Welcome to the training video for countywide cost allocation plans by the State Controller’s Office, also referred to as the SCO. This video was created to provide useful, general information for all California counties. Nothing presented in this video should be interpreted to supersede the Office of Management and Budget’s Uniform Guidance 2 CFR Part 200. If you have an inquiry specific to your county, please contact the SCO Cost Plan Unit at LGPSDCountyCostPlans@sco.ca.gov.
### Overview

- Basics of Cost Allocation
- Cost Allocation Plan
  - Summary Schedule
  - Building and Equipment Depreciation
  - Central Service Department
  - Carry Forward Schedule
- Desk and Field Review Process
  - Internal Service Funds
  - Self-Insurance Funds
  - Common Findings
  - Cost Plan Revisions
  - Negotiation Agreements

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**Slide 2**

The countywide cost allocation plan training video will cover the basics of cost allocation and the various components of a cost allocation plan, such as the summary schedule, building and equipment depreciation schedules, central service department schedules, and carry forward schedule. It will also cover the SCO Desk and Field Review process, which includes reviewing internal service funds and self-insurance funds, identifying common findings, and the process for cost plan revisions and negotiation agreements.
Before we get into the various aspects of a cost plan, we would like to explain why SCO has the authority to review and approve California counties’ cost plans. The Federal Office of Management and Budget, or OMB, has designated the Federal Department of Health and Human Services (HHS) as the agency assigned cognizance for the State of California’s Statewide Cost Allocation Plan and the countywide cost allocation plans of all 58 California counties.

- In December 1971, HHS delegated cognizance authority for California counties to the Director of the California Department of Social Services (CDSS).
- In January 1974, CDSS re-delegated this authority to the SCO, where it has remained. This authority does not include the responsibility for approving indirect cost rate proposals of county departments.
Cost allocation is the process of assigning two or more departments the cost of an item shared by the departments. The process ensures that each program bears its fair share of the total costs. Cost allocation is used if a resource is shared with another program or if a program receives services from two different central service departments.

When to use:

- If resources are shared with another program
- If a program received services from two different central service departments
Cost plans contain two different kinds of departments; central service departments, which provide services to other county departments, and receiving departments or user departments, which benefit from the services provided by the central service departments.
Central Service Departments:
Departments that provide services to other county departments.

- Auditor-Controller
- County Counsel
- Human Resources
- Information Technology
Receiving Departments:
Departments that receive services from central service departments.

- Social Services
- Roads
- Child Support
- Sheriff
- Fire Department
The costs allocated in the cost plan must be allowable. Allowable costs are identified in 2 CFR Part 200, and generally include costs that are: necessary and reasonable for service, costs for services provided in response to requests from other county departments, and costs for functions that directly benefit grant programs. Allowable costs are usually administrative or supportive in nature and the benefits from the costs flow into an organization. If you would like more detail on allowable costs, the information is located in 2 CFR Part 200, Subpart E.
In the cost plan, allowable costs are broken down into two categories; allocated costs or direct billed costs.

Types of allowable costs included in the cost plan:
- Allocated
- Direct Billed
Allocated costs must be allowable per 2 CFR Part 200. The costs should be allocated using an appropriate allocation base. An appropriate allocation base allocates costs to receiving departments on a fair and equitable basis, which reflects the level of service provided to departments. The costs allocated and the allocation basis used should be supported and documented. For example, if the central service department is the Auditor-Controller’s Office, and they are allocating costs associated with the activity of processing warrants, an appropriate allocation basis could be number of warrants processed per department. Supporting documentation for the allocation basis could be a list of all warrants processed. Supporting documentation for costs being allocated could be the county’s budget.
Counties may directly charge operating departments for central services department costs that have been allocated to them in the cost plan. Direct billing is the process by which receiving departments are charged for the cost of specifically identified goods or services. When a receiving department is direct billed, the billing rate methodologies used should result in fair and equitable charges that are consistently applied to all users of the service. No program or department may be burdened with charges that are identifiable to other programs or departments. Direct billings may result in revenues, interfund transactions, or intrafund transfers; depending on whether the payments received for direct billings are received from non-governmental agencies, other governmental funds and agencies, or other budget units. The goods and/or services furnished and related income realized must be completely supported and documented. Any revenue from direct billings for costs that are also allocated through the cost plan must be either credited to the entities from which the revenue was derived or used to reduce total cost plan expenditures.
This is a list of the common examples of unallowable costs that should be excluded from allocation in the cost plan.

