

## Filing a Claim

### 1. Introduction

Government Code (GC) sections 17500 through 17617 provide for the reimbursement of costs incurred by local agencies for costs mandated by the State. These are costs that local agencies are required to incur after July 1, 1980, as a result of any statute enacted after January 1, 1975, or any executive order implementing such statute which mandates a new program or higher level of service of an existing program.

Reimbursement claims are defined as any claim filed with the State Controller's Office (SCO) for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim. All claims received by SCO will be reviewed to verify all actual costs claimed. An adjustment of the claim will be made if the amount claimed is determined to be excessive, improper, or unreasonable.

If a claimant is using an indirect cost rate that exceeds 10%, documentation to support the indirect cost rate must be submitted with the claim. A detailed explanation of the indirect cost methods can be found in Section 8, Filing a Claim, page 11, Indirect Costs. Documentation to support actual costs must be kept on hand by the claimant and made available to SCO upon request as explained in Section 16, Filing a Claim, pages 20 and 21, Retention of Claim Records and Supporting Documentation.

SCO is authorized to make payments for costs of mandated programs from amounts appropriated by the State Budget Act, by the State Mandates Claims Fund, or by specific legislation. In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims for the program. Balances of prorated payments will be made when supplementary funds become available.

### 2. Types of Claims

Claimants may file a claim for reimbursement of actual costs incurred in prior fiscal years for a state-mandated program. The types of claims, as defined in GC section 17522, are as follows:

a) Initial Reimbursement Claim

A claim filed with SCO for costs to be reimbursed for the fiscal years specified in the first claiming instructions issued by SCO pursuant to GC section 17558(b).

b) Annual Reimbursement Claim

A claim filed with SCO for actual costs incurred in a prior fiscal year for which appropriations are made to SCO for this purpose.

c) Entitlement Reimbursement Claim

A claim filed with the SCO for the purpose of establishing or adjusting a base-year entitlement. All entitlement claims are subject to GC section 17616.

### 3. Minimum Claim Amount

For initial claims and annual claims filed, if the total costs for a given year do not exceed \$1,000, no reimbursement will be allowed except as otherwise authorized by GC section 17564. Combined claims may be filed only when the county is the fiscal agent for the claimant. The county will determine if the submission of a combined claim is economically feasible and will be responsible for disbursing the funds to each claimant. A combined claim must show the individual claim costs for each eligible claimant. All subsequent claims based upon the same mandate must be filed in the combined form only unless a special district provides to the county and to SCO, at least 180 days prior to the deadline for filing the claim, a written notice of its intent to file a separate claim.

### 4. Filing Deadline for Claims

#### a) Initial Reimbursement Claims

Each claimant, to which the mandate is applicable, shall submit claims for the costs of the initial fiscal years to SCO within 120 days of the issuance date of the claiming instructions, pursuant to GC section 17561(d)(1)(A). Any claim for initial reimbursement filed after the filing deadline will be reduced by 10% of the amount that would have been allowed had the claim been timely filed, with no limitation. SCO may withhold payment of any late claim for initial reimbursement until the next payment deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. Amended initial claims filed after the deadline will be reduced by 10% of the increased amount of the initial costs, with no limitation. For the purpose of computing a late penalty, claims for all initial fiscal years required to be filed on their initial filing date for a program shall be considered one claim. In no case may a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the SCO's claiming instructions.

#### b) Annual Reimbursement Claims

Each claimant must submit a claim to SCO by February 15 following the fiscal year in which costs were incurred, pursuant to GC section 17560. If the deadline falls on a weekend or holiday, claims are due the following business day. Claims filed after the deadline will be reduced by a late penalty of 10%, not to exceed \$10,000. Amended claims filed after the deadline will be reduced by 10% of the increased amount, not to exceed \$10,000. In no case may a reimbursement claim be paid if submitted more than one year after the filing deadline, pursuant to GC section 17561(d)(3).

#### c) Entitlement Reimbursement Claims

When a mandated program has been included in the State Mandates Apportionment System (SMAS), SCO will determine a base-year entitlement amount for each claimant that has submitted reimbursement claims (or entitlement claims) for three consecutive fiscal years. An entitlement claim should not contain nonrecurring or initial start-up costs. There is no statutory deadline for the filing of entitlement claims, pursuant to GC section 17615.5(b). However, these claims should be filed by February 15 following the third fiscal year used to develop the entitlement claim, to permit an orderly processing of claims.

## 5. Payment of Claims

In order for SCO to authorize the payment of a claim, the Certification of Claim, Form FAM-27, must be properly filled out, signed in blue ink or electronic signature, and dated by the agency's authorized officer. Pursuant to GC section 17561(d), reimbursement claims are paid by October 15 or 60 days after the date the appropriation for the claim is effective, whichever is later. In the event the amount appropriated by the Legislature is not sufficient to pay the approved amount in full for a program, claimants will receive a prorated payment in proportion to the amount of approved claims timely filed and on hand at the time of proration.

