



JOHN CHIANG
California State Controller
Division of Accounting and Reporting

August 22, 2013

The Honorable Mr. Joe Harn
Auditor-Controller
County of El Dorado
360 Fair Lane
Placerville, CA 95667

Re: Negotiation Agreement

Dear Mr. Harn:

We have completed our review of El Dorado County's 2013-14 Countywide Cost Allocation Plan. Our report of this review is enclosed. Please respond to its findings and recommendations by September 10, 2013, to:

State Controller's Office
Division of Accounting and Reporting
County Policy Section
P.O. Box 942850
Sacramento, CA 94250

We would like to thank you and your staff for your cooperation, especially Kathy Sergeant, who was most helpful. If you have any questions, please call Darlene Justice of the County Policy Section at (916) 327-4366.

Sincerely,

A handwritten signature in cursive script that reads "Anita Dagan".

ANITA DAGAN, Manager
County Policy Section

Enclosures

County of El Dorado
County Cost Allocation Plan

FIELD REVIEW REPORT



John Chiang
California State Controller

For Fiscal Year Ended June 30, 2014

Field Review Report

Scope

We have reviewed El Dorado County's Cost Allocation Plan for the fiscal year 2013-14 in order to determine if it has been prepared in accordance with federal Office of Management and Budget (OMB) Circular A-87 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 A-87 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 A-87 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

Information Technology

Finding:

During the review, it was found that the functional costs in the cost plan cannot be substantiated and the functions in the cost plan are not the same as in their department. Additionally, Network and Mainframe costs have been estimated then allocated (cost applied) based on methodologies that are not sufficiently documented, supported or understood by current I/T Management. There have been changes and various issues within the El Dorado County I/T Department that have created the need for adjustments in the cost plan. These issues were not clearly explained in the existing narratives. Detail time sheets are not maintained for those staff that are directly billed to departments. I/T Department Management does not understand the purpose of the Countywide Cost Allocation Plan.

Recommendation:

I/T Department Management should work with the Auditor-Controller's office so an acceptable and equitable methodology of cost allocation can be developed for each departmental function.

Narratives should be reviewed annually and enhanced to explain reconciling and operational issues that arise to all potential users of the plan, as well as the State Controller's Office (SCO) cost plan analysts. As stated in Section 2160 of the State Controller's *Handbook of Cost Procedures for California Counties*:

"Narratives are an integral part of the basis upon which the State Controller's Office approves cost plans. After a county has identified the overhead and central support service programs that will be included in its cost plan, it must prepare an extensive narrative concerning each item. These narratives facilitate in-depth reviews of plans and enable the Controller's Office to respond to questions from grantor agencies and cost plan auditors. The importance of accurate and complete narratives in the cost plan cannot be over-emphasized.

The narrative for each central support service must include:

1. A description of the cost centers or functions within the service department and a concise summary of the extent to which each of these cost pools and/or functions provide services to other county departments;
2. A description of the types of costs that are considered to

- be allowable, an explanation of why these costs are allowable, and a discussion of the method or methods used to separate allowable costs from those costs considered to be unallowable;
3. A description of the allocation methods used to distribute costs in each cost pool and the source of the data used to distribute each cost pools assigned expenditures; and
 4. A description of the methodology used to identify any amounts billed to the user departments. The narrative for each schedule must include a specific identification of each revenue, interfund, and intrafund transfer received by the central support department whose expenditures are being allocated. If any of these resource inflows has not been used to reduce expenditure allocations, a complete explanation must be provided.”

Effective immediately, all Information Technology employees whose services are directly charged and/or who perform more than one single function must prepare personnel activity reports (time records) in accordance with OMB A-87 and Section 2320 of the State Controller's *Handbook of Cost Procedures for California Counties* which states:

- Reflect an after-the-fact distribution of each employees 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.

Failure to comply with the personnel activity reporting requirements of the State Controller's *Handbook of Cost Plan Procedures for California Counties*, means that the distribution of personnel activity is not adequately supported and could result in the disallowance of associated costs in future cost plans.

Further, direct billings and cost applying of I/T costs should be suspended until corrective action can be implemented. This will require a revised Cost Allocation Plan for the fiscal year 2013-14.

**General Liability
Self-Insurance Program**

Finding:

According to the most recent Actuarial Report prepared by Bickmore Risk Services, dated February 28, 2013, the General Liability Self-Insurance Program is funded above the acceptable 70% confidence level and has a surplus of approximately \$1,361,000.

Recommendation:

The county has provided a plan of action (rebate, rate reduction, etc.) to reduce this program's fund to a more appropriate level. The county should continue to make a concerted effort to fund their General Liability Self-Insurance Program to a more reasonable level. The State Controller's Office will continue to monitor fund levels in future cost plans.

**Workers' Compensation
Self-Insurance Program**

Finding:

According to the most recent Actuarial Report prepared by Bickmore Risk Services, dated March 21, 2013, the Workers' Compensation Self-Insurance Program is funded well above the 70% confidence level and has a surplus of approximately \$3,903,000.

Recommendation:

The county has provided a plan of action (rebate, rate reduction, etc.) to reduce this program's fund to a more appropriate level. The county should continue to make a concerted effort to fund their Workers' Compensation Self-Insurance Program to a more reasonable level. The State Controller's Office will continue to monitor fund levels in future cost plans.

**Health Benefit Program
Self Insurance Program**

Finding:

The Health Benefit Program was a self-insured program that was converted to a full insurance program. Although the Health Benefit Program is now a fully insured program, currently the County collects health benefit reimbursements in arrears while the claims and premiums are prepaid. As a result of overbilling, there are pooled funds in the amount of \$5,244,505 that must be returned to the departments, employees and retirees.

Recommendation:

A refund must be processed and given to all funds or departments, employees and retirees that contributed to the excess in the Health Benefit Program. Pursuant to Section 2235 of the State Controller's *Handbook of Cost Plan Procedures for California Counties*, "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". Additionally, "ISFs should not produce any significant profit or loss in the long run".

County Counsel**Finding:**

County Counsel is not preparing personnel activity reports that are in compliance with Section 2320 of the State Controller's Office, *Handbook of Cost Plan Procedures for California Counties*.

Recommendation:

Effective immediately (July 2013), all County Counsel employees whose services are directly charged or who perform more than a single function must prepare, in accordance with Section 2320 of the State Controller's *Handbook of Cost Plan Procedures for California Counties*, personnel activity reports that:

- Reflect an after-the-fact distribution of each employees 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.

Failure to comply with the personnel activity reporting requirements of the State Controller's *Handbook of Cost Plan Procedures for California Counties*, means that the distribution of personnel activity is not adequately supported and could result in the disallowance of associated costs in future cost plans.

Comments

Discussion with County Official

The findings and recommendations in this field review were discussed with Joe Harn, Auditor-Controller and Kathy Sergeant, Principal Financial Analyst on July 26, 2013. No factual objections were raised on the review findings or recommendations.

Conclusion

Based on our review, after all current year recommendations are implemented; the State Controller's Office will approve El Dorado County's 2013-14 Countywide Cost Allocation Plan.



ANITA DAGAN, Manager
County Policy Section
Division of Accounting and Reporting

Staff:

Phillip Pangilinan, Supervisor
County Policy Section
Darlene Justice, Cost Plan Analyst
(916) 327-4366