The first item on the list is for costs incurred due to California’s legalization of cannabis, since it is illegal at the federal level. If cannabis is legalized in your county, there must be mechanisms in place to track activities related to California’s legalization of cannabis to ensure those costs are not allocated to federally funded departments. Two possible methods to track cannabis costs are: to have each central service department identify those costs separately as unallowable costs not allocated to receiving departments, or to create a receiving department for cannabis, in which case each applicable activity or function in the cost plan will allocate the cannabis department its fair share of indirect costs.

Some other unallowable costs are for alcoholic beverages, contingency reserves, contributions, fund raising, good and services for personal use, entertainment and employee morale, expenses under recovery on other federal grants, uncollectible debts, and general costs of government.
General costs of government are those associated with functions required to carry out the overall responsibilities of local governments but that do not benefit grant programs. For example, when a county budget is being prepared and approved, costs for activities after the individual department budgets have been formulated and reviewed by the centralized budget office are considered general costs of government and are unallowable. These unallowable costs are related to the political aspect of the budget process, such as the compilation of individual department budgets into the executive budget, revenue projections, budget monitoring, central budget office interactions with the chief executive’s office during budget development, and defending the budget to the county board of supervisors.
Now that we have finished identifying allowable and unallowable costs, we are going to go over revenues to include and exclude from the cost plan. The costs allocated in a cost plan must be net of all revenues, reimbursements, and other credits applicable to any particular cost center.

Allowable income and applicable credits should be included in the cost plan. Both can be treated as off-the-top or direct billed revenue.

Allowable income is central service or program income from: fees for services performed, the use or rental of real or personal property, and from the sale of real property, equipment and/or personal property.

Applicable credits refer to those receipts or reductions-of-expenditure-type transactions that offset or reduce expense items allocable to federal award as direct or indirect costs.
Prior to expenditure allocation, any particular credit or service that cannot be attributed directly to a specific benefitting department or agency must be deducted from the total costs of the department or cost center that provided the service. If a credit can be identified to a particular department or agency, it should be deducted from the total allocations to the departments or agency. For example, a county maintains its workers’ compensation insurance with the State Workers’ Compensation Insurance Fund. Any premium reimbursements received from this fund would be used, prior to allocation, to reduce the current premium charges. However, if the reimbursements pertain to a portion of the premium charged to a specific department, such as public works, then the credit should be applied only to that department.
Revenue that should be excluded from the cost plan are income from taxes, special assessments, levies and fines, and other revenues may not be included unless such revenues are specifically identified as program income in a grant agreement or federal agency regulations.
This diagram depicts the Countywide Cost Allocation Plan cycle. In the top left corner is the Federal Government, which delegated authority for review and approval of countywide cost allocation plans to the SCO. California counties submit their cost allocation plans to the SCO by December 31st every year. SCO reviews and approves the countywide cost plans by June 30th, if submitted on time, or September 30th if submitted late. The SCO notifies the State departments when county cost plans are approved. Then California counties use the approved cost plan to submit claims for payment to state departments. Federal and state governments share in program costs in the payment of countywide cost allocation plan claims. The state departments are listed in the top right-hand corner, some state departments that pay claims to counties are the Department of Social Services, Department of Health Services, and the Department of Mental Health Services.
Counties complete and submit cost allocation plans because once their plan is approved by SCO, the county can claim and receive state and federal reimbursements. The cost plan can also help the county recognize which of their departments are incurring indirect costs, and the purpose for which departments are incurring costs.
This is an example of the cost plan framework. Every county cost plan contains a summary schedule, central service department schedules, and a carry forward schedule. The summary schedule is a consolidation of the information presented in the building depreciation schedule, equipment depreciation schedule, central service departments schedules, and carry forward schedule. Most counties’ cost plans also have a building depreciation schedule and an equipment depreciation schedule, which are typically the first schedules that allocate costs to receiving departments in the cost plan. Central service departments also allocate costs to receiving departments, and the costs are separated based on a particular function or activity. For example, an auditor-controller central service department may have two functions or activities; one for costs related to payroll and one for costs related to department accounting services. Lastly, the carry forward schedule calculates the proposed cost for each receiving department for a given fiscal year.