### a) Initial Reimbursement Claims

When paying a timely filed claim for initial reimbursement, SCO shall withhold 20% of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs, pursuant to GC section 17561(d).

The payment of an initial reimbursement claim by SCO shall include accrued interest at the Pooled Money Investment Account (PMIA) rate, if the payment is made more than 365 days after adoption of the statewide cost estimate for an initial claim. Interest shall begin to accrue as of the 366th day after the adoption of the statewide cost estimate for the initial claim, pursuant to GC section 17561.5.

### b) Annual Reimbursement Claims

A claimant is entitled to receive accrued interest at the PMIA rate for any unpaid subsequent claim amount remaining on August 15 following the payment deadline. Interest shall begin to accrue on August 16 following the filing deadline.

### c) Entitlement Reimbursement Claims

Initial apportionments are made on an individual program basis. After the initial year, all apportionments are made by November 30, pursuant to GC section 17615.3. The amount to be apportioned is the base-year entitlement adjusted by annual changes in the Implicit Price Deflator (IPD) for cost of goods and services to governmental agencies as determined by the Department of Finance (DOF).

When SCO has made a payment on claims prior to the Commission on State Mandates' (CSM) approval of the program for inclusion in the SMAS, the payment shall be adjusted in the next apportionment to the amount which would have been subvended to the claimant for that fiscal year had the SMAS been in effect at the time of the initial payment, pursuant to GC section 17615.2.

SCO reports the amounts of insufficient appropriations to the Director of DOF, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective fiscal committee in each House of the Legislature. Any balances remaining on these claims will be paid if supplementary funds become available.

**5. Payment of Claims (continued)**

Unless specified in the statutes, regulations, or Parameters and Guidelines (Ps & Gs), the determination of allowable and unallowable costs for mandates is based on the Ps & Gs adopted by the CSM. Allowable costs are those direct and indirect costs, less applicable credits, considered eligible for reimbursement. In order for costs to be allowable and thus eligible for reimbursement, the costs must meet the following general criteria:

- The cost is necessary and reasonable for proper and efficient administration of the mandate and not a general expense required in carrying out the overall responsibilities of government;
- The cost is allocable to a particular cost objective identified in the Ps & Gs; and
- The cost is net of any applicable credits that offset or reduce expenses of items allocable to the mandate.

SCO has identified certain costs that should not be claimed as direct program costs unless specified as reimbursable under the program's Ps & Gs. These costs include, but are not limited to, subscriptions, depreciation, memberships, conferences, workshops, general education, and travel costs.

**6. State Mandates Apportionment System (SMAS), GC sections 17615 – 17617**

Chapter 1534, Statutes of 1985, established the SMAS. It is the intent of the Legislature to streamline the reimbursement process for costs mandated by the State by creating a system of state mandate apportionments to fund the costs of certain programs mandated by the State. This method is utilized whenever a program has been approved for inclusion in the SMAS by CSM.

Once CSM approves a mandate for inclusion in the SMAS, SCO will determine a base-year entitlement amount for each claimant that has submitted reimbursement claims (or entitlement claims) for three consecutive fiscal years. A base-year entitlement amount is determined by averaging the approved reimbursement claims (or entitlement claims) for any three consecutive fiscal years. The amounts are first adjusted by any change in the IPD, which is applied separately to each year's costs for the three years that comprise the base period. The base period is the three fiscal years succeeding CSM's approval.

When the claims are approved and a base-year entitlement amount is determined, the claimant will receive an apportionment reflective of the program's current-year costs. The apportionment amount is adjusted annually for any change in the IPD. If the mandated program was included in the SMAS after January 1, 1988, the annual apportionment is adjusted for any change in both the IPD and the workload.

SCO will perform this computation for each claimant that has filed claims for three consecutive years. If a claimant has incurred costs for three consecutive years but has not filed a claim in each of those years, the claimant may file an entitlement claim, Form FAM-43, to establish a base-year entitlement. The Form FAM-43 is included in the claiming instructions for SMAS programs.

## 6. State Mandates Apportionment System (SMAS), GC sections 17615 – 17617 (continued)

If a SMAS program is discontinued or made permissive, SCO shall determine the amount of the entitlement attributable to that mandate according to GC section 17615.6. If the program is modified or amended by the Legislature or an executive order and the modification or amendment significantly affects the program, as determined by CSM, the program shall be removed from the SMAS and the payments reduced accordingly, pursuant to GC section 17615.7.

In the event CSM determines that the apportionment amount or base-year entitlement does not accurately reflect costs incurred by the claimant of all mandates upon which that apportionment is based, CSM shall direct SCO to adjust the apportionment as set forth in GC section 17615.8(c).

## 7. Direct Costs

A direct cost is a cost that can be identified specifically with a particular program or activity. Documentation to support direct costs must be kept on hand, unless otherwise specified in the claiming instructions, and made available to SCO upon request.

