CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES
P.O. Box 419064, Rancho Cordova, CA 95741-9064

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
[X] Initiated by DCSS

October 7, 2004

CSS LETTER: 04-20

ALL IV-D DIRECTORS
ALL COUNTY ADMINISTRATIVE OFFICERS
ALL BOARDS OF SUPERVISORS

SUBJECT: CLARIFICATION OF CHILD SUPPORT ADMINISTRATIVE CLAIMING AND FINANCIAL POLICIES

The purpose of this letter is to share the Department of Finance's (DOF) audit findings to date and to communicate and clarify the Department of Child Support Services' (DCSS) policies relative to the findings. In order to comply with State oversight responsibilities mandated by federal law in Code of Federal Regulations (CFR) 302.10 and 302.14, DCSS contracted with the DOF, Office of State Audits and Evaluations (OSAE) to conduct limited reviews of local child support agencies (LCSAs). To date, DOF has completed reviews of four LCSAs. The scope of the reviews includes: Allowable costs, Abatements, Internal Controls and the LCSA IV-D Program Budget Display, CS 921.

The DOF auditors have identified a few instances where LCSAs management, accounting and claiming is not in accordance with State and federal laws. The attached document is intended to communicate and clarify correct claiming policies to ensure compliance and uniformity.

If you have any questions or concerns regarding your Non-Electronic Data Processing (Non-EDP) equipment and claiming policies, please contact Linette Kleinsasser at (916) 464-5086. If you have any questions or concerns regarding Electronic Data Processing (EDP) equipment, please contact your assigned Automation Funding Approvals analyst or Ken Maurice at (916) 464-5095. If you have questions about the LCSA reviews conducted by DOF, please contact Elizabeth Gonzalez at (916) 464-5048.

Sincerely,

/s/Olivia Cortez

OLIVIA CORTEZ
Deputy Director
Administrative Services Division

Attachment

CHILD SUPPORT ADMINISTRATIVE CLAIMING POLICIES REGARDING EQUIPMENT, ALLOWABLE COSTS, ABATEMENTS , INTERNAL CONTROLS, AND CASH FLOW BASIS CLAIMING

I. EQUIPMENT

When a LCSA acquires equipment, LCSA management must ensure the following processes, at a minimum, are followed. If local county rules include additional requirements, LCSAs must follow local procedures, in addition to those listed below.

A. Equipment must be recorded in the Property Ledger

Equipment – DCSS defines equipment as personal property having a useful life of more than one year and an acquisition cost of $500 or more per unit. Equipment is defined in 45 CFR 92.3 as tangible nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit, but allows states to use their own definition provided the federal definition is at minimum, included.

Property – Property refers to all assets used in governmental operations. All property, capitalized and non-capitalized, must be accounted for in the Property Ledger and maintained in accordance with 45 CFR 92.32 (d) (1).

Capitalized Property – Capitalized property is that property recorded in the accounting records as assets. Capitalized property is referred to as property, plant and equipment and includes land, buildings, improvements, machinery, furniture, tools, etc., and intangibles, such as copyright material, research data, trade secrets, etc. Property is capitalized for accounting purposes when the following conditions are met:

1. Have a normal useful life of at least one year,
2. Have a unit acquisition cost of at least $5,000 (e.g., four identical assets which cost $3,000 each, for a $12,000 total, would not meet the requirement), and
3. Be used to conduct business.

Non-Capitalized Property – Non-capitalized property is that property which does not meet all of the above requirements. Acquisitions of non-capitalized property are accounted for as expenditures.

Property Ledger – When property is acquired, whether capitalized or not, a record of the following information, at a minimum, must be kept in the Property Ledger:

1. Acquisition date.
2. Equipment/Property description.

3. Manufacturer's Serial Number, model number, or other identification number.
4. Funding source of the Equipment.
5. Equipment cost or other basis of valuation.
6. Who holds title.
7. Percent of federal, state and county participation in the cost of the property.
8. Location, use and condition of the equipment.
9. Ultimate disposition data, including the date of disposal and sales price. Include the method used to determine current fair market value where a recipient compensates the awarding agency for its share.

