



To: First Steps Board of Trustees
From: Judith Aughtry, Chair, Finance and Administration Committee
Date: June 6, 2017

RE: Committee Action Items for June 7, 2017

Administrative Overhead Recommendations Pursuant to 59-152-70(B)

Since the inception of SC First Steps, local partnerships have been bound to an 8% overhead/administrative cap established by statute. As you know, this cap has presented significant historical challenges, particularly for small rural partnerships - many of whom are forced to come before the Board annually with waiver requests.

In 2013, the SC Legislative Audit Council undertook a review of this issue, finding that this rate did not appear to have been established on the basis of any actual review of First Steps and its services, but rather adopted to match parallel language in the state of North Carolina. The LAC recommended that the Board contract with an independent cost accounting firm to make recommendations as to a rate that would be appropriate, but not excessive.

Act 287 of 2014 codified this recommendation, charging the Board with contracting for such a study to be presented no later than July 1, 2017. The law stipulates that "once these recommendations are received, the First Steps to School Readiness Board of Trustees may adjust the overhead percentage for the local partnerships."

SC First Steps contracted with Scott and Company to complete this review. A copy of their report is attached.

Consistent with Scott and Company's findings, staff and the Executive Director Leadership Council present the following joint recommendations for consideration by the Board:

- *First Steps should replace the 8% cap with a fixed administrative rate of 13% of state funds.*
- *First Steps should eliminate its existing requirement that at least 25% of an Executive Director's salary be coded to administrative costs. This will be replaced by a true cost allocation model in which this figure reflects actual time documented on administrative functions.*
- *First Steps should eliminate its existing "indirect programmatic" budget code. Consistent with the auditor's recommendation, all costs associated with programs and administration will be allocated accordingly.*
- *Consistent with the current recommendation of the Program and Grants Committee, First Steps should establish a "Core Services" budget category (and associated codes) designed to capture statutorily authorized/mandated expenditures that are neither administrative, nor strictly programmatic.*

The Finance and Administration Committee met on June 7, 2017 and approved these recommendations.

Recommended Action: Approve committee recommendations pertaining to administrative overhead.