It is the responsibility of the claimant to maintain documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate.

Costs typically classified as direct costs are:

### a) Employee Wages, Salaries, and Fringe Benefits

A productive hourly rate (PHR) may be computed by the claimant for each employee or classification whose labor is directly related to the claimed reimbursable cost. For each of the reimbursable mandated activities performed, list the names of the employees, job classifications, hours worked on the mandate, and rate of pay.

A claimant has the option of using one of the following methods: (1) Actual Annual PHR (per employee); or (2) Weighted-Average Annual PHR (per classification). The claimant must maintain documentation of how the hours were computed for either option.

#### (1) Actual Annual Productive Hourly Rate

The annual productive hours (APH) to be used is 1,800 for the computation of the PHR. APH must exclude employee time for paid holidays, vacation earned, used sick leave, informal time off, jury duty, and used military leave.

7. Direct Costs (continued)

There are two methods to compute actual annual PHR:

- (a) Employee’s Annual Salary (EAS) plus Actual Fringe Benefits Costs (Benefits) Method

To illustrate the computation of PHR, assuming that the employee’s compensation was \$26,000 and \$8,099 for annual salary and fringe benefits, respectively; using the formula shown in Table 1 below, this method would yield a PHR of \$18.94.

**Table 1: Employee’s Annual Salary plus Actual Fringe Benefits Costs Method**

<p><b>Formula:</b> [(EAS plus Benefits) divided by APH] equals PHR                  [(\$26,000 plus \$8,099)] divided by 1,800 hours equals \$18.94/hour</p>
--

- To convert a biweekly salary to an annual salary, multiply the biweekly salary by 26.
- To convert a monthly salary to an annual salary, multiply the monthly salary by 12.
- Use the same methodology to convert other salary periods.

- (b) Percent of Salary Method

To compute PHR using this method, the claimant should first determine the benefit rates (BR).

**Table 2: Percent of Salary Method**

<b>Example:</b>	
<b>Step 1: Benefits as a Percent of Salary</b>	
Retirement	15.00 %
Social Security & Medicare	7.65
Health & Dental Insurance	5.25
Workers’ Compensation	3.25
<b>Total</b>	<u><b>31.15</b></u> %
<b>Step 2: Productive Hourly Rate</b>	
<b>Formula:</b> [(EAS times (100% plus BR)) divided by APH] equals PHR	
[(\$26,000 times (131.15%)) divided by 1,800 hours] equals \$18.94/hour	

## 7. Direct Costs (continued)

As illustrated in Table 1 and Table 2, both methods produce the same PHR.

Reimbursement for personnel services includes, but is not limited to, compensation paid for salaries, wages and employee fringe benefits. Employee fringe benefits include employer's contributions for social security, pension plans, insurance, worker's compensation insurance, and similar payments. These benefits are eligible for reimbursement as long as they are distributed equitably to all activities. Whether these costs are allowable is based on the following presumptions:

- The amount of compensation is reasonable for the service rendered;
- The compensation paid and benefits received are appropriately authorized by the governing board;
- Amounts charged for personnel services are based on payroll documents that are supported by time and attendance or equivalent records for individual employees; and
- The methods used to distribute personnel services produce an equitable distribution of direct and indirect allowable costs.

For each of the employees included in the claim, the claimant must use reasonable rates and hours in computing the wage cost. If a person of a higher-level job position performs an activity which normally would be performed by a lower-level position, reimbursement for time spent is allowable at the average salary range for the lower-level position. The salary rate of the person at the higher-level position may be claimed if it can be shown that it was more cost effective in comparison to the performance by a person at the lower-level position under normal circumstances and conditions. The number of hours charged to an activity should reflect the time expected to complete the activity under normal circumstances and conditions. The number of hours in excess of normal expected hours is not reimbursable.

### (2) Weighted-Average Annual Productive Hourly Rate

Those instances for which the claiming instructions allow a unit as a basis of claiming costs, the direct labor component of the unit cost should be expressed as an average PHR and can be determined as follows:

7. Direct Costs (continued)

**Table 3: Calculating an Average Productive Hourly Rate**

	<u>Time Spent</u>	<u>Productive Hourly Rate</u>	<u>Total Cost by Employee</u>
Employee A	1.25 hours	\$6.00	\$7.50
Employee B	0.75 hours	\$4.50	\$3.38
Employee C	3.50 hours	\$10.00	\$35.00
Total	5.50 hours		\$45.88
Average Productive Hourly Rate is \$45.88 divided by 5.50 hours equals \$8.34/hour			

b) Employer's Benefits Contribution (Optional)

A claimant has the option of claiming actual employer's fringe benefit contributions or computing an average fringe benefit cost for the employee's job classification and claiming it as a percentage of direct labor. The same time base should be used for both salary and fringe benefits when computing a percentage. For example, if health and dental insurance payments are made annually, use an annual salary. After the percentage of salary for each fringe benefit is computed, total them.