B. Tagging and Inventory of Acquired Equipment

Tags – Property with a unit purchase price of $500 or more must be tagged with county tags after acquisition. In addition, minor sensitive equipment (e.g. cell phones, pagers) with a unit purchase price under $500 must be tagged.

Physical Inventory – LCSAs must perform a physical inventory of property and reconcile the results with property records at least once every two years in accordance with 45 CFR 92.32 (d) (2). LCSAs must also maintain an inventory control system to insure adequate safeguards to prevent loss, damage, or theft of property, and insure adequate maintenance procedures to keep the equipment in good condition. Any loss, damage, or theft of equipment and/or property must be investigated.

C. Prior Approval For Non-EDP Automation Items

In previous fiscal years, the LCSAs were allowed to purchase hardware, software and information technology (IT) contractor services for administrative activities with Non-EDP administrative funds. Hardware, software, IT contract services for administrative services were not considered part of the EDP Maintainence and Operations (M&O) project costs, therefore, the LCSAs did not need to obtain prior approval from DCSS.

However, as the State of California moves closer to implementation of the single statewide Child Support Enforcement (CSE) system, it is imperative that DCSS be aware of all automation products and services planned for purchase by the LCSAs whether the LCSAs utilize Non-EDP administrative funds or EDP M&O funds. Prior to conversions to the new CSE system, DCSS must know what automation resides in the LCSAs in order to make informed decisions about what products/services will be converted or must be considered for conversion. **Effective immediately, LCSAs may not purchase any automation**

components or services with their Non-EDP administrative funds without DCSS' prior approval.

Beginning with SFY 2004/05, the LCSAs must obtain prior approval from DCSS before purchasing any automation goods and services such as, but not limited to, personal computers, servers, printers, integrated voice response units, imaging systems, new and existing software products and licenses, web contractor services, etc. Additionally, incentive funds may not be utilized to purchase automation products and services without prior DCSS approval.

LCSAs must submit documentation to DCSS requesting prior approval of any hardware, software, or other automation goods and services before purchasing items with Non-EDP administrative funds. The request process is addressed in the SFY 2004/05 Child Support Administrative Final Allocation Letter dated August 25, 2004.

D. Claiming Acquired Equipment

Equipment purchases will either be claimed in total in the period acquired or depreciated over time. See Non-EDP and EDP equipment below.

Depreciation – Depreciation means to distribute the cost of the equipment over the equipment's estimated useful life.

Non-EDP Equipment:

Pursuant to 45 CFR 95.705 (a) when computing claims for Federal Financial Participation (FFP), equipment having a unit acquisition cost of $25,000 or less may be claimed in the period acquired or depreciated, at the option of the State agency. It is DCSS' policy that all equipment having a unit acquisition cost of $25,000 or less be claimed in the period acquired. Equipment that exceeds a total acquisition unit cost of $25,000 must be depreciated when claiming FFP.

EDP Equipment:

Action Transmittal (AT) 94-5 dated July 22, 1994 states individual items of EDP equipment with a useful life of more than one year and costing $5,000 or less need not be depreciated, but may be claimed in the calendar quarter in which it was purchased. EDP equipment that exceeds a total acquisition unit cost of $5,000 must be depreciated when claiming FFP.

Claiming Depreciation

DCSS has determined that any equipment (Non-EDP and EDP) purchased by the LCSA that exceeds the previously mentioned levels will be reimbursed using the statewide accounting practice. The statewide accounting practice is to depreciate equipment over a five year schedule. For example, if an LCSA were to purchase an automobile for its use in excess of the $25,000 threshold, the purchase price would be divided by 5. This amount (the purchase price divided by 5) would be claimed annually on the Administrative Expense Claim (AEC), CS 356. If the piece of equipment is disposed of prior to complete reimbursement, the LCSA must terminate reimbursement for the piece of equipment.

If a LCSA determines that an item in excess of the previously mentioned thresholds is necessary, and does not have the county resources available to delay complete reimbursement (i.e., establish an account receivable or future revenue account), the LCSA director may submit a written request petitioning DCSS for permission to claim the full cost in the period acquired. If approved, LCSAs will be reimbursed 100% State General Fund (SGF), subject to their allocation, in the fiscal year of purchase, but DCSS will defer reporting to the federal government in accordance with the five year depreciation schedule. The request process is as follows:

EDP Equipment:

In SFY 2004/05 only, 100% SGF is available and included in the EDP allocation for LCSAs that have received approval for EDP purchases during the EDP budget approval process. Additional information regarding EDP equipment approvals and reporting instructions is provided in the final allocation letter.

