September 20, 2019

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES

EXECUTIVE SUMMARY

COUNTY FISCAL LETTER NO. 19/20-05

The purpose of this letter is to provide clarification and reminders to counties regarding the cash claiming requirement for reporting costs. These requirements apply to all county claiming documents, including the County Expense Claim and the County Assistance 800.

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES
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September 20, 2019

COUNTY FISCAL LETTER (CFL) NO. 19/20-05

TO: COUNTY WELFARE DIRECTORS
COUNTY FISCAL OFFICERS
COUNTY AUDITOR CONTROLLERS
COUNTY PROBATION OFFICERS
FOOD BANK EXECUTIVE DIRECTORS

SUBJECT: CLARIFICATION AND REMINDERS OF CASH CLAIMING REQUIREMENTS FOR ADMINISTRATIVE AND ASSISTANCE COUNTY CLAIMS

REFERENCE: CFL NO. 99/00-28, DATED OCTOBER 12, 1999; CFL NO. 06/07-06, DATED JULY 13, 2006; CFL NO. 13/14-01, DATED JULY 16, 2013; CFL NO. 15/16-23, DATED SEPTEMBER 30, 2015; ALL COUNTY LETTER (ACL) NO. 15-26, DATED APRIL 6, 2015; MANUAL OF POLICIES AND PROCEDURES (MPP) SECTION 25-815.34; MPP SECTION 25-805.32; MPP SECTION 25-200.7; MPP SECTION 10-119; MPP SECTION 23-353; TITLE 2 CODE OF FEDERAL REGULATIONS (CFR) PART 200; 2 CFR 200.403(d); 45 CFR 95.13; 45 CFR 95.4

The purpose of this letter is to provide clarification and reminders to counties of the cash claiming requirements for reporting costs to the California Department of Social Services (CDSS). These requirements apply to all county claiming documents, including the County Expense Claim (CEC) and the County Assistance (CA) 800.

Cash Claiming Guidelines

The CDSS cash claiming policy is based on federal regulations for public welfare programs found in 45 CFR 95.13(b), which states that the federal government considers “a State agency’s expenditure for services to have been made in any quarter in which any state agency made a payment to the service provider.” A state agency, in this context, is defined as "any agency or organization of the State or local government which is authorized to incur matchable expenses" (45 CFR 95.4). Counties are required to maintain compliance with federal fiscal statutes. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards are available at Title 2 CFR Part 200. Current CDSS policy and federal regulations do not provide for an exemption or waiver from the cash claiming requirement.

Current CDSS policy requires that counties maintain:

- A continuous cash flow basis (e.g., expenditures are reported when paid) for reporting costs (MPP section 25-815.34); and
- 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).

For a cost to be claimable as an expenditure, two conditions must be realized:

- A payment must have been made by the county either to
  - another party for goods/services, or
  - a client as a benefit, and
- The goods/services must have been received by the county or the service period/ period of eligibility for which the benefit was issued to the client must have begun.

Both of these conditions must be satisfied in order for the expenditure to be considered fully realized and eligible to be claimed, and costs should be claimed based on the latter of the two dates. Expenditures may not be claimed as adjustments to prior claiming periods in which only one condition was satisfied.

Example:
If a county receives goods/services in June 2019 (Fiscal Year [FY] 2018-19) but pays the associated invoice in July 2019 (FY 2019-20), the county must claim the costs when the payment is made (in the September 2019 quarter [FY 2019-20]). Likewise, if an assistance payment is made to a client in late June 2019 for a benefit corresponding to the month of July 2019, the county must wait to claim the expenditure until the month of July 2019.

Treatment of Payment Timing Considerations in Claiming Expenditures

The month a payment is journaled by the county and/or the month in which the transaction is posted to its internal ledgers generally are not factors that should affect claiming of an expenditure. Usually, the date on which a check is issued (or a payment is otherwise disbursed) to an external party is the date a payment is considered to have been made. Funds that have been transferred from a cash account under the control of the county to a suspense/holding account pending payment/disbursement may be considered paid as of the date they were transferred to the holding account, prior to actual disbursement to an external party, if such funds are no longer under the direct control of the county and are irrevocably committed to disbursement to their intended recipient(s). This type of suspense/holding account pending payment would typically be an account accessible to and controlled by another entity, such as the Internal Revenue Service or a payroll service company.

Example:
If a county transfers their payroll costs to a suspense/holding account controlled by a payroll service company pending payment on June 28 for a pay date of July 5, the county should claim their payroll based on the date the funds are transferred to the suspense/holding account pending payment (June 28).

If a county uses a revolving account/line of credit (such as a credit card) to make a payment to another entity for the purchase of goods or services, the date the county makes a payment on the line of credit to cover purchases made using that line of credit is the date the payment for those goods and services is considered to have been made. Payments on lines of credit should be made in a timely manner after purchases so that the purchases can be accounted for appropriately. If an expense charged to a credit card is paid by the county over more than one statement period, the county must establish a reasonable amortization/payment schedule for the expenditure and claim the expenditure based on that schedule.

Example:
A county receives a good or service from a contractor on September 16 and makes a payment to the contractor using a credit card on September 17. The county then receives the monthly statement for the credit card and makes a payment to the issuer of the credit card on October 18 for the entirety of the contracted expense. In this situation, the payment the good or service is considered made on October 18. The date of the expenditure is also October 18, since this is the date in which both of the necessary conditions to realize a cost as an expenditure were satisfied (please refer to the previous section of this letter titled "Cash Claiming Guidelines"). This expenditure should be claimed by the county in the December quarter.