For example:

<u>Employer's Contribution</u>	<u>% of Salary</u>
Retirement	15.00
Social Security & Medicare	7.65
Health & Dental Insurance	5.25
Workers' Compensation	0.75
Total	<u>28.65%</u>

c) Materials and Supplies

Only actual expenses may be claimed for materials and supplies that were acquired and consumed specifically for the purpose of a mandated program. The claimant must list the materials and supplies that were used to perform the mandated activity, the number of units consumed, the cost per unit, and the total dollar amount claimed. Materials and supplies purchased to perform a particular mandated activity should be reasonable in quality, quantity, and cost. Purchases in excess of reasonable quality, quantity, and cost are not reimbursable. Materials and supplies withdrawn from inventory and charged to the mandated activity must be based on a recognized method of pricing, consistently applied. Purchases must be claimed at the actual price after deducting discounts, rebates, and allowances received by the claimant.



## 7. Direct Costs (continued)

(1) Calculating a Unit Cost for Materials and Supplies

In those instances for which the Ps & Gs suggest that a unit cost be developed for use as a basis of claiming costs mandated by the State, the materials and supplies component of the unit cost should be expressed as a unit cost of materials and supplies as shown in Table 4 or Table 5:

**Table 4: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<u>Cost Per Unit</u>	<u>Amount of Supplies Used Per Activity</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper	0.02	4	\$0.08
Files	0.10	1	0.10
Envelopes	0.03	2	0.06
Photocopies	0.10	4	0.40
			\$0.64

**Table 5: Calculating a Unit Cost for Materials and Supplies**

<b>Supplies</b>	<u>Amount of Supplies Used Per Activity</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper (\$10.00 for 500 sheet ream)	250 Sheets	\$5.00
Files (\$2.50 for box of 25)	10 Folders	1.00
Envelopes (\$3.00 for box of 100)	50 Envelopes	1.50
Photocopies (\$0.05 per copy)	40 Copies	2.00
		\$9.50

## d) Contract Services

The cost of contract services is allowable if the claimant lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, the reason for hiring a contractor, the mandated activities performed, the dates the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the Ps & Gs for the mandated program.

## 7. Direct Costs (continued)

The contractor's invoice or statement must include an itemized list of costs for activities performed. A copy of the contract must be included with the submitted claim.

### e) Equipment Rental Costs

Equipment purchases and leases (with an option to purchase) are not reimbursable as a direct cost unless specifically allowed by the Ps & Gs for the particular mandate. Equipment rentals used solely for the mandate are reimbursable to the extent that such costs do not exceed the retail purchase price of the equipment plus a finance charge. The claimant must maintain documentation to support the purpose and use of the equipment, the time period for which the equipment was rented, and the total cost of the rental. If the equipment is used for purposes other than reimbursable activities for a specific mandate, only the pro rata portion of the rental costs may be claimed.

### f) Fixed Assets

Capital outlay for land, buildings, equipment, furniture, and fixtures may be claimed if the Ps & Gs specify them as allowable. If they are allowable, the Ps & Gs for the program will specify a basis for the reimbursement. If the fixed asset or equipment is also used for purposes other than reimbursable activities for a specific mandate, only the pro rata portion of the purchase price used to implement the reimbursable activities may be claimed.

### g) Travel Expenses

Travel expenses are normally reimbursable in accordance with the travel rules and regulations of the local jurisdiction. For some programs, however, the Ps & Gs may specify certain limitations on expenses, or expenses may be reimbursed only in accordance with the Department of Human Resources travel standards. When claiming travel expenses, the claimant must maintain documentation to support the purpose of the trip, the names and addresses of the persons incurring the expense, the date and time of departure and return, a description of each expense claimed, the cost of transportation, the number of private auto miles traveled, and the cost of tolls and parking. Receipts are required for charges over \$10.00.

### h) Documentation

It is the responsibility of the claimant to make available to SCO, upon request, documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate.

**8. Indirect Costs**

Indirect costs are (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs can originate in the department performing the mandate or in departments that supply the department performing the mandate with goods, services, and facilities. To be allowable, a cost must be allocable to a particular cost objective. Indirect costs must be distributed to benefiting cost objectives on bases, which produce an equitable result, related to the benefits derived by the mandate.

Items of cost that are unallowable are stated in the cost principles set forth in the Office of Management and Budget Circular (OMB) Circular 2 CFR, Chapter I and Chapter II, Part 200 et al., formerly the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. A cost that is necessary for proper and efficient administration of a program and is identifiable to that program is eligible for consideration as an allocable indirect cost. Allocable costs for time spent on programs must be supported by time record.

Claimants have the option of using 10% of direct labor as indirect costs or claiming indirect costs through a department’s Indirect Cost Rate Proposal (ICRP) for the program, prepared in accordance with the provisions of the OMB Circular 2 CFR, Chapter I and Chapter II, Part 200 et al. An ICRP must be prepared if the claim for indirect costs is in excess of 10% of direct salaries and the ICRP must be submitted with the claim.

a) Fixed 10% Rate Method

Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits. The use of the 10% rate may benefit small agencies for which it is inefficient to prepare an ICRP.

