



**BETTY T. YEE**  
**California State Controller**

October 15, 2019

**SUBJECT: General Costs of Government**

Dear County Official:

As outlined in Title 2, *Code of Federal Regulations* Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and with concurrence from the Federal Department of Health and Human Services, the California State Controller's Office has determined that many of the administrative costs for the county chief executive's office do not meet the criteria to be allowable under Federal awards.

2 CFR 200.444 states, in part, "Unallowable costs include: (1) Salaries and expenses of the Office of the Governor of a state or the chief executive of a local government..."

Unallowable costs include activities after the individual department budgets have been formulated and reviewed by the centralized budget office, for example:

- The compilation of individual department budgets into the executive budget;
- Revenue projections, budget monitoring, and central budget office interactions with the chief executive's office during budget development; and
- Defending the budget to the County Board of Supervisors.

The unallowable costs are those related to the political aspects of the budget process, which could reasonably be construed as a general cost of government.

Allowable costs related to budget formulation are those incurred in developing the individual department budgets before the individual budgets are consolidated and submitted to the chief executive. This includes developing guidance on the preparation of individual department budgets, developing forms and related instructions, assisting departments in the preparation of their individual budgets, and reviewing and analyzing the individual budgets. Allowable costs related to the budget execution activity are those incurred in controlling and managing a budget (appropriation) for a given year.

The DHHS memo that supports this policy letter is attached. Section II of the memo describes the requirements for identifying and documenting allowable costs.

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If you have any questions regarding this policy, please contact Darryl Mar, Supervisor of the County Cost Plans Unit at (916) 327-2284.

Sincerely,

*Original signed by*

SANDEEP SINGH

Manager

Local Government Policy Section

Enclosure: DHHS Treatment of Costs of State and Local Budget Offices Memo



DEPARTMENT OF HEALTH & HUMAN SERVICES

Date . JUN 17 1986

From Director, Division of Operations  
Office of Procurement and Assistance Financial Management

Subject Treatment of Costs of State and Local Budget Offices

To Directors, Divisions of Cost Allocation -- All Regions  
Thru: Directors, Regional Administrative Support Centers

We have been advised of a number of cases where disagreements have arisen on the treatment of the costs of Central State and local budget offices. This has occurred where a budget office performs functions which benefit Federal programs in addition to normal State/local budget functions. The problem involves three basic aspects: 1) the definition of allowable activities within the Central budget office under OMB Circular A-87, 2) the identification and documentation of the costs associated with the allowable activities and, 3) the allocation of the allowable costs to the affected State/local departments and agencies, and ultimately to Federally supported programs.

I. Identification of Allowable Activities

OMB Circular A-87 embodies the basic principle that costs incurred by a unit of government that benefit Federal programs are reimbursable while at the same time stipulates that a general expense required to carry out the overall responsibilities of the government is unallowable. This has caused some confusion especially where the mission of a centralized activity is to support the operation of the overall government while at the same time providing some benefit to Federal programs through the development, review and execution of agency budgets.

Allowable costs within a centralized budget office relate to both the budget formulation and the budget execution activities. Costs considered allowable within the budget formulation activity are those incurred in the development of the agency budgets prior to the point where they are consolidated and submitted to the chief executive. This would include the development of guidance on the preparation of the individual operating department/agency budgets, the development of forms and related instructions, assisting those departments/agencies in the preparation of their individual budgets, and the review and analysis of the individual budgets. Allowable costs related to the budget execution activity are those incurred in controlling and managing a budget (appropriation) for a given year. Unallowable costs would involve those related to activities after the individual department/agency budgets have been formulated and reviewed by

the centralized budget office. This would include, for example, the compilation of individual department/agency budgets into the executive budget, revenue projections/monitoring, central budget office interactions with the chief executive's office during the development of the budget, defending the budget to the chief executive or legislature, work with legislature or County Board of Commissioners, city council, etc. In essence, the unallowable costs would be those related to the political aspects of the budget process, which could reasonably be construed as a general cost of government.

## II. Identification and Documentation of Allowable Costs

The requirements for identifying and documenting the costs of allowable activities need to take into account a number of factors. These would include, the way the budget office is organized, the procedures that are already in place to distribute costs within the office, the materiality of the amounts involved and the dollar impact on Federal programs. Consideration should also be given to any material differences in the effort by the centralized budget office associated with State only funds vs Federal funds that are included at the operating department/agency level. It has been noted in a number of instances that the preponderance of effort associated with the above noted allowable activities within the central budget office relate to the State only funds. As a general rule, the following guidelines should be used:

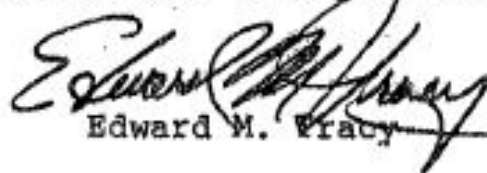
- A. To the extent that the allowable and unallowable functions (activities) are segregated within the organizational structure of the budget office, this segregation should be accepted as a basis for the identification/documentation of allowable costs, unless there is evidence that the organization structure really doesn't reflect how the budget office employees spend their time.
- B. If the allowable and unallowable functions are not segregated in the organizational structure, the results of a routine time distribution system (e.g., weekly, monthly, or quarterly time reports), or a random moment sampling system that identifies allowable activities and their related costs should be used where a substantiated amount of funds is ultimately assigned to Federal programs.
- C. If neither of the above applies, the State should be asked to establish, some type of annual survey to estimate the distribution of the time of the office's employees. The survey should cover the entire year involved. This could be done either by (a) having all employees fill out time distribution forms, or (b) having a representative sample of employees fill out the form.

- D. A general judgmental distribution (e.g., an estimate by the budget office director) may be accepted where only very minor amounts are involved or where the amount proposed appears reasonable in light of available information, prior experience with the budget office involved, etc.

### III. Allocation of Allowable Costs

The assignment of allowable central budget office costs to the operating departments/agencies should be based on the benefit derived from those activities, whether or not the individual department/agency has any Federally supported grants or contracts. If a central budget office uses a routine time distribution system (II.B. and C. above), the actual time expended may be identified by department/agency and thereby used as a basis to allocate costs. Where a time distribution system is not used, or it does not identify actual effort by department/agency, the ratio of budget line items to total budget line items or the departments/agencies budget to the total budget (excluding flow through funds) can be used.

If you have any questions on this interpretation please call.

  
Edward M. Tracy