Non-EDP Equipment:

In SFY 2004/05, there is no additional (in addition to the Non-EDP administrative allocation) SGF available for Non-EDP State depreciated purchases. Non-EDP purchases approved for depreciation by the State will be reported by the LCSA as 100% SGF. Please note the impact to the LCSA allocation as described below. DCSS will make an adjustment to the AEC, CS 356, to report the first installment of depreciation of the federal (66%) share, reporting the balance of the purchase as SGF. For example, the LCSA purchases an item for $70,000 with a depreciation schedule of 5 years. The LCSA will claim $70,000 as 100% SGF on the AEC, CS 356. DCSS will adjust the AEC, CS 356 to report $9,240 federal (66%) share, and $60,760 SGF. DCSS will report $9,240 for the subsequent four years to recoup the federal (66%) share. Purchases approved for depreciation by the State **cannot** be disposed of prior to the completion of the term of depreciation.

Please be aware, for allocation purposes, the total cost of the purchase plus the 66% federal match will be charged against the Non-EDP administrative allocation. As a result, the 66% federal match will not be available for use by the LCSA. In the example above, $179,000 will be charged against an administrative allocation for a purchase of $70,000. $109,000 in 66% federal match will not be available for use by the LCSA because the SGF match is not available. LCSAs are encouraged to limit purchases of equipment exceeding the $25,000 threshold.

In order to be considered, requests must include the following:

1. Total cost of the purchase. If more than one purchase, an itemized list must be included.
2. Justification of the need for the purchase (per item).
3. Attach a price quote/bid from three vendors/contractors.
4. If applicable, an explanation as to why the item must be purchased rather than leased.
5. An explanation as to why the purchase cannot be depreciated by the LCSA.

The request should be sent to:

Olivia Cortez, Deputy Director
Administrative Services Division
Department of Child Support Services
P.O. Box 419064, M.S. 20
Rancho Cordova, CA 95741-9064

DCSS will review all requests and provide written responses to each requestor. If the request is approved, specific reporting (claiming) instructions will be provided. **DCSS approval must be received prior to purchase.**

E. Disposition of Acquired Equipment/Property

Before disposing of any EDP equipment, the LCSA must contact DCSS for disposition instructions. Inquiries can be made to your Automation Funding Approvals analyst at (916) 464-5333.

When Non-EDP equipment is no longer needed, LCSAs must use federal disposition requirements in accordance with CFR 92.32 (e), at a minimum, in addition to county procedures for disposition of equipment/property with the following taken into consideration:

1. Non-EDP equipment with a current per unit fair market value of less than $5,000 may be retained, or sold or otherwise disposed of according to local procedures.

2. Non-EDP equipment with a current per unit fair market value in excess of $5,000 may be retained or sold, but the awarding agency has a right to receive compensation. This amount is determined by multiplying the current fair market value or proceeds from sale by the awarding agency's share of the equipment. The awarding agency's share is 100% in the Child Support Program.

NOTE: If the purchase price of Non-EDP and EDP equipment is $5,000 or less, it can be assumed the fair market value is $5,000 or less.

Claiming Proceeds from Disposed Equipment

Proceeds from the sale of equipment are considered “program income” and must be abated on the AEC, CS 356.1, Section VII Abatements, Line B, (Miscellaneous Program Income).

II. ALLOWABLE COSTS

A. Interdepartmental Charges

Contracts for interdepartmental services should include the methodology used to arrive at total costs, and list the tasks to be accomplished. LCSAs paying for interdepartmental services must understand the methodology used and verify that the services were provided and/or completed. When the invoice is received, tasks accomplished, time spent on the tasks, and the amount to be billed should be clearly identified. Sufficient documentation must be maintained to support the interdepartmental transactions.

Pursuant to 45 CFR 92.42, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report (4 years and 4 months in total) or until the completion of any ongoing audits.