Direct Costs Incurred By:	On Behalf of:	
<u>Auditor</u>	<u>Welfare Administration</u>	<u>Health Department</u>
Warrant Writing:		
A. Salary of employee working	\$5,000	\$1,000
B. Benefits of above	\$800	\$200
C. Cost of paper	\$350	\$100
D. First-line supervision (salaries)	\$3,000	\$500
E. Indirect cost 10% of A plus D	\$800	\$150
Total amount charged to benefited departments for warrant writing services	\$9,950	\$1,950

8. Indirect Costs (continued)

Direct Costs Incurred By:	On Behalf of:	
<u>Building &amp; Grounds Department</u>	<u>Welfare Administration</u>	<u>Health Department</u>
Maintenance of Buildings:		
A. Salary of employees performing maintenance	\$1,000	\$500
B. Benefits of above	\$200	\$100
C. Cleaning supplies	\$250	\$150
D. First-line supervision (salaries)	\$500	\$200
E. Indirect cost 10% of A plus D	\$150	\$70
<b>Total amount charged to benefited departments for building maintenance services</b>	<b>\$2,100</b>	<b>\$1,020</b>

Any claimant using this method for claiming costs must submit a statement similar to the example above and with supporting data. The cost data required for desk audit purposes are described in the claiming instructions for that mandated program under Salaries and Employee Benefits, Materials and Supplies, Contract Services, Travel Expenses, etc.

b) Indirect Cost Rate Proposal Method

If a claimant elects not to utilize the 10% fixed rate method, but wants to claim indirect costs, the claimant will need to submit an approved ICRP for the program. The proposal must follow the provisions of the OMB Circular 2 CFR, Chapter I and Chapter II, Part 200 et al., formerly OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. The development of the indirect cost rate proposal requires that the indirect cost pool include only those costs which are incurred for a common or joint purpose that benefit more than one cost objective. The indirect cost pool may include only costs that can be shown to provide benefits to the program. In addition, total allocable indirect costs may include only costs that cannot be directly charged to an identifiable cost center (i.e., program).

A method for preparing a departmental indirect cost rate proposal for programs is presented as Table 6. Only this format is acceptable under the SCO reimbursement requirements. If more than one department is involved in the reimbursement program, each department must have its own indirect cost rate proposal for the program.

8. Indirect Costs (continued)

Table 6:

**INDIRECT COST RATE PROPOSAL  
PUBLIC DEFENDER'S OFFICE INVESTIGATION PROGRAM  
FISCAL YEAR 20 \_-20\_**

(a) Description of Costs	Total Costs	(b) Excludable Unallowable Costs	(c) Allowable Indirect Costs	(d) Allowable Direct Costs	Identifiable Program Costs	
					Investigation PC 987.9	All Others
<b>Salaries &amp; Benefits</b>						
Salaries & Wages	\$ 1,150,000	\$ 50,000	(f) \$ 150,000	\$ 950,000	(f) \$ 100,000	\$ 850,000
Overtime	20,000	0	20,000	0	0	0
Benefits	230,000	10,000	30,000	190,000	20,000	170,000
<b>Total</b>	<b>\$ 1,400,000</b>	<b>\$ 60,000</b>	<b>\$ 200,000</b>	<b>\$ 1,140,000</b>	<b>\$ 120,000</b>	<b>\$ 1,020,000</b>
<b>Services &amp; Supplies</b>						
Office Expense	\$ 200,000	\$ 10,000	\$ 20,000	\$ 170,000	\$ 10,000	\$ 160,000
Communications	100,000	2,000	10,000	88,000	1,000	87,000
Transportation	120,000	5,000	0	115,000	5,000	110,000
Special Dept. Expense (Contracts)	250,000	0	0	250,000	0	250,000
Other, Pass Through Program	800,000	800,000	0	0	0	0
<b>Total</b>	<b>\$ 1,470,000</b>	<b>\$ 817,000</b>	<b>\$ 30,000</b>	<b>\$ 623,000</b>	<b>\$ 16,000</b>	<b>\$ 607,000</b>
Capital Expenditures	\$ 100,000	\$ 100,000				
<b>Total Budgetary Expenditures</b>	<b>\$ 2,970,000</b>	<b>\$ 977,000</b>	<b>\$ 230,000</b>	<b>\$ 1,763,000</b>	<b>\$ 136,000</b>	<b>\$ 1,627,000</b>
	<u>Distribution Base</u>					
<b>Cost Plan Costs</b>						
Building Use	(Each line item should be reviewed to see if it benefits the mandate to insure a fair and equitable distribution.)	\$ 50,000	\$ 2,000	\$ 6,000	\$ 42,000	\$ 2,000
Equipment Use		30,000	1,000	3,000	26,000	1,000
Data Processing		50,000	5,000	30,000	15,000	0
Auditor		20,000	0	20,000	0	0
Personnel		10,000	1,000	1,000	8,000	1,000
Roll Forward		10,000	0	10,000	0	0
<b>Total</b>		<b>\$ 170,000</b>	<b>(e) \$ 9,000</b>	<b>\$ 70,000</b>	<b>\$ 91,000</b>	<b>\$ 4,000</b>
<b>Total Allowable Indirect Costs</b>			<b>\$ 300,000 (f)</b>			
<b>Distribution of Allocable Indirect Costs</b>						
<b>Based on Salaries &amp; Wages (g)</b>		\$ 15,000	\$ (300,000)	\$ 285,000	\$ 30,000	\$ 255,000
<b>Totals</b>		<b>\$ 3,140,000</b>	<b>\$ 1,001,000</b>	<b>\$ 0</b>	<b>\$ 2,139,000</b>	<b>\$ 170,000</b>