As you can see in the diagram, the function or activity schedules provide a detailed breakdown of the allocation of costs for the central service departments. The central service department, building, and equipment schedules of cost allocations are combined into the carry forward schedule in order to calculate the proposed costs. Finally, all the allocated costs and proposed costs are consolidated for presentation in the summary schedule.
The summary schedule is a consolidation of all the costs allocated in the various schedules of the cost plan and is included as an attachment to the negotiation agreement. The schedule contains the total allocated costs for each receiving department, which is broken down by central service department. Additionally, the summary schedule has the carry-forward amount and proposed cost for each receiving department.
Building and Equipment Depreciation:

- Narrative
- List of buildings or assets
- Depreciation Schedule
- Occupancy Schedule

The building and equipment depreciation schedules should include a narrative describing the buildings or assets that are being depreciated and costs allocated to departments, including any other pertinent information. The county should also submit a list of buildings or assets that are depreciated in the schedule, along with depreciation and occupancy schedules or other identifying information to substantiate the basis by which depreciation costs are allocated to receiving departments.
A cost plan contains multiple central service department schedules. Each central service department schedule should include a narrative, a list of the functions or activities the department performs, and the total expenditures for each function or activity, such as salaries and benefit costs, service and supply costs, and other allowable costs. For example, schedule for the auditor-controller central service department might have three functions; one for payroll service costs, one for department accounting service costs, and one for general government costs. After the costs are identified to the applicable function or activity, they are allocated to receiving departments using an equitable allocation basis.
The narrative for a central service department should include detailed information on the types of services provided by the department. It should describe the costs incurred for each function and a summary of the benefit they provide to other county departments. Sticking with the auditor-controller central service department example, the narrative should not simply list “payroll work” as a function provided. The narrative should include a detailed description, such as “the time spent and costs associated with processing and issuing special districts and county departments’ payroll.” This will assist the review of the cost plan in better understanding the services provided and benefit received by county departments to substantiate the costs that are allocated. For each function, the county should provide a description of the method or methods used to allocate costs to the various receiving departments. Finally, the narrative should identify if there are any significant changes from the previous year’s cost plan.
The function or activity schedules should provide a detailed allocation of costs to receiving departments. Counties must use a reasonable method to allocate indirect costs to receiving departments that ensures each bears its fair share of the costs incurred. Since functions provide different types of services, it is reasonable to assume a different allocation basis is required to recognize the value of providing a service proportionate to the benefit received by departments. For example, it would be reasonable to allocate payroll service costs based on the number of payroll checks issued per department. It is not likely reasonable to allocate payroll service costs based on square footage of space occupied per department.

If the central service department direct billed any receiving department for costs associated with a particular function, the allocation of costs should be reduced by the amount they were billed.
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<th>Central Service Department</th>
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<td><strong>Double Step Down Allocation:</strong></td>
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<td>• Allows central service departments to allocate costs to each other and receiving departments</td>
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Slide 23

The cost plan also includes a double step down allocation, which allows for central service departments to allocate costs to each other and receiving departments.
Central Service Department

Double Step Down Allocation (cont’d):

1\textsuperscript{st} allocation – central service departments will receive the allocated costs

2\textsuperscript{nd} allocation – reallocates the central service departments allocated costs to receiving departments

Slide 24
The double step down allocation has two parts. In 1\textsuperscript{st} allocation, central service departments and receiving departments will receive their portion of allocated costs associated with a function or activity.

In 2\textsuperscript{nd} allocation, the costs allocated to the central service departments for a function or activity are reallocated to the receiving departments.

Please pay close attention to the example in the following slides.
This is one example of how the double step down method can work. We are going to be looking at a Human Resources central service department. We are beginning with Schedule 2 – Costs To Be Allocated. The purpose of this schedule is to show the amount of costs allocated between central service departments that will flow down to receiving departments. In the column titled “1st Allocation,” we see that there is $20,017 allocated to human resources central service department from other central service departments; the amount is squared off in green. These costs will be included in the first allocation of costs in the following schedules. In the column titled “2nd allocation,” we see that there is $31,014 allocated to human resources central service department from other central service departments; the amount is circled in red. These costs will be included in the second allocation of costs in the following schedules.
Now we are looking at Schedule .3 – Costs Allocated By Activity, which is the next schedule in this example. This schedule shows the costs incurred by human resources central service department and how those costs are divided between the various functions or activities. The first column on the left describes the type of costs that are reported in the schedule, the second column is the total amount for each type of cost, and the following three columns break-down the total cost into the three functions. The three functions for Human Resources central service department are General and Administration, Personnel, and Tuition Reimbursement.