DCSS reminds LCSAs that while the amounts charged for interdepartmental services are determined by the County and may not be subject to LCSA control, the LCSA needs to understand the methodology used to determine the costs and verify that the charges are accurate and that the services were provided in full. In addition, all services must comply with interdepartmental contractual agreements and not include additional charges not contained in the contract.

CSS Letter 01-06 clarifies the required components that must be contained in Memorandums of Understanding (MOUs) between LCSAs and county Information Technology Departments, in accordance with 45 CFR 95.605.

B. Purchases

LCSA purchases must be reasonable and necessary and for the proper and efficient performance and administration of Federal awards. A cost is considered reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

It is DCSS’ policy that the purchase of food is not an allowable expenditure. DCSS reminds LCSAs that Office of Management and Budget Circular A-87, Attachment B, http://www.whitehouse.gov/omb/circulars/index.html contains a general test of allowability that needs to be used to determine if a cost is necessary and reasonable for proper and efficient performance and administration of Federal awards. Further, in light of recent budget constraints, all LCSAs are encouraged to use discretion and best judgment when determining “reasonable and necessary” costs.

III. ABATEMENTS

Interest earned on child support funds and child support collections must be abated on the AEC, CS 356.

DCSS reminds LCSAs that all monies received to administer the child support program must be deposited into interest-bearing accounts. Further, all interest earned on Child Support Enforcement program funds and collections must be reported on the AEC, CS 356. Reference: LCSA Letter 02-36, dated November 4, 2002 and LCSA Letter 03-10, dated June 23, 2003.

IV. INTERNAL CONTROLS

A. Separation of Duties

Payroll – Employee timesheets must be appropriately reviewed and authorized. For example, employee time recorded on timesheets must match time worked as recorded on payroll warrants. Further, overtime recorded in the payroll system must be pre-approved by a supervisor or manager. Individuals entering attendance information into the system may not pick up and distribute payroll checks.

Purchasing – Individuals responsible for placing orders may not receive the orders and approve the orders and perform periodic inventory counts of all supplies without independent validation or verification. Changes to invoices or stock received reports if a difference is noted requires supervisor approval. This prevents the risk of theft or misappropriation of LCSA assets.

Inventory of Fixed Assets - Adequate provisions for safeguarding assets in the purchase order process must be followed. The Administrative Services Officer may not perform biennial inventory of all fixed assets, adjust discrepancies in the system, and establish access to the Accounting system at the entry level. The MIS Manager may not act as property controller, maintain the property ledger, perform the year-end physical inventory counts, and sign property survey reports.

DCSS reminds LCSAs to review and separate purchasing, receiving and inventory functional duties, and attendance and payroll functional duties. LCSAs must ensure that procedures are in place to properly record and approve employee timesheets, including requests for overtime.

B. Control Environment

Authorizations – The Central Services Authorized Signature List must be maintained with up-to-date information at all times.

Purchase Order Process – Blank purchase orders must not be issued exceeding an individual's purchasing authority. Signature cards delegating spending authority to staff that make purchases must be maintained with up-to-date information at all times.

DCSS would like to remind LCSAs that signature authority must be accurately maintained at all times. Further, purchase orders need to be issued for amounts within the staff's approved purchasing limits with review and approval by an appropriate level of staff.

V. CASH FLOW BASIS CLAIMING

As a general rule, cash claiming requires that expenditures be reported in the quarter in which they are purchased and recorded in the LCSA's official accounting records. Cash claiming requirements for reporting costs on the AEC, CS 356, are as follows:

1. A continuous cash flow basis (e.g., expenditures are reported when paid) for reporting costs on the AEC, CS 356 (Manual Of Policies and Procedures [MPP] Section 25-815.34); and

2. Compliance with Generally Accepted Accounting Principles (GAAP) and the State Controller's Office Accounting Standards and Procedures for California Counties (MPP Section 25-200.7).

Each LCSA is responsible for developing and maintaining their own internal fiscal procedures (including year-end processes) within these parameters.

Regarding advance payments made to contractors, LCSAs may, at their own discretion, negotiate the terms used in purchasing goods/services through contract agreements. However, since the AEC, CS 356 operates on a cash basis, advances may not be claimed for reimbursement until the goods/services have been received and the expenditures recorded in the LCSA's official accounting records.