

FAC 242 – Indirect Definitions

The board's FAC 242 analysis is incredibly thorough and helpful. CDFA's analysis below lays out our approach and historical context for the code section.

Board Calculation: The board calculation includes all items highlighted under personnel services in the attached pdf including indirect division costs, indirect executive / administrative costs, indirect IT costs, and pro rata. The board's calculation does not include admin reimbursement from 224c listed under cost recoveries. The personnel services costs seem to be divided by the total budget to calculate the percentage charged.

CDFA Calculation: CDFA calculates indirect for the purposes of FAC 242 based on the indirect executive/administrative costs and the indirect IT costs less than the admin reimbursement from 224c. This is divided by the total revenue for the program. The reason we calculate it this way is as follows:

- **Pro rata:** We exclude these costs as they are incurred by control agencies and not within CDFA's control. As such, they are not "apportioned by the Director of Finance". Attached is a sheet which explains what generates the pro rata costs.
- **Division indirect:** We exclude these costs because these items refer to work done or resources provided to the program by the Division. The workload portion that relates to the program is more direct and costs are consistent throughout time. These are administrative costs and overhead such as program management from the division director, portions of shared resources like high-capacity printers or meeting rooms, personnel liaisons who process time sheets, budget analysts that prepare budget documents, etc. These are direct and consistent program benefits, but they are done at the Division level rather than the program level.
- **Executive, Admin, and IT Indirect:** These costs, by contrast, are truly "indirect" as they cover functions which are shared throughout the Department and whose direct work for the program fluctuates from year to year. They may work a disproportionate amount on program activities one year and less the other making it difficult and disadvantageous to the program to directly charge for those services. These indirect expenses include the executive office, legal office, audits, HR, IT service desk, etc. We apportion these costs based on personnel services because number of personnel has been shown to be a strong driver for the workload of most of these functions and because it keeps the overall indirect rate as low as possible for industry as a whole. This is also consistent with the Federal Government indirect methodology.
- **Revenue:** We calculate the percentage indirect as a percentage of the revenue vs. the budget because FAC 242 indicates that we shall not exceed 5 percent of the

'collections'. This number fluctuates more than the budget and can change until the books are officially closed.

The indirect calculations based on these criteria are indicated in the attached sheet so that you can see the comparison between the two analyses.

Cost Discrepancies: We used the numbers in these spreadsheets to give you an apples to apples comparison. However, our internal numbers differ slightly. For example, for FY24-25 we have an exec and admin indirect rate of \$215,418 (vs. \$252,135 in the spreadsheet), an IT indirect of \$79,919 (vs. \$97,453), and a 224c reimbursement of \$92,193 (vs. \$50,594). This is a net difference of \$95,850 which would lower the indirect from 8.58% to 5.73%. For FY23-24, our books show a discrepancy, of \$7,548 which would lower the indirect from 6.45% to 6.24%. For FY22-23, our books show an even smaller discrepancy of \$3,079 which would lower the indirect from 6.91% to 6.82%.

The discrepancies between your numbers and ours seem to get smaller as we close the books so it is likely related to using estimates vs. actuals. That said, it is also possible that the error is systematic and so we will work with program to monitor the discrepancies and ascertain what might be causing them. The difference between the board's numbers and our numbers changes directionally whether CDFA's indirect costs are increasing or decreasing year over year and so it will be important to ensure we are working from the same assumptions.

Historic Context:

Even with these adjustments, CDFA acknowledges that we are close but not below the 5% cap mandated in FAC242. We would like to add the following historical context to show that we are working in good faith to stay within the spirit of the original code.

FAC 242 was enacted in 1967 and amended in 1986. At those times, IT services were not a robust portion of the CDFA budget. Today, they are 32% of indirect expenses. Additionally, IT staff could be engaged directly by the program or Division until 2007. They were, therefore, not included fully in indirect until this time. There were a number of other functions – including legal services, audits, equal employment opportunities office, and human resources – which were directly engaged by the program or Division at the time of the amendment. These functions were required to be consolidated at the Department level in 1988, shifting them to be part of indirect expenses.

Together, 58% of CDFA expenses either did not exist and/or would not have been counted as part of indirect at the time the code was enacted. We strive to keep indirect costs as low as possible for industry but focus most stringently on those areas contemplated as part of the original language. A visual representation of these costs can be found on the next page.

Historic Context

