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards;



and, (c) 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 25, 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 e. 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 (a) law, (b) employer-employee agreement, or (c) 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 (5) unless a statistical sampling system (see subsection (6)) 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.
- (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 Aid to Families with Dependent Children (AFDC), 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 (c);

(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 (a) 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.

**12. Contingencies.** Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see subsection 25.c.), pension plan reserves (see subsection 11.e.), and post-retirement health and other benefit reserves (see subsection 11.f.) computed using acceptable actuarial cost methods.

**13. Contributions and donations.** Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable.

**14. 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.

**15. Depreciation and use allowances.**

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefitting 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 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 use allowance method is followed, 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. The use allowance for equipment will be computed at an annual rate not exceeding  $6 \frac{2}{3}$  percent of acquisition cost. 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  $6 \frac{2}{3}$  percent equipment use allowance limitation.

e. Where the depreciation method is followed, 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. 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.

f. 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.

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.

16. **Disbursing service.** The cost of disbursing funds by the Treasurer or other designated officer is allowable.

17. **Employee morale, health, and welfare costs.** The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, and any related expenses incurred in accordance with a governmental unit's policy are allowable. Income generated from any of these activities will be offset against expenses.

18. **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.

19. **Equipment and other capital expenditures.**

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

(1) "Capital expenditure" means the cost of the asset including the cost to put it in place. Capital expenditure for equipment 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, capital expenditure 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 the



lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5000.

(3) "Other capital assets" mean buildings, land, and improvements to buildings or land that materially increase their value or useful life.

b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment (see section 15). See also section 38 for allowability of rental costs for buildings and equipment.

c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency. Federal awarding agencies are authorized at their option to waive or delegate this approval requirement.

d. Items of equipment with an acquisition cost of less than \$5000 are considered to be supplies and are allowable as direct costs of Federal awards without specific awarding agency approval.

e. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by (1) continuing to claim the otherwise allowable use allowances or depreciation charges on the equipment or by (2) amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

f. 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.

**20. 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.

**21. 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 Circular 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 Attachment A.

**22. Gains and losses on disposition of depreciable property and other capital assets 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 15 and 19.

(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 25.d.

(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 a., 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.

**23. General government expenses.**

a. The general costs of government are unallowable (except as provided in section 41). 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 executives of federally-recognized Indian tribal governments;
- (2) Salaries and other expenses of State legislatures, tribal councils, or similar local governmental bodies, such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction;
- (3) Cost of the judiciary branch of a government;
- (4) Cost of prosecutorial activities unless treated as a direct cost to a specific program when authorized by program regulations (however, this does not preclude the allowability of other legal activities of the Attorney General); and
- (5) Other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost in program regulations.

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.

#### **24. Idle facilities and idle capacity.**

a. 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 (a) 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 (b) 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, 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.

## **25. 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 (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) 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 11.f. for post retirement health benefits), are allowable in the year of payment provided (1) the governmental unit follows a consistent costing policy and (2) 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 d.

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.

## **26. 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 on or after the effective date of this Circular 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 (1)-(4). Financing costs (including interest) paid or incurred on or after the effective date of this Circular associated with otherwise allowable costs of equipment is allowable, subject to the conditions in (1)-(4).

(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 arbitrage requirements are excludable.

(4) Governmental units will negotiate the amount of allowable interest whenever cash payments (interest, depreciation, use allowances, and contributions) exceed the governmental unit's cash payments and other contributions attributable to that portion of real property used for Federal awards.

**27. Lobbying.** 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" published at 55 FR 6736 (February 26, 1990), 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.

**28. 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: (1) keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, (2) do not add to the permanent value of property or appreciably prolong its intended life, and (3) 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 15 and 19).

**29. Materials and supplies.** The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing, consistently applied. Incoming transportation charges are a proper part of materials and supply costs.

**30. Memberships, subscriptions, and professional activities.**

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 meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable.

d. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.

e. Costs of membership in organizations substantially engaged in lobbying are unallowable.

**31. Motor pools.** The costs of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair services are allowable.

**32. 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.

**33. Professional service costs.**

a. Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether or not officers or employees of the governmental unit, are allowable, subject to section 14 when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

b. Retainer fees supported by evidence of bona fide services available or rendered are allowable.

**34. 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.

**35. Publication and printing costs.** Publication costs, including the costs of printing (including the processes of composition, plate-making, press work, and binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.

**36. Rearrangements and alterations.** 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.

**37. 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.

**38. Rental costs.**

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.



b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.

c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:

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(1) One party to the lease is able to control or substantially influence the actions of the other;

(2) Both parties are parts of the same governmental unit; or

(3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.

d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. This amount would include expenses such as depreciation or use allowance, maintenance, and insurance. The provisions of Financial Accounting Standards Board Statement 13 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 26.