On the bottom left corner, there is Allocation Step 1 and Allocation Step 2. In Allocation Step 1, we see the $20,017 squared off in green, from Schedule .2 – Costs to be Allocated, added into the functional costs for Human Resources. In Allocation Step 2, we see the $31,014 circled in red, from Schedule .2 – Costs to be Allocated, also being added into the functional costs for Human Resources.
To continue through our example, we are going to focus on the Personnel function, which is the fourth column to the right. In this column, we see all the costs that were incurred to provide the Personnel function’s services. During Allocation Step 1 and Allocation Step 2, we see that the General and Admin column is reallocating costs to the Personnel function and Tuition Reimbursement function. The reallocation of administration costs is typically based on percentage of salaries and wages per function; however, in this schedule it is based on total functional cost per function. We observe the total for Allocation Step 1 and Allocation Step 2, which will tie into the next schedule. The total for Personnel Allocation Step 1 is $1,009,862 and squared off in green. The total for Personnel Allocation Step 2 is $30,157 and circled in red.
Now we are looking at Schedule .4 – Detail Activity Allocations for the Personnel function. This schedule shows detailed information for the allocation of Personnel costs to the receiving departments. We’ve removed some of the receiving departments rows from the middle to be able to fit the column headers and totals of this schedule onto one slide.

In the first column to the left, labeled “Receiving Departments,” there is a list of the departments that benefited from the services provided by Personnel and will be assigned their share of the costs. At the bottom of this column, we observe that the allocation basis used to allocate costs to receiving departments is number of employees per department, and those figures were obtained from Budget and Payroll Reports.

Continuing to move left to right, the second and third column show each receiving departments’ allocation units and the allocation percentage that is used to calculate the amount of costs allocated to each department.
The fourth column over is labeled Gross Allocation, and this column is calculated by multiplying the allocation percentage by the total costs for Personnel function. The total costs for Personnel is squared off in green at the bottom of the column and ties with the costs identified on Schedule .3 – Costs Allocated By Activity for Allocation Step 1. The fifth column is labeled Direct Billed; however, this central service department did not bill any receiving departments so this column is left blank. The sixth column is Allocation Step 1, which is where the Gross Allocation and Direct Bill columns are netted together. Since there were no direct bills, we observe the same amounts in this column as in the Gross Allocation column.

The next column over is Allocation Step 2, under which we observe the same amount circled in red from the previous schedule for Allocation Step 2, $30,157. The final column is Total Allocation, where Allocation Step 1 and Allocation Step 2 are added together.
Finally, we are going to focus on one receiving department, Communications, and how they were allocated costs in this schedule. Communications is the fourth department listed and squared off in red. We see that the department has 1,500 employees, and will be allocated 1.0622%. The percentage is calculated by dividing 1,500 by the total number of allocations units, 141,221. Next, we multiply 1.0622% by the total gross allocation, $1,009,862, which gives us the $10,726 in allocated costs. Since there are no direct bills, the Allocation Step 1 matches the Gross Allocation. Then, to calculate Allocation Step 2, we must take the Allocation units of 1,500 and divide it by the total allocation units minus the central service department allocation units that did not receive a second allocation; which would be Administration and Personnel. Therefore, we take 141,221 total allocation units minus 700 for Administration and 750 for Personnel, totaling 139,771. Next, we divide Communications’ allocation units of 1,500 by our new total, 139,771, which gives us 1.0732%. Then, we multiply 1.0732% by the total Allocation Step 2, $30,157, which equals $324. Lastly, we add the $10,726 in Allocation Step 1 to the $324 in Allocation Step 2, and see that the total allocation to Communications from the Personnel function is $11,050.

We have now walked through how the first and second allocation costs are identified, allocated, and flow through one central service department’s schedules in the cost plan.
Now we are going to go over the Carry Forward schedule and how the process works. Allocated central service costs are usually negotiated and approved for the following fiscal year on a “fixed or estimated with carry-forward” basis. Under this procedure, the fixed or estimated amounts for the future year covered in the agreement are not subject to adjustments. When the actual costs of the year involved becomes known, the differences between the previously approved fixed or estimated amounts and actual costs will be carried forward and used as an adjustment for the fixed or estimated amounts established for a later year. This creates a two year cycle true-up from your fixed costs to your actual costs.
A Carry Forward Schedule contains all of the following: Actual Costs, Fixed Costs, Carry Forward, Adjustments, and Proposed Costs.

More detail for each topic will be explained further in the next few slides.
Actual costs are the costs that receiving departments experience due to services provided from the central services department during a fiscal period.

Example:

FY 20-21 Cost Plan’s actual costs are based on the county’s expenditures/expenses from FY 18-19 (July 1, 2018 – June 30, 2019).

Actual Costs are also known as: Current Allocation, Final Cost, and Current Cost.
Fixed costs are based upon actual costs in the cost plan from two years prior.

For example, the fiscal year 2020-21 Cost Plan’s fixed costs are based on the county’s actual costs from the fiscal year 2018-19 Cost Plan.

