

County of Sutter
County Cost Allocation Plan

FIELD REVIEW REPORT



BETTY T. YEE
California State Controller

For Fiscal Year Ended June 30, 2017

Report issued: June 30, 2016

Field Review Report

Scope

We have reviewed Sutter County's Cost Allocation Plan for the fiscal year 2016-17 in order to determine if it has been prepared in accordance with federal Office of Management and Budget (OMB) Circular 2 CFR Part 225 and with supplemental guidance promulgated by the federal Department of Health and Human Services (HHS). Our review consisted principally of inquiries of county personnel and applying analytical procedures to the material used to prepare the cost plan. Our review does not constitute an audit in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the county's financial statements.

Background

OMB has designated HHS as the cognizant agency for cost allocation under OMB Circular 2 CFR Part 225 for all California counties. By special agreement, HHS has delegated to the California State Controller's Office the authority to review, negotiate, and approve the countywide cost allocation plans for California counties. As a part of the approval process, we perform field reviews in order to verify that the data incorporated in county cost plans are adequately supported.

OMB Circular 2 CFR Part 225 establishes principles for determining allowable indirect costs incurred by governmental units under grants, cost reimbursement contracts, and other agreements with the federal government. The circular provides for recognition of central service costs that benefit grant programs. It identifies the major types of costs normally incurred in grant performance and classifies them as allowable or unallowable. It provides for the development of necessary instructions related to the determination of indirect costs and makes it possible for direct costs to be allocated against a federal grant without a transfer of funds between the grantee departments involved. It establishes criteria for direct charges for services and limits the amount of unreserved retained earnings that may be accumulated by internal service funds. In order for a governmental unit to recover the costs of central support services performed outside of a grantee department, a consolidated local government-wide cost allocation plan must be prepared annually.

Findings and Recommendations

Self-Insurance Program General Liability

Finding:

\$490,520 of a \$745,000 “Cash Deposit with Others” made to Trindel for the participation in their pooled insurance fund was identified as excess funds and kept in the Liability Property Program with Trindel when it should have been returned to the county departments originally charged.

Recommendation:

According to OMB 2 CFR Part 225, Appendix B Selected Items of Cost, Paragraph 22 Insurance and Indemnification, Sections D (3) – D (5) and Sections 4300 Accounting for Self-Insurance Programs and 4400 Requirements for Grant Reimbursement of Insurance Costs in our *Handbook of Cost Plan Procedures for California Counties*, the County must issue a rebate for the Federal and State portion of the \$490,520.

Trindel should return the excess funds of \$490,520 to Sutter County. The County must rebate \$490,520 to the departments charged. Evidence of rebate must be provided to the State Controller’s Office no later than the 2017-18 cost plan year

Internal Service Funds (ISFs): Fleet and Information Technology Management

Finding:

Rates include depreciation for assets, however, only a portion of these charges are being set aside for the replacement of assets; the remainder of funds that are not being set aside for depreciation are being returned to the departments at the end of the year. This causes the ISFs to require contributions from the General Fund to purchase new assets.

Recommendation:

According to OMB 2 CFR Part 225, Appendix C State/Local-Wide Central Service Cost Allocation Plans, Paragraph G Other Policies, Section 2 and Sections 2235 Internal Service Funds and 2245 ISF Net Assets in our *Handbook of Cost Plan Procedures for California Counties*: “the charges by each ISF attempt to recover sufficient revenues to fund all the costs associated with providing goods and/or services, including indirect (allocated) costs. An ISF’s objective is not to make a profit but to recover, over a period of time, the total costs of providing goods or services.” And, “ISFs may include in their rates depreciation charges intended to recapture the original cost of a vehicle or other piece of equipment.”

Effective immediately, all depreciation charged for assets should be set aside for the replacement of assets. The General Fund should not be funding the purchase of new assets for ISFs. Fleet and Information Technology Management should work closely with the Auditor-Controller's office to ensure proper accounting for ISFs. Support should be provided no later than the 2017-18 cost plan year.

**Internal Service Funds
(ISFs) continued:
Fleet and Information
Technology Management**

Finding:

Substantiation and reconciliation of "Contributions from County" in the amounts of \$936,821 for Information Technology and \$383,307 for Fleet, respectively; and \$89,323 of "Designations for Future Appropriations" for Fleet have not been sufficiently supported.

Recommendation:

According to OMB 2 CFR Part 225, Appendix C State/Local-Wide Central Service Cost Allocation Plans, Paragraph E Documentation Requirements for Submitted Plans, Section b Internal Service Funds, and Sections 2235 Internal Service Funds and 2245 ISF Net Assets in our *Handbook of Cost Plan Procedures for California Counties* for guidance, the County "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."

Sufficient substantiation and reconciliations must be provided to the State Controller's Office with the 2017-18 Countywide Cost Allocation Plan. Fleet and Information Technology Management should work closely with the Auditor-Controller's office to ensure proper accounting for ISFs.

Comments

Discussion with County Official

The findings and recommendations in this field review were discussed with Nathan M. Black, CPA, Auditor-Controller; Ronda Putman, Assistant Auditor-Controller; and Bonnie Briscoe, Accountant II on Friday, May 20, 2016. No factual objections were raised on the review findings or recommendations.

Conclusion

Based on our review, the county must submit a response to the findings included in this report.

The County's response must detail an action plan to implement the required recommendations within a specific period, but no later than the 2017-18 cost plan year.

Compliance of Federal OMB regulations and the implementation of the recommendations contained in this report will assist to ensure future qualifying costs are eligible for Federal and State reimbursement.

Based on our review, we approve Sutter County's 2016-17 County Cost Allocation Plan.



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