\*Notes to Table 6 (page 14)

**8. Indirect Costs (continued)**

## (1) Notes to Table 6\*

Any claimant using this method for claiming costs, must submit a schedule as shown in Table 6, using the same column headings: Description of Costs, Total Costs, Excludable Unallowable Costs (may be combined or separated), Allowable Indirect Costs, and Allowable Direct Costs (which are further allocated to identifiable programs and other). Any supporting data such as invoices, receipts, contacts, documents, etc., must also be submitted.

- (a) Description of costs incurred. Examples include: Salaries and Benefits, Services and Supplies, Cost Plan Costs, etc.
- (b) Excluded costs are all costs that are unallowable and not allocable according to specific guidelines (the OMB Circular 2 CFR, Chapter I and Chapter II, Part 200 et al. and state laws). Examples of excluded costs: Contributions and donations, cost of amusement; social activities and related incidental costs such as meals, beverages, lodging, rentals, transportation and gratuities; and pass-through revenues to another unit or organization.
- (c) Allocable indirect costs are costs that are not identifiable to a specific program or cost pool and indirectly benefit all cost pools.
- (d) Direct costs are costs that benefit a specific program or cost pool.
- (e) Overhead costs are distributed to the department in the cost allocation plan, which was prepared in accordance with the OMB Circular 2 CFR, Chapter I and Chapter II, Part 200 et al. To develop the ICRP, claimants should use the cost allocation plan from the year for which the ICRP is being prepared. Do not include a roll-forward adjustment when the program is in its initial year.
- (f) Distribution base for the computation of the indirect cost rate is total direct salaries and wages (S&W).

Total Allowable Direct Costs (direct S&W)	\$950,000
Excludable Unallowable Costs (direct S&W)	\$50,000
Distribution Base	\$1,000,000

Therefore, the Indirect Cost Rate for the program is:

$$\frac{\text{Allowable Indirect Costs}}{\text{Total Salaries and Wages}} \text{ equals } \frac{\$300,000}{\$1,000,000} \text{ equals } 30.00\%$$

- (g) Indirect costs are then distributed at 30% multiplied by the salaries and wages.

## 9. Time Study Guidelines

Two methods are acceptable for documenting employee time charged to mandated cost programs: a) Actual Time Reporting, and b) Time Study. These methods are described below. Application of time study results is restricted. As explained in the Time Study Results section below, the results may be projected forward a maximum of two years or applied retroactively to initial claims, current-year claims, and late-filed claims, provided certain criteria are met.

### a) Actual Time Reporting

Each program's Ps & Gs define reimbursable activities for each mandated cost program. When employees work on multiple activities, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that must:

- (1) Reflect an after-the-fact (contemporaneous) distribution of the actual activity of each employee:
- (2) Account for the total activity for which each employee is compensated.
- (3) Be prepared at least monthly and must coincide with one or more pay periods.
- (4) Be signed by the employee.

Budget estimates or other distribution percentages determined before services are performed do not qualify as support for time distribution.

### b) Time Study

In certain cases, a time study may be used to substitute for continuous records of actual time spent on multiple activities and/or programs. An effective time study requires that an activity be a task that is repetitive in nature. Activities that require a varying level of effort are not appropriate for time studies.

#### (1) Time Study Plan

The claimant must develop a plan before the time study is conducted. The claimant must retain the time study plan for audit purposes. The plan must identify the following:

- (a) Time period(s) to be studied – The plan must show that all time periods selected are representative of the fiscal year, and the results can be reasonably projected to approximate actual costs;
- (b) Activities and/or programs to be studied – For each mandated program included, the time study must separately identify each reimbursable activity defined in the mandated program's Ps & Gs, which are derived from the program's Statement of Decision. If a reimbursable activity in the Ps & Gs identifies separate and distinct sub-activities, these sub-activities must also be treated as individual activities;

