

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



December 15, 2005

LCSA LETTER: 05-24

ALL IV-D DIRECTORS

SUBJECT: DEPRECIATION CLAIM PROCEDURE

Reason for this Transmittal

- State Law or Regulation Change
- Federal Law or Regulation Change
- Court Order or Settlement Change
- Clarification requested by One or More Counties
- Initiated by DCSS

The purpose of this letter is to inform the local child support agencies (LCSAs) of the procedures for claiming depreciable costs of Non-Electronic Data Processing (Non-EDP) and EDP equipment. In Child Support Services (CSS) Letter 04-20, dated October 7, 2004, the Department of Child Support Services (DCSS) provided information to LCSAs about equipment management, including claiming of depreciable costs. Since CSS 04-20 only provided general information about claiming depreciation, this letter is being issued to provide detailed claiming instructions. The CS 356 Administrative Expense Claim (AEC) has been revised to allow LCSAs to claim allowable depreciable costs. This change will ensure that depreciable costs are properly claimed by LCSAs and properly reported by DCSS on the federal reports.

To comply with federal requirements under Title 45 Code of Federal Regulations (CFR) Section 95.705(a), DCSS' claiming instructions require LCSAs to depreciate all Non-EDP equipment with unit acquisition cost of \$25,000 or more. Further, the instructions comply with Action Transmittal (AT) 94-5, dated July 22, 1994, which requires depreciation of all EDP equipment with a per unit acquisition cost of \$5,000 or more. (EDP equipment over \$5,000 funded with administrative dollars must be depreciated over a five year period as an administrative expense.)

Please note that all depreciable costs claimed on the CS 356 AEC will be reimbursed using the statewide accounting practice, which means to distribute the cost of the equipment over a five year schedule.

Attachment I provides instructions to claim depreciable costs of Non-EDP equipment. Attachment II provides step-by-step instructions and examples to claim depreciable costs for EDP equipment.

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If you have any questions or concerns regarding the Non-EDP equipment and claiming policies, please contact your County Allocations and Claims Policy Analyst or Cindi Pocoroba at (916) 464-5086. If you have any questions or concerns regarding EDP equipment and claiming policies, please contact your Automation Funding Approvals Analyst or Peter Lucyga at (916) 464-5098.

Sincerely,

o/s/CHER WOEHL

CHER WOEHL
Deputy Director
Administrative Services Division

cc: Dave Oppenheim, Child Support Director's Association

Attachments

Attachment I

Claiming Procedures for Depreciating Non-EDP Equipment

Per 45 CFR 95.705, Non-Electronic Data Processing (EDP) equipment with a total acquisition cost of \$25,000 or more per unit must be depreciated using statewide accounting practice. To depreciate means to distribute the cost of the equipment over the equipment's estimated useful life. Pursuant to statewide accounting practice, useful life is five years. When an item of Non-EDP equipment with a total acquisition cost of \$25,000 or more per unit is purchased by the LCSA, the item must be depreciated on the CS 356 Administrative Expense Claim (AEC), as follows:

A. Claiming Depreciable Costs in the Year Purchased -

1. **CS 356.1** – Enter 1/5th of the purchase price into Section II, C., 2, All Other Operating Expenses (Non-EDP).
2. **CS 356.2** – An activity line has been added to the federally eligible expense section for purposes of claiming depreciable costs. The LCSA will need to activate the depreciation activity line by clicking on the drop down box. This action will cause a depreciation line to appear on the CS 356.3. No other entries are necessary on the CS 356.2.
3. **CS 356.3** – Enter 1/5th of the purchase price into the Direct Operating Costs column on the depreciation line. No indirect costs will be applied to this activity.
4. **CS 356.5** – No entry necessary. The claim will automatically distribute 1/5th of the purchase price as 66 percent federal share and 34 percent state share. These amounts are subject to the LCSAs Administrative Allocation.

B. Claiming Depreciable Costs in Subsequent Years -

In the second quarter of each subsequent state fiscal year (SFY), LCSAs will claim 1/5th of the original purchase price. This process will continue until the total purchase price has been claimed over the subsequent four years. When claiming in subsequent years, LCSAs must follow the same procedures for initially claiming depreciable costs, as outlined above in Section A.

C. EDP Equipment over \$5,000 purchased with administrative funds should be claimed and depreciated as an administrative expense.

Allocation and Claiming Procedures for EDP Equipment Requiring Depreciation

Per the Administration of Child Support Enforcement Action Transmittal (AT) 94-5 dated July 22, 1994, Electronic Data Processing (EDP) equipment exceeding a total acquisition cost of \$5,000 or more per unit price, must be depreciated and claimed over a five year period. The EDP depreciable equipment budget request, allocation and Administrative Expense Claim (AEC), CS 356.4 claim process is described below.