Fixed costs are also known as prior year allocation, fixed cost, and estimated cost.
This illustration demonstrates the roll-forward (or carry forward) method. If we start with cost plan for fiscal year 2017-18, the first object on the left, we see that the actual costs are based on expenditures from the county’s fiscal year 2015-16.

Following the arrow next to the actual costs, we see they are carried forward two years, into the cost plan for fiscal year 2019-20; however, now they are fixed costs. By following the arrows, we observe how actual costs are carried forward as fixed costs of costs plans two years later. This is a continuous cycle that is used to calculate the carry forward amount.
The carry forward is the difference between actual costs and the fixed costs.

Carry forward is also referred to as a roll forward.

The calculation for carry forward is actual costs minus fixed costs.
Adjustments are sometimes necessary to include in the carry forward schedule. The primary purpose of adjustments is to capture events that are not reflected in actual costs. When you include adjustments in the cost plan you must include a narrative explaining the adjustment in detail. If there is more than one reason for an adjustment, the adjustments must be labeled separately in supporting documentation.

The State Controller’s Office will include a note in the special remarks section of the negotiation agreement stating if the adjustment should or should not be included when calculating carry forward in subsequent cost plans.
Adjustment may be necessary to include in the carry forward schedule due to ongoing or one-time events. Some examples of situations where adjustments may be necessary are:

- When there is a new department in the county,
- If there is a significant expansion or reduction to departments,
- If there is a special project or assignment that is temporarily increasing costs, and
- If there is a dissolution of a department from the county.
The last component on the Carry Forward Schedule are the proposed costs. These are the costs the county departments use to claim their cost for services rendered.

To calculate proposed costs, take the actual costs, add the carry forward amounts, and add or subtract any adjustments.

At this point, we have finished covering the components and framework of the cost plan and will begin discussing the review process.
SCO does not begin a desk review of the county’s Cost Allocation Plan until all of the following have been received:

- A Supplemental Checklist, which is completed and certified by the appropriate individuals ensuring the cost plan was prepared adequately and that all necessary supporting documents have been submitted.
- A copy of the Cost Allocation Plan.
- A copy of the County’s Comprehensive Annual Financial Report, which aids in identification of Internal Service Fund reserve levels.
- A copy of the Adopted Budget or County System Report, which supports the allowable costs for each central service department included in the plan.
- A copy of the Cost Allocation Plan Certification signed by the official responsible for the County’s overall fiscal operations. This certificate validates that the plan contains only allowable costs in accordance with the requirements of 2 CFR Part 200 and that costs were treated consistently across various Federal awards.
This is a flow chart that illustrates the review process for approving a cost plan.

Before any type of approval is issued, the cost plan is subjected to a comprehensive desk review by SCO. During the desk review, an analyst will perform a risk analysis to determine if a field review is necessary. If a field review is necessary, the analyst will coordinate with the county to schedule an on-site visit. During the desk and field review, the analyst will determine whether or not there are findings and if the findings require a revision to the cost plan. If no revision is needed, SCO will issue a negotiation agreement approving the plan.
During the desk review process, the analyst performs a preliminary examination of each cost plan to:

- Verify all items listed on the Supplemental Information Checklist has been submitted,
- Verify all documents have the appropriate authorized signatures,
- Review memos, narratives, and justifications for significant changes,
- Review allocation bases to ensure proper cost principles and procedures have been adhered to.
The cost plan analysts also perform the following during the desk review process:

- Reconcile the costs reported in the cost plan to the county’s budget, county system report, or other source documentation from which the costs originated. If the costs shown in the cost plan do not agree with the financial statements, the county must prepare and include a reconciliation schedule explaining the differences.
- Analyze significant variances of cost pools.
- Review prior negotiation agreements for any conditions or adjustments that should be included or considered in the current plan under review.
- Review any other financial reports, such as audited financial statements.
- Review of any findings or recommendations from the most recent Field Review report to ensure follow-up on any outstanding requests made by SCO has been adhered to.
In addition to reviewing the cost plan and all its supporting documentation, SCO reviews:

- Internal Service Funds, to ensure the working capital complies with 2 CFR Part 200;
- Self-Insurance or Fringe Benefit Funds, to ensure reserves are no greater than the amounts recommended by third party actuaries; and
- Pension Obligation Bonds.

SCO reviews these funds and bonds because state and federally funded departments can be charged for the costs associated with them. SCO has a responsibility to ensure state and federally funded departments receive only their fair and equitable share of the costs. We will discuss Internal Service Funds and Self-Insurance or Fringe Benefit Funds more in the following slides.
Internal Service Funds (ISFs):

- Provides benefits, goods, or services to other funds, departments, or agencies of the county government on a cost-reimbursement basis
- Dependent on a reasonable level of working capital reserves to operate from one billing cycle to the next
ISFs should be used only if the reporting government is the predominant participant in the activity, otherwise, the activity should be reported as an enterprise fund.