### 39. **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 becomes effective for 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.

40. **Training.** The cost of training provided for employee development is allowable.

#### 41. **Travel costs.**

a. **General.** Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business. 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 results in charges consistent with those normally allowed in like circumstances in non-federally-sponsored activities. Notwithstanding the provisions of section 23, travel costs of officials covered by that section, when specifically related to Federal awards, are allowable with the prior approval of a grantor agency.

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 a result of the governmental unit's policy. In the absence of a written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57 of Title 5, United States Code "Travel and Subsistence Expenses; Mileage Allowances," or by the Administrator of General Services, or the President (or his designee) pursuant to any provisions of such subchapter shall be used as guidance for travel under Federal awards (41 U.S.C. 420, "Travel Expenses of Government Contractors").

c. **Commercial air travel.** Airfare costs in excess of the customary standard (coach or equivalent) airfare, are unallowable except when such accommodations would: require circuitous routing, require travel during unreasonable hours, excessively prolong travel, greatly increase the duration of the flight, result in increased cost that would offset transportation savings, or offer accommodations not reasonably adequate for the medical needs of the traveler. Where a governmental unit can reasonably demonstrate to the awarding agency either the nonavailability of customary standard airfare or Federal Government contract airfare for individual trips or, on an overall basis, that it is the governmental unit's practice to make routine use of such airfare, specific determinations of nonavailability will generally not be questioned by the Federal Government, unless a pattern of avoidance is detected. However, in order for airfare costs in excess of the customary standard commercial airfare to be allowable, e.g., use of first-class airfare, the governmental unit must justify and document on a case-by-case basis the applicable condition(s) set forth above.

d. **Air travel by other than commercial carrier.** Cost of travel by governmental unit-owned, -leased, or -chartered aircraft, as used in this section, includes the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, interest, insurance, and other related costs. Costs of travel via governmental unit-owned, -leased, or -chartered aircraft are unallowable to the extent they exceed the cost of allowable commercial air travel, as provided for in subsection c.

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42. **Underrecovery of costs under Federal agreements.** Any excess costs over the Federal contribution under one award agreement are unallowable under other award agreements.

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ATTACHMENT C  
Circular No. A-87

## **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.

#### **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) 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 (b) 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 Circular 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 Circular, 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 Circular, 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 (1) submitted and adjudicated but not paid, (2) submitted but not adjudicated, and (3) 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 OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," 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 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 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: (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) 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) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) 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.

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ATTACHMENT D  
Circular No. A-87

## **PUBLIC ASSISTANCE COST ALLOCATION PLANS**

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2. State public assistance agency costs

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**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 Attachment 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: Aid to Families with Dependent Children, 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 Attachment, 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 Attachment (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 this Circular. 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) a cash refund, (b) offset to a subsequent claim, or (c) credits to the amounts charged to individual awards.

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ATTACHMENT E  
Circular No. A-87

## STATE AND LOCAL INDIRECT COST RATE PROPOSALS

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#### **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 (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan (as described in Attachment C) 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.
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 Attachment does not apply to State public assistance agencies. These agencies should refer instead to Attachment D.

#### **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.

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.

### **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 (1) classifying the grantee agency'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 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 (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.

### 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: (1) 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 (2) 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 (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. 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: (1) the rate differs significantly from the rate which would have been developed under subsections 2. and 3., and (2) the award to which the rate would apply is material in amount.

b. Although this Circular 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 this Circular 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. 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 OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." 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 (a) are unallowable (i) as specified by law or regulation, (ii) as identified in Attachment B of this Circular, or (iii) by the terms and conditions of Federal awards, or (b) 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 occurs, the governmental unit should be guided by the requirements in Attachment C 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.

**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 November 21, 2017, I served the:

- **Claimant's Rebuttal Comments on the IRC filed November 20, 2017**

*Animal Adoption*, 17-9811-I-04

Civil Code Sections 1834 and 1846; Food and Agriculture Code sections 31108, 31752, 31752.5, 31753, 32001, and 32003;

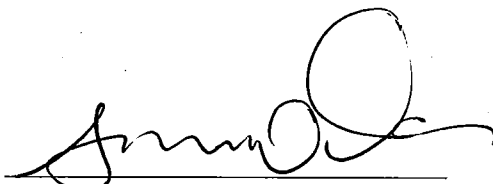
Statutes 1998, Chapter 752 and Statutes 2004, Chapter 313

Fiscal Years: 2007-2008 and 2008-2009

Town of Apple Valley, 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 November 21, 2017 at Sacramento, California.



Lorenzo Duran  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814  
(916) 323-3562

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 9/21/17

**Claim Number:** 17-9811-I-04

**Matter:** Animal Adoption

**Claimant:** Town of Apple Valley

### 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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