EDP Depreciable Equipment Budget Request and Allocation Process (for SFY 2006-07 and beyond)

1. LCSAs normally submit funding requirements during the annual LCSA EDP Budget Request process. For SFY 2006-07 and beyond, LCSAs requesting funding for EDP equipment requiring depreciation must provide the following information with the non-recurring project request:
 - a. Total projected cost of item.
 - b. Required funding for the budget year (20% -- 1/5 of total projected cost of item). Only 1/5 of the projected total item cost can be allocated, and only 1/5 of the actual total item cost can be claimed by the LCSA each year.
 - c. EDP depreciable equipment actual expenses for the remaining 2 through 5 years must be budgeted in the recurring "EDP Budget Request Form", under section C. "Equipment Lease and Maintenance". LCSAs must create an EDP Depreciable Equipment subsection in this section to document the recurring budget requirement for the remaining 2 through 5 years.
2. Claiming EDP depreciable equipment actual recurring expenses for years 2 through 5 will be done in the CS 356.4, under the recurring expense category, in the detail drop-down "HW Lease" cell input box.

EDP Depreciable Equipment Process – State General Fund (SGF) Backfill Allocation (applies only to SFY 2004/05 and 2005/06 only where SGF backfill was used)

1. SGF backfill funding was available to provide 100% reimbursement of LCSAs depreciable EDP equipment purchases for SFY 2004/05 and SFY 2005/06 only. There is no SGF backfill opportunity for SFY 2006-07 and beyond. To properly account for the SGF backfill and provide the required audit trails, special depreciation allocation codes (R11, R12, R13, R14) will be assigned and the State depreciation claiming instructions listed below must be followed.
2. DCSS originally provided non-recurring depreciable account codes ending with R11 in the DCSS annual Final Allocation Letter. The R11 allocation amounts consisted of 100% SGF and reflect the estimated cost of the depreciable EDP equipment previously submitted within the annual EDP Budget Request, not the actual purchase cost depreciable expense.

Allocation and Claiming Procedures for EDP Equipment Requiring Depreciation

3. The R11 depreciation accounts originally issued in the final allocation letter have been separated into R11, R12, R13, and R14 depreciation account allocations. R11 and R12 are year 1 funding allocations, R13 and R14 are offsetting (net-zero) allocations for years 2-5 to provide the required depreciation claiming and audit trails.
4. The year 1 R11 allocation represents the SGF backfill for the estimated cost of the depreciable EDP equipment, which is 80% of the total cost (4/5 of total amount). R12 represents the amount allowable for year 1 Federal Fund claiming. Below is an example for a \$100,000 projected item expenditure.

Account Code	Claim Year	Total	Federal Fund	General Fund
N-CXXXXX-R11	Current	80,000	0	80,000
N-CXXXXX-R12	Current	20,000	13,200	6,800

First Year Claiming Procedures for EDP Depreciable Equipment (when using SGF backfill)

1. LCSA claims on the CS 356.4 against the R11 and R12 accounts. This may be a current quarter claim or supplemental claim, depending on the timing of the depreciation expenditure and receipt of these instructions.
2. The LCSA enters the actual expenditure amount (i.e., \$93,000) of the depreciable equipment on AEC 356 (CS Section 356.4) distributing 80% of the actual expenditure to the R11 account and 20% of the actual expense to R12. Below is an example for a \$93,000 actual cost expenditure.

Account Code	Claim Year	Claim Total	Federal Fund	General Fund
N-CXXXXX-R11	1	74,400	0	74,400
N-CXXXXX-R12	1	18,600	12,276	6,324

3. LCSAs are responsible for claiming the remaining 2 through 5 years depreciable years on the CS 356.4 using the R13 and R14 account codes. The 20% R11 claimed expense will be the exact claim amount for R13 and R14 for the remaining 2-5 years.

**Allocation and Claiming Procedures for
EDP Equipment Requiring Depreciation**

Years 2 through 5 Depreciation Reporting Procedures

1. DCSS will provide the R13 and R14 depreciation reporting account codes by letter for each remaining depreciation year and expenditures not fully depreciated. R13 and R14 are offsetting (net-zero) allocations to provide the required depreciation audit trails. LCSAs are responsible for reporting these offsetting depreciation expenses annually.
2. The R13 and R14 claims for years 2 through 5 must be submitted in the same SFY quarter, since these are offsetting (net-zero) allocations. DCSS request R13 and R14 claims be submitted in the third SFY quarter.
3. The R13 claim must be a supplemental claim since it claims against the year 1 original quarter of the R11 and R12 claim period. This claim is the SGF repayment and is a negative value.
4. The R14 claim will usually be a current third quarter claim as a current quarter and year expenditure. This claim is the yearly Federal reimbursement claim amount and is a positive value.
5. After the final fifth year of reporting the depreciation expenditure, the process for that item is complete and no further action will be necessary.

Acct. Code	Alloc. Year	CS 356.4 Claim	Fed. Fund	General Fund
N-CXXXXX-R13	Year 2	(18,600)	0	(18,600)
(claim against year 1)	Year 3	(18,600)	0	(18,600)
(SGF repayment)	Year 4	(18,600)	0	(18,600)
	Year 5	(18,600)	0	(18,600)
N-CXXXXX-R14	Year 2	18,600	12,276	6,324
(claim against current year)	Year 3	18,600	12,276	6,324
(FFP allowable amount)	Year 4	18,600	12,276	6,324
	Year 5	18,600	12,276	6,324