Common examples of ISFs include Fleet Services or Motor Pool, Information Technology or Information Services, Printing Department, and Purchasing Department.
The SCO’s review of an ISF includes reviewing an ISF’s rates, billing methodology, and reserves.

An ISF’s billing rates should be designed to recover the entire cost of its operations, including the indirect overhead and central support service costs identified in the cost plan. In order to determine whether ISF’s rates are under or over charging departments, the ISF should prepare and examine its financial condition at least midway through each fiscal year. If a material profit or loss is projected for the end of the fiscal year, the ISF’s billing rates should be adjusted at that time. If an immaterial deficit or profit is projected for the end of the fiscal year, the billing rates should be adjusted in the following fiscal period. ISFs should not produce any significant profit or loss in the long run.

When SCO reviews an ISF’s billing methodology, the following areas are analyzed:

- Current billing rate schedule of charges and support for rates to determine if data is current and accurate, and unallowable costs are excluded.
- The schedule of billings by user to determine if all users, including users outside the governmental entity, are billed the same rate for the same service.
Slide 46 (continued)

- Determine that serviced departments are not overbilled because of another department’s under billing.

As previously mentioned, ISFs are dependent upon a reasonable level of working capital reserve to operate one billing cycle to the next. A working capital reserve as part of retained earnings of up to 60 calendar days allowable cash expenses for normal operating purposes is considered reasonable. The next few slides will explain how SCO analyzes an ISF’s reserve level to determine whether or not it exceeds 60 calendar days allowable cash expenses.
Internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to the next. Charges by an ISF to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to fully recovering costs, is allowable.
Internal Service Funds

Working Capital Reserves:

Reasonable Level –
- Reserves, as part of retained earnings, of up to 60 days cash expenses for normal operating purposes

Unreasonable Level –
- Reserves exceeding 60 days
  - Exceptional cases may be approved by cognizant agency for indirect costs

A reasonable working capital reserve is unrestricted, undesignated net position up to the amount required to pay for 60 days of average cash expenses. Each year, counties must provide a thorough analysis of the net position held by each of their ISFs at the end of the cost plan’s base year. Counties should fully report their unrestricted net position and describe the portions of these assets that are designated, so that the acceptability of each ISF’s working capital may be evaluated during the desk review. A working capital reserve exceeding 60 calendar days may be approved by the SCO for indirect costs in exceptional cases. In those cases, the county must be able to fully support and substantiate their rationale and methodology for the maintaining net position in excess of 60 days working capital.

If an ISF’s reserves chronically exceeds the amount established as allowable, the ISF will be removed from Section II, Costs Distributed Through Billing or Cost Transfer Mechanisms, of the county’s negotiation agreement and grant agencies will no longer be authorized to claim reimbursement for charges that were imposed by that ISF.
The following is an example of how an analyst calculates an ISF’s working capital reserve. In our example, we are analyzing a Fleet Services ISF. Starting with the ISF’s unrestricted net position, the analyst adds back in deferred inflow of resources, net pension liability, other post employment benefits, and any other long-term liabilities. Finally, the analyst subtracts the deferred outflows of resources to determine the total unreserved retained earnings.

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<th>Calculate Working Capital Reserves:</th>
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<td><strong>Example – Fleet Services ISF:</strong></td>
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<tr>
<td>Unrestricted Net Position</td>
<td>10,000,000</td>
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<tr>
<td>Deferred Inflows of Resources</td>
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<td>Net Pension Liability</td>
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<tr>
<td>Other Post Employment Benefits</td>
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<tr>
<td>(Deferred Outflows of Resources)</td>
<td>(1,500,000)</td>
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<tr>
<td>Unreserved Retained Earnings</td>
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Once unreserved retained earnings is calculated, the analyst performs the next calculation, identifying a reasonable 60 days working capital. In order to calculate 60 days working capital, the analyst subtracts the $5 million in depreciation expense for the fiscal year, from the $23 million in total annual operating expense for the fiscal year, and then divides the difference by 6. The reason the difference is divided by 6 is because we round the total days in a year to 360, then divide by 60, since the total expenses are for a year and the allowable working capital is 60 days worth of expenses. 360 divided by 60 is 6. In our example, that results in a reasonable 60 days working capital of $3 million. However, the unreserved retained earnings are $12 million, which means the ISF is over an allowable 60 days working capital by $9 million.