## 9. Time Study Guidelines (continued)

For example, sub-activities (a), (b), and (c) under Reimbursable Activity (B)(1) of the claimant's Domestic Violence Treatment Services: Authorization and Case Management program relate to information to be discussed during victim notification by the probation department and therefore are not separate and distinct activities. It is not necessary to separately study these sub-activities;

- (c) Process used to accomplish each reimbursable activity – Use flowcharts or similar analytical tools and/or written desk procedures to describe the process for each activity;
- (d) Employee universe – The employee universe used in the time study must include all positions for which salaries and wages are to be allocated by means of the time study;
- (e) Employee sample selection methodology – The plan must show that employees selected are representative of the employee universe, and the results can be reasonably projected to approximate actual costs. In addition, the employee sample size should be proportional to the variation in time spent to perform a task. The sample size should be larger for tasks with significant time variations; and
- (f) Time increments to be recorded – The time increments used should be sufficient to recognize the number of different activities performed and the dynamics of these responsibilities. Very large increments (such as one hour or more) might be used for employees performing only a few functions that change very slowly over time. Very small increments (a number of minutes) may be needed for employees performing more short-term tasks.

Random-moment sampling is not an acceptable alternative to continuous time records for mandated cost claims. Random moment sampling techniques are most applicable to situations in which employees perform many different types of activities on a variety of programs with small time increments throughout the fiscal year.

### (2) Time Study Documentation

Time studies must:

- (a) Be supported by time records that are completed contemporaneously;
- (b) Report activities on a daily basis;
- (c) Be sufficiently detailed to reflect all mandated activities and/or programs performed during a specific time period; and
- (d) Coincide with one or more pay periods.



## 9. Time Study Guidelines (continued)

Time records must be signed under penalty of perjury by the employee (electronic signatures are acceptable) and be supported by corroborating evidence, which validates that the work was actually performed. As with actual time reporting, budget estimates or other distribution percentages determined before services are performed do not qualify as valid time studies

### (3) Time Study Results

Claimants must summarize time study results to show how the time study supports the costs claimed for each activity. Any variations from the procedures identified in the original time study plan must be documented and explained. Current-year costs must be used to prepare a time study. Claimants may project time study results to no more than two subsequent fiscal years. A claimant may not apply time study results retroactively.

- (a) Annual Reimbursement Claims – Claimants may use time studies to support costs incurred on or after January 1, 2005. Claimants may not use time studies for the period of July 1, 2004, through December 31, 2004, unless (a) the program's Ps & Gs specifically allows time studies; and (b) the time study is prepared based on mandated activity occurring between July 1, 2004, and December 31, 2004.
- (b) Initial Reimbursement Claims – When filing an initial claim for new mandated programs, claimants may use time study results for costs incurred on or after January 1, 2005 only. Claimants may not use time studies to support costs incurred before January 1, 2005, unless (a) the program's Ps & Gs specifically allow time studies; and (b) the claimant prepares separate time studies for each fiscal year preceding January 1, 2005, based on mandated activity occurring during those years.

When projecting time study results, the claimant must certify that there have been no significant changes between years in either (a) the requirements of each mandated program activity; or (b) the processes and procedures used to accomplish the activity. For all years, the claimant must maintain documentation that shows the mandated activity was actually performed. Time study results used to support claims are subject to the recordkeeping requirements for those claims.

## 10. Reduction to State-Mandated Costs

As noted previously, allowable costs are defined as those direct and indirect costs, less applicable credits, considered eligible for reimbursement. When all or part of the costs of a mandated program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation, etc.), only that portion of any increased costs payable from local agency funds is eligible for reimbursement under the provisions of GC section 17561.

10. Reduction to State-Mandated Costs (continued)

a) Example 1:

As illustrated in Table 7, this example shows how the *Ineligible Costs Reduction* is determined for a claimant receiving block grant revenues not based on 100% program cost funding.

**Table 7: Reduction to State-Mandated Costs  
100% Program Cost Funding  
Claimant's Cost Share of Total Program Costs is Zero**

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Program Costs				State-Mandated Costs		
Total Program Costs <sup>1</sup>	Claimant's Cost Share	Actual Program Assistance Funding Received	Net Program Costs <sup>2</sup>	Claimed State-Mandated Costs <sup>1</sup>	Ineligible Costs Reduction	Claimable State-Mandated Costs
[(a) minus (b)] minus (c)				(e) minus (f)		
1 \$100,000	\$0	\$95,000	\$5,000	\$2,500	\$0	\$2,500
2 \$100,000	\$0	\$97,000	\$3,000	\$2,500	\$0	\$2,500
3 \$100,000	\$0	\$98,000	\$2,000	\$2,500	\$500	\$2,000
4 \$100,000	\$0	\$99,200	\$800	\$2,500	\$1,700	\$800 <sup>3</sup>

**Table Footnotes:**  
<sup>1</sup> For Illustrative Purposes *Total Program Costs* are \$100,000 and the *Claimed State-Mandated Costs* are \$2,500.  
<sup>2</sup> Total Program Costs Net of *Claimants Cost Share* and/or *Non-Local Agency Revenues Received*.  
<sup>3</sup> Claim is less than \$1,001 and is ineligible for reimbursement.

b) Example 2:

As illustrated in Table 8, this example shows how the *Ineligible Costs Reduction* is determined for a claimant's receiving special project funds based on partially approved funding.

