



## **Memo**

**To:** Administration/Finance Committee

**From:** Jennifer Johnson, Director of Operations (On behalf of the Administration/Finance Committee)

**Date:** May 21, 2015

**Re:** Recommendation to update administrative cost policy and maintain targeted administrative cap at 5.5% of total operating budget for FY 2015-16.

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### **Background**

County commissions are statutorily required to adopt a policy establishing a limit on the percentage of the Commission's operating budget that may be spent on administrative functions and to have a process in place to monitor these costs.

Since its inception, the Commission has had a targeted cap on administrative expenditures. Consistent with this guiding principle to minimize administrative costs, the Commission adopted a formal policy in May 2006 that limits the percentage of the Commission's operating budget that may be spent on administrative functions. In accordance with this policy, First 5 Ventura County consistently identifies administrative costs following guidelines outlined in the policy, annually reviews the established targeted cap on administrative costs as a percentage of total operating budget and monitors actual administrative costs on an ongoing basis.

The established administrative cap in FY 2014/15 was maintained at 5.50%. Administrative costs for FY 2014/15 are forecasted at 4.79%.

Based on the proposed operating budget (inclusive of the Operating Fund and the Community Investment Loan Fund), the projected administrative cost for FY 2015/16 is 5.37%.

In accordance with the policy, an annual review of the policy was conducted. The proposed modifications, as attached, align with the recently revised First 5 Financial Management Guide.

### **Recommendation**

The staff recommendation is to approve the updated policy, as attached, and maintain the targeted administrative cap at 5.5% of total operating budget for FY 2015/16.



## ADMINISTRATIVE COST POLICY

### Policy

It is the policy of First 5 Ventura County to consistently identify administrative costs following guidelines outlined in this policy, to annually review the established targeted cap on administrative costs as a percentage of total operating budget and to monitor actual administrative costs on an ongoing basis.

### Guidelines

Administrative costs, as defined by the First 5 Financial Management Guide (March 2006), are costs incurred in support of the general management and administration of a First 5 commission, for a common or joint purpose that benefits more than one cost objective and/or those costs that are not readily assignable to a ~~specifically benefited cost objective~~ program or direct service. Program costs are costs incurred by the Commission that are readily assignable to a program or service provider and/or in the execution of direct service provision.

For the Commission, administrative costs include all services and supply costs not readily identifiable as costs of the Commission's evaluation or programmatic activities. Commission staff will adhere to the above definition in its budgeting, accounting, and financial reporting processes. Staff utilizes certain codes in its reporting processes to identify costs as program or administrative according to their nature. Except when there is information to determine a direct allocation of operating costs, shared Operational costs/office expenses will be allocated by a systematic, valid and rational allocation methodology. The methodology will be reviewed annually and presented with the annual budget. will be allocated to cost centers on the basis of full-time equivalents (FTEs) except when there is information to determine a direct allocation of operating costs.

The Commission shall allocate in a responsible manner the funds necessary for the proper control and administration of the Commission's operations and activities. An annual budget will be adopted by the Commission.

Administrative costs will be monitored on an ongoing basis. Because of timing issues, comparisons between the actual percentage of administrative expenditures and the targeted cap based on budget will be reported at the close of the fiscal year. In the event that administrative expenditures exceed the targeted cap, the Executive Director will inform the Commission in open session. The Commission may increase or decrease the maximum allowable administration percentage based on changing fiscal or legislative circumstances.

This policy will be reviewed on an annual basis.