Handbook of Cost Plan Procedures for California Counties

JOHN CHIANG

California State Controller

October 2012

ISFs may include in their rates depreciation charges intended to recapture the original cost of a vehicle or other piece of equipment. Depreciation must be charged straight-line over a reasonable equipment life. Normally, equipment life is determined by applying the Internal Revenue Service Alternative Depreciation System (straight-line) recovery periods. Deviations from these recovery periods must be supported by detailed analysis. Depreciation charges collected must be matched to the individual items of equipment for which the depreciation was charged and must be discontinued when an item of equipment is fully depreciated. Amounts collected as depreciation charges for an item of equipment must be made available for expenditure when that piece of equipment is replaced or removed from service. ISFs may impose a replacement charge in their rates to compensate for estimated increases in the cost of equipment purchased. Replacement/inflationary charges may not be claimed for reimbursement by grant departments. Amounts charged above the original cost of equipment must be removed from the rates charged to grant departments or specifically identified to these departments so that they are not included in requests for grant reimbursement. Estimated replacement/inflation charges must be re-evaluated and adjusted no less frequently than annually.

In addition to the full recovery of costs, charges by an ISF may provide for the establishment and maintenance of a reasonable level of working capital reserve. Unrestricted, undesignated net assets up to the amount required to pay for 60 days of average cash expenses are considered a reasonable working capital reserve. Each year counties must provide a thorough analysis of the net assets held by each of their central service ISFs at the end of the cost plan's base year. It is important that counties fully report their unrestricted net assets and describe the portions of these assets that are designated, so the acceptability of each ISFs working capital may be evaluated during the desk review of the county's cost plan. If an ISFs working capital chronically exceeds the amount established as allowable by 2 CFR Part 225, the ISF will be deleted 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 rationale and methodology for the designation of net assets must be fully supported and auditable. Transfers, reclassifications, or expenditures of any central support net assets reported to SCO as reserved or designated for any purpose other than the purposes for which these assets were designated or reserved must be approved by the Controller's Office Cost Plan Section.

2250: ISF Loans

An ISF may make loans only to other county funds, subject to the following restrictions:

1. The loan must be recorded as an account receivable in the ISFs financial records;
2. The loan must be repaid with interest, and the interest computed at the same rate that the ISF could have earned had the loan not taken place;
3. The period of the loan must not exceed 36 months;
4. The loan must not impact adversely on the ISFs current cash requirements;
5. The loan must be included in the measurement of the ISFs assets for any actuarial purposes; and
6. The loan agreement must include a clause that permits the ISF to demand accelerated repayment of all or any part of the loan if its cash requirements so dictate.

If a loan made by an ISF is not fully repaid by the end of the loan period, the loan is regarded as a "bad debt" and requires an immediate rebate to all grant programs from the county general fund.

2255: Self-Insurance Funds

2 CFR Part 225, Attachment C, Section E.3 c., requires that counties provide the following information to the State Controller's Office whenever a self-insurance fund is included in a county cost plan or when departments or agencies claim reimbursement for self-insurance charges:

1. A fund balance sheet;
2. A statement of revenues, expenses, and changes in net fund assets or fund equity, including a summary of billings and claims paid by the fund;
3. A listing of all non-operating transfers into and out of the fund;
4. The type or types of risks covered by the fund;
5. An explanation of how the level of fund contributions is determined, including a copy of the current actuarial report (with the actuarial assumptions used of the contributions are determined on an actuarial basis); and
6. A description of the procedures used to charge or allocate fund contributions to benefited activities.

The board of supervisors of a county may, by resolutions, establish and maintain a reserve account to insure against its liability or the liability of its employees for injuries or property damages, for liability under the workers' compensation laws, for casualty losses sustained by the county, and for providing health and welfare benefits for its employees. Reserves maintained by county insurance funds may be no greater than the amounts recommended by the county's actuaries. 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.