If the county cannot fully explain and support the excess working capital, the ISF must either reimburse all funds or departments that contributed to the excess or offer a rate holiday to all departments until the reserve is returned to a reasonable working capital level. Which course of corrective action to implement is negotiated between SCO and counties on a case-by-case basis.
Self-Insurance Funds

Self-Insurance Funds:

- Purchase insurance from a third party
- Self-insure
- Combination of both

Examples of self-insurance funds:

Workers’ compensation, unemployment insurance, and general liability

Slide 51

Self-insurance funds are another item the SCO reviews. Self-insurance involves establishing reserves for future losses instead of purchasing commercially available insurance. Local governments may purchase insurance from a third party, self-insure, or a combination of both. Some common types of self-insurance funds include workers’ compensation, unemployment insurance, and general liability.

2 CFR part 200 contains specific guidance regarding the allowability of self-insurance costs in section 200.447. Unless specifically disallowed, contributions to a reserve for self-insurance are generally allowable where the type and extent of coverage, and the rates and premiums, would have been allowed had the insurance been purchased to cover the risks.

The SCO identifies which self-insurance funds charge state or federally funded departments. Charges to state or federally funded departments should be on the same basis as county funded departments. The focus of SCO is on determining whether state or federal programs are fair and equitable, and whether unallowable transfers have been made from any fund reserves.
Within the scope of SCO’s review:

- Types of insurance coverage
- Actuarial reports completed by a third party
- Insurance programs that include grant funded departments

Note: May require narrative or explanation for significant changes to insurance program
SCO analyzes self-insurance fund reserves. Contributions to reserves must be based upon sound actuarial principles using historical experience and reasonable assumptions. All insurance reserve levels must be analyzed and updated no less frequently than once every two years. SCO will review a county’s self-insurance funds in order to determine if accrued liabilities and/or restricted net assets are within funding levels recommended by independent actuaries. Additionally, SCO will verify all transfers during the year have been identified and rates are charged consistently and reviewed no less than annually.
If the available funding of a particular self-insurance is materially under or over the actuarially recommended level, the county will need to provide a plan for increasing or decreasing the fund balance in the future. If available funding is above the adopted reserve levels, SCO will recommend:

- Rate reduction, or
- Immediate rebate.
Field Reviews:
On-site visit conducted routinely, or when deemed necessary based on risk analysis.

Some criteria SCO uses to identify risk:

- County reorganization
- ISF fund balance materially over 60 day working capital
- Self-Insurance fund balance materially outside of the actuarially recommended range
- Previous field review’s findings
The purpose of a field review is to:

- Examine financial and statistical information and other supporting documentation used to prepare the cost plan in order to verify that the information is complete and accurate and that the cost plan, as presented, is both reasonable and equitable;
- Review billing methods;
- Resolve outstanding items noted in the desk review process; and
- Note and record any significant changes to the county government and its accounting procedures.
If SCO determines a field review is necessary, the cost plan analyst will contact the appropriate county official(s) in order to schedule a field review. SCO will work with the county to determine the best date for a field review. Then, SCO will mail a letter to the county, no later than three weeks prior to the predetermined date, officially notifying the county that SCO will be conducting a field review.
Once SCO arrives at the county office for a field review, the cost plan analyst conducts an entrance meeting. An entrance meeting is a meeting between the analyst and the county contact and/or other county officials to go over the reasons for the field review, and discuss outstanding issues that need to be addressed. Throughout the week, the analyst will obtain and review work papers, and, if necessary, meet with various department heads, such as an Internal Service Fund’s to discuss the fund balance that is not in compliance with Federal cost principles. By the end of the week, before leaving the county’s office, the analyst will conduct an exit meeting. An exit meeting is a meeting between the analyst and the county contact and/or other county officials to go over the exit point sheet. The exit point sheet is a document that outlines possible findings and outstanding issues that SCO discovered during the field review.