Counties should ensure that costs are afforded consistent treatment (refer to 2 CFR 200.403[d] and MPP section 25-805.32), and costs in one program should be claimed in a similar time frame to like costs in other programs. Counties should consult with CDSS for any questions or concerns regarding the timing of disbursement and its effect on when an expenditure should be claimed. Counties may, pursuant to agreements that they make with other parties, pay for goods and services prior to receiving them. However, as explained above, they may not claim the associated costs until the goods or services have been received (and the expenditure is therefore fully realized).

Tickets or vouchers used for travel services or events represent an agreement for the provision of a good/service, not a good/service in and of themselves. Therefore, these costs may not be claimed as an expenditure until the ticket or voucher is redeemed or otherwise utilized for the good/service to which it corresponds. Tickets or vouchers provided to a client as a program service/benefit should be considered utilized on the date the service period/period of eligibility for which the service/benefit was issued to the client began.

Example:
The county purchases bus passes for distribution to social services clients as part of an employment services program. The cost of a bus pass is not considered a claimable expenditure until it has been issued to an eligible client.

For agreements that involve the ongoing delivery of services (such as a maintenance contract for equipment), those services are considered received on the first day the agreed period of service begins. For multi-year agreements, if a county pays for the entire agreement's cost at the beginning of that agreement, it is appropriate to claim a proportional amount of that cost to each FY covered by the agreement. In other words, the county should amortize the cost of the agreement over the service period of the agreement and claim a portion of that cost to each applicable FY. The amounts claimed for each FY may either be spread evenly over the claiming quarters in which the agreement is active in that FY or be claimed in the first quarter in which the agreement is active in that FY. The contract should lay out each year's cost (for the purpose of claiming that amount on the CEC); otherwise, the county should employ a reasonable method of allocating that cost across the relevant years and maintain the appropriate documentation in the contract file.

Example:
A three-year software license purchased in July 2019 should have one-third of its cost claimed in FY 2019-20, one-third claimed in FY 2020-21, and the final third of its cost claimed in FY 2021-22.

Original and Adjustment Claim Timeframes

With respect to administrative expenses in the CEC, once an expenditure has been realized, counties should not defer claiming it and should report it in the quarter it was made. The need to amortize the claiming of an expenditure and/or take time to accurately determine to which Program Code (PC) an expenditure should be claimed does not eliminate a county's responsibility to claim expenditures in the correct quarter. If an administrative expenditure must be claimed within a given quarter but the county has not been able to determine the correct claiming structure under which it should be claimed, as a best practice, CDSS recommends that the county claim it to a county-only funded code as a placeholder for such expenditures. In the adjustment claim corresponding to that quarter, the county may then adjust the claiming of the expenditure from where it was claimed originally to a different code, if appropriate. This will allow the county to claim expenditures in the appropriate quarter to comply with cash claiming guidelines and also have time to determine where their expenditures should be more appropriately claimed and receive the appropriate federal and/or state reimbursement.

If, in subsequent quarters, the county recognizes that there was an error in claiming an expenditure in a particular quarter, the expenditure must be adjusted in the **original quarter's** adjustment claim rather than the regular claim for the quarter in which the error was identified, regardless of when the expenditure was posted to any internal ledgers. The CEC adjustment claims should only include corrections to the original quarter's submission and should not include corrections to any other quarters (refer to CFL No. 15/16-23, dated September 30, 2015). Positive adjustment claims (claims in which the county is requesting additional reimbursement) are due approximately nine months after the original claim was submitted. The due dates for the CEC adjustment claims are provided annually, in advance, within every March quarterly CFL.

Adjustments made under the CA 800 automated assistance claim system provide more flexibility, since past months may be adjusted on a continuous (rather than a one-time) basis. However, errors should be corrected in a timely manner and all positive adjustments must be completed within the 18-month time frame (after the expenditure was realized) for assistance claim adjustments. For both assistance and administrative claims, adherence to the adjustment claim process will be verified during a CDSS Fiscal Monitoring Review (FMR), which is conducted by the Fiscal Forecasting and Policy Branch of CDSS.

Positive adjustment claims for either the CEC or CA 800 must be submitted within the timeframes outlined in CFL No. 13/14-01, dated July 16, 2013. As outlined in CFL No. 13/14-01, there is no absolute time frame limit for negative adjustments (adjustments in which the county has overclaimed and needs to return funds to the original source). Counties must contact CDSS if an out-of-sequence (past the normal adjustment claim due date) claim is required. If counties have negative adjustments that cannot be processed through the CEC or CA 800 because they are outside of the specified time limits, an abatement (return of funds to the original source) process is available. The SOC 812A (for administrative expenditures) and SOC 812B (for assistance expenditures) forms will allow counties to submit abatements as outlined in CFL No. 13/14-01.

Records Retention and Fiscal Compliance

Counties must maintain supporting documentation for expenditures for three years from the date the state submits the last associated expenditure report to the federal government (refer also to ACL No.15-26, dated April 6, 2015), which is typically at least two years from the date of expenditure. Therefore, it is recommended that counties maintain documents for a minimum of five years. Fiscal records must be retained and produced in the event of a federal, state, county, or single audit as outlined in MPP section 10-119 and MPP section 23-353. Record production may also be required in the event of a CDSS FMR.

While CDSS is responsible for prescribing county claiming policies and procedures, these policies govern only the claiming process and are intended to ensure that costs claimed for federal and state funding are reported consistently and are in compliance with the GAAP. Each county is responsible for developing their own fiscal procedures within the guidelines outlined in this CFL and other previously referenced fiscal guidance. The CDSS recommends that counties review their internal fiscal procedures to ensure that official accounting records and processes are in compliance with guidance provided on cash claiming procedures.

Questions regarding this CFL should be directed to fiscal.systems@dss.ca.gov.

Sincerely,

Original Document Signed By:

SALENA CHOW, Chief
Fiscal Forecasting and Policy Branch