**Table 8: Reduction to State-Mandated Costs  
Partial Program Cost Funding  
Claimant's Cost Share of Total Program Costs is the First \$25,000**

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Program Costs				State-Mandated Costs		
Total Program Costs <sup>1</sup>	Claimant's Cost Share	Actual Program Assistance Funding Received	Net Program Costs <sup>2</sup>	Claimed State-Mandated Costs <sup>1</sup>	Ineligible Costs Reduction	Claimable State-Mandated Costs
[(a) minus (b)] minus (c)				(e) minus (f)		
1 \$100,000	\$25,000	\$73,500	\$1,500	\$2,500	\$1,000	\$1,500
2 \$100,000	\$25,000	\$60,000	\$15,000	\$2,500	\$0	\$2,500
3 \$100,000	\$25,000	\$74,500	\$500	\$2,500	\$2,000	\$500 <sup>3</sup>

**Table Footnotes:**  
<sup>1</sup> For Illustrative Purposes *Total Program Costs* are \$100,000 and the *Claimed State-Mandated Costs* are \$2,500.  
<sup>2</sup> Total Program Costs Net of *Claimants Cost Share* and/or *Local Assistance Revenues Received*.  
<sup>3</sup> Claim is less than \$1,001 and is ineligible for reimbursement.

## 11. Notice of Claim Adjustment

Claims are reviewed to determine if the claim was prepared in accordance with the claiming instructions. Claimants will receive a Notice of Claim Adjustment detailing any adjustment made by SCO.

## 12. Audit of Costs

Pursuant to GC section 17558.5(b), SCO may conduct a field review of any claim after it has been submitted to determine if costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with the SCO's claiming instructions and the Ps & Gs adopted by CSM. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the claim activity adjusted, the amount adjusted, and the reason for the adjustment will be mailed within 30 days after payment of the claim.

## 13. Source Documents

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

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

## 14. Claim Forms and Instructions

Claim forms provided with the claiming instructions should be duplicated or printed from the SCO [website](#) and used by the claimant to file reimbursement claims. A claimant may submit computer generated forms in substitution of Form 1 and Form 2, provided that the format of the forms and data fields contained within are identical to the claim forms included with the claiming instructions. SCO will revise the manual and claim forms as necessary.

### a) Form 2, Activity Cost Detail

This form is used to segregate the detail costs by claim activity. In some mandates, specific reimbursable activities have been identified for each activity. The expenses reported on this form must be supported by the official financial records of the claimant. All documents used to support the reimbursable activities must be retained by the claimant, unless required to be submitted with the claim, and must be made available to SCO upon request.

**14. Claim Forms and Instructions (continued)**

## b) Form 1, Claim Summary

This form is used to summarize direct costs by activity, compute allowable indirect costs for the mandate, and summarize any applicable offsetting revenues and/or other reimbursements received. The direct costs summarized on this form are derived from Form 2 and are carried forward to Form FAM-27.

## c) Form FAM-27, Claim for Payment

This form contains a certification that must be signed by an authorized officer of the entity. All applicable information from Form 1 must be carried forward to this form in order for SCO to process the claim for payment. Submit a signed original Form FAM-27 and one copy with required documents.

**Please sign the Form FAM-27 in blue ink or electronic signature. Attach the copy to the top of the claim package if submitting by mail.**

Mandated cost claiming instructions and forms are available online at the SCO's [website](#).

Electronic submissions are accepted and is available through an online file transfer protocol called the **Data Exchange Portal** (DEP). All information regarding [DEP](#) is available on the SCO's website.

Please use the following mailing addresses:

If delivered by U.S. Postal Service:

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

If delivered by other delivery services:

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

**15. Retention of Claiming Instructions**

For your convenience, the revised claiming instructions in this package have been arranged in alphabetical order by program name. This manual should be retained for future reference, and the forms should be duplicated to meet your filing requirements. Annually, new or revised forms, instructions, and any other information claimants may need to file claims will be placed on the SCO's [website](#).

**16. Retention of Claim Records and Supporting Documentation**

Pursuant to GC section 17558.5(a), a reimbursement claim for actual costs filed by a claimant is subject to the initiation of an audit by SCO no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for SCO to initiate an audit shall begin from the date of initial payment of the claim. In any case an audit will be completed not later than two years after the date that the audit was commenced.

**16. Retention of Claim Records and Supporting Documentation (continued)**

All documentation to support actual costs claimed must be retained and made available to the SCO upon request. The documents must be retained for a minimum of three years after the date of initial payment of the claim and/or until the ultimate resolution of any audit finding.

For more information, contact the Local Reimbursements Section by [email](#).