Slide 58

Steps while SCO is on-site:

- Entrance meeting
- Meetings with departments
- Obtaining and reviewing support documents
- Exit meeting
Common Findings

Common findings from Desk and Field Reviews:

- Negative allocation (overbilling)
- ISF reserve levels above 60 days working capital not substantiated
- Self-Insurance fund level materially above actuarially recommended levels
- Personnel activity reports used as an allocation basis not kept to the standard as outlined in the SCO Handbook

Slide 59
Common findings from Desk and Field Reviews are:

- Negative Allocation or Overbilling. Negative allocations occur when a receiving department has been direct billed more than the amount of costs allocated to them. This can occur for multiple reasons, such as the central service overbilling departments, costs are not equitably allocated, or expenses and revenues were incorrectly categorized. Per the SCO Cost Plan Handbook, Section 2275, costs must be equitably allocated to all benefitting departments, and amounts directly charged to any departments must be applied to reduce the associated allocation to these departments. Over two or more fiscal periods, no user department may be consistently and materially overcharged. If any department, grantee or otherwise, is consistently and materially overcharged, then the county will be required to either revise its method of developing charges to a methodology approved by the SCO or discontinue direct charging. If a county fails to rectify overcharges, it will result in a denial of claims for reimbursement for these direct charges.
Two other common findings are internal service funds with reserve levels above 60 days working capital that cannot be substantiated and self-insurance funds with available funding materially above actuarially recommended levels.

Lastly, we find departments that do not maintain personnel activity reports to allocate costs to the standard outlined in the SCO handbook. The handbook states that personnel activity reports may be maintained either electronically or manually. In all cases, to be acceptable as documentation for personnel services, all personnel activity reports must:

- Reflect an after-the-fact distribution of each employee’s actual activity;
- Account for the total activity for which each employee is compensated;
- Provide full and complete substantiation of the distribution of effort and support the imposition of any direct charges for services;
- Be prepared at least monthly, and fully account for the total labor hours of each month;
- Be signed and dated by the employee no later than the end of the pay period that follows the pay period covered by the report; and
- Document, by signature or initials and date, after-the-fact supervisory review and approval of each activity report.
Now we will provide recommendations to help prevent some of the findings previously listed:

- Ensure the ISF reserves above 60 days working capital is supported with documentation.
- Review the rates used by Self-Insurance funds to ensure they stay with actuarially recommended ranges on an annual basis at minimum.
- Ensure personnel activity reports are signed and dated by both the employee and supervisor on a monthly basis at minimum.
Sometimes counties are required to revise their cost plan. Revisions may be due to material keying errors, such as transposition of revenue numbers, which caused a discrepancy between the budget and the cost plan figures. Or there may be carry forward calculation errors, for example the fixed costs reported in the current plan do not match the actual costs from two years ago. Lastly, desk and field review findings may also require revisions; however, the reasons for these type of revisions are specific to each county.
Revised submission should include:

- New completed Certificate of Cost Allocation Plan
- Memo signed by Auditor Controller

SCO procedure:

- Desk review process starts over again
- Cost Plan revision submission date replaces original submission date

When a county submits a revised cost plan, they must also prepare and submit a new Certificate of Cost Allocation Plan and a memo explaining the revisions and their impact on the cost allocation plan, which is signed by the auditor-controller or a high ranking official. Once SCO receives the revised cost plan, the revised submission date replaces the original submission date and the cost plan analyst begins the desk review process again using the revised cost plan.
After the desk and/or field review are complete, and all outstanding items are resolved, the cost plan is formalized with an approved negotiation agreement. The formal negotiation agreement is signed by SCO and an authorized representative of the county, such as the auditor-controller. Formal cost plan approval signifies that both SCO and the county have accepted the plan costs as final costs for the applicable fiscal year. Both parties are equally bound by the negotiation agreement and are entitled to rely on the agreement, subject to its terms and conditions. The plan’s approved actual costs are considered to be closed and not subject to any adjustments, either retroactively or by carry-forward to a future year. All federal grantor agencies accept and honor this formal negotiation agreement when determining allowable costs for reimbursing the county. State grantor agencies that distribute federal flow-through funds will, in the absence of a specific agreement to the contrary, also accept and honor this formal negotiation agreement when determining allowable costs for reimbursing a county.
SCO will review, negotiate, and approve proposed countywide cost allocation plans on a timely basis. SCO will notify the county if additional information or documentation is needed, or if the county needs to submit a revised cost plan. This is a list of the important cost plan deadlines. If a county would like a one-month extension for preparing their cost plan, they must submit an extension request to SCO by November 30. Otherwise, cost plans are due to SCO by December 31. If a county was granted an extension, their cost plan is due January 31. Please note that cost plans will be reviewed within six months of receipt, and any cost plans submitted after December 31, whether or not the county was granted an extension, may not be approved before July 1. SCO will have all cost plans that were submitted timely reviewed by June 30. All other cost plans will be reviewed by SCO by September 30.
If you have any questions or need assistance, please contact the County Cost Plans Unit at LGPSDCountyCostPlans@sco.ca.gov. You can also contact the cost plan analyst assigned to your county by visiting the SCO web page for analyst’s names and phone numbers.