STATE OF CALIFORNIA—HEALTH AND WELFARE NCY

DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814

March 4, 1987

ALL COUNTY LETTER NO. 87-32

TO: ALL COUNTY WELFARE DIRECTORS
ALL COUNTY FISCAL OFFICERS
ALL COUNTY AUDITORS
ALL COUNTY ADMINISTRATIVE SERVICES OFFICERS

SUBJECT: COUNTY WELFARE ADMINISTRATIVE EXPENSE CLAIM

This is to provide claiming instructions for the January - March 1987 quarter. Instructions are provided which relate to the Hardship Supplemental Payment Program, the Employment Search component of the WIN-Demonstration (WIN-DEMO) Program, the Food Stamp Work Registration and Job Search Program, Electronic Data Processing, and Foster and Adoptive Parents Training. The following forms are to be used for the January - March 1987 quarter claim. Forms noted as revisions will be forwarded to the counties separately.

Form	Revision Date	Form	Revision Date
DFA 325.1	11/86	DFA 327.4D	2/87*
DFA 325.1A	11/86	DFA 327.5	2/87*
DFA 325.1AA	2/87*	DFA 327.6	2/87*
DFA 325.1B	9/85	DFA 327.7A	2/87*
DFA 327.1A	2/87*	DFA 327.7B	2/87*
DFA 327.1B	2/87*	DFA 327.7C	2/87*
DFA 327.1C	2/87*	DFA 327.8A	2/87*
DFA 327.1D	2/87*	DFA 327.8B	2/87*
DFA 327.2A	2/87*	DFA 327.8C	2/87*
DFA 327.2B	2/87*	DFA 327.9	2/87*
DFA 327.2C	2/87*	DFA 327.10A	2/87*
DFA 327.2D	2/87*	DFA 327.10B	2/87*
DFA 327.3A	12/86	DFA 327.10C	2/87*
DFA 327.3B	2/87*	DFA 327.11B	2/87*
DFA 327.3C	2/87*	DFA 43	2/87*
DFA 327.4A	2/87*	DFA 46	7/86
DFA 327.4B	2/87*	DFA 48	7/86
DFA 327.4C	2/87*	DFA 48A	7/86

Form	Revision Date	Form	Revision Date
DFA 50	7/86	DFA 53	1/87*
DFA 52	9/86	DFA 323	2/87*
DFA 856	4/82	DFA 403	11/86
DFA 47	7/86	DFA 419	8/86

*Indicates revision this quarter.

The forms used for compiling the Aid to Families with Dependent Children - Nonassistance Food Stamps (AFDC-NAFS) Eligibility Worker and Staff Cost Distribution Report (DFA 327.8A - 8D) are no longer required to be submitted with the claim. Questions concerning the discontinuance of these forms are to be directed to the County Administrative Expense Control Bureau at (916) 322-5802.

I. Hardship Supplemental Payment Program

The ACLs 86-110, 87-08, and the Errata provided information and instructions for implementing the Hardship Supplemental Payment Program. The Eligibility Time Summary and Program Allocation Ratios (DFA 323) has been revised to include the Hardship Supplemental Payment Program on Line Q. Time spent providing a Hardship Supplemental Payment to Refugee Demonstration Program (RDP) recipients and time-eligible Refugee AFDC recipients in the 19 - 31st months of residency in the United States is summarized on a blank line labeled "Hardship Supplemental Payment/19 - 31 Months". Effective with the January - March 1987 quarter, the administrative expense claim has been revised to include the Hardship Supplemental Payment Program, and a separate line for the Hardship Supplemental Payment for RDP and time-eligible Refugee AFDC recipients in months 19 - 31. Administrative costs for the Hardship Supplemental Payment are shared at 50 percent state and 50 percent county funds. Funding for the Hardship Supplemental Payment for refugees during months 19 -31 is 100 percent federal.

II. WIN Demonstration Program

The ACL 87-08 advised counties that the Employment Search activities which are part of the WIN DEMO Program must be separately identified on the DFA 52, Employment Services Time Study, on a blank line labeled "Employment Search/Non-GAIN".

For claiming purposes, all time identified on the DFA 52 is to be summarized on the DFA 53, Employment Services Time Study Summary and Program Allocation Ratios, to Line G. Salaries, benefits, and hours are to be reported on the

DFA 325.1, Line D. Direct costs for supportive services are to be reported on the DFA 325.1B, to Employment Search/Non-GAIN. Costs for this program are to be claimed as 50 percent federal, 40 percent state, and 10 percent county funds.

III. Food Stamp Work Registration Job Search Program

Effective April 1, 1987, the Food Stamp Work Registration Job Search Program will no longer be operated under contract with the United States Department of Agriculture, Food and Nutrition Service (FNS). In its place will be the Food Stamp Employment and Training Program which was mandated by Congress in the Farm Bill of 1985. A new line entitled "Food Stamp Employment Program" has been added to the claim for use effective in the April - June 1987 quarter in the four counties which are operating a program. The program will be expanded to other counties effective October 1, 1987.

IV. Electronic Data Processing

Depreciation of Electronic Data Processing Equipment

Counties were notified in ACL 82-100, issued September 30, 1982, that EDP equipment acquired by either purchase, lease-purchase, or lease-with-option to purchase must be depreciated in accordance with Internal Revenue Service (IRS) standards when the unit acquisition cost of the EDP equipment is in excess of $5,000. This dollar threshold was raised to $25,000 in ACL 83-45 issued May 23, 1983. This is to remind counties that EDP equipment costing more than $25,000 must be depreciated for claiming purposes unless a waiver has been requested and received as provided for in federal regulations at 45 CFR 95.641. These waiver requests must be submitted to the County Approvals Section as a part of the Advance Planning Document. The County Approvals Section is currently seeking authority to grant depreciation waivers and requesting guidelines relating to criteria for such waivers. At present, the only known basis is a strong case for cost/benefit advantages. (There is no federal provision allowing for a waiver to expense non-EDP equipment costing more than $25,000.)

As set forth in OMB Circular A-87, the depreciation of EDP equipment may be accomplished using any generally accepted method of computing depreciation, provided the depreciation schedule results in equitable charges to the benefiting programs in relation to the use of the equipment. This limits the depreciation method to straight-line depreciation over its useful life. The IRS depreciation guidelines indicate that the asset depreciation range for computers and peripheral equipment is between five and seven years. Any period less than five years must be justified by a useful life study.

Treatment of Equipment Acquired Through a Lease-Purchase, or Lease-With-Option to Purchase Agreement

We have recently become aware that the monthly lease payments associated with EDP equipment acquired through lease-purchase and lease-with-option to purchase contracts have been claimed for state and federal financial participation. Equipment leases of this nature generally include interest costs. As specified in OMB Circular A-87, interest and other financing costs incurred for equipment acquisition are unallowable for federal and state grant reimbursement purposes. Further, the Department of Health and Human Services (DHHS) has specified in its Grants Administration Manual (GAM), Chapter 6-10, the policy on the costs that may be charged to DHHS grants for leased buildings, land, and equipment. The State Controller has included this information as Exhibit 3502 in Chapter 3500 of the Handbook of Cost Plan Procedures for California Counties, provided to all county Auditor-Controllers and Welfare Directors. A copy of this exhibit is attached for reference purposes.

The monthly payments associated with an equipment lease may only be claimed for grant reimbursement if the lease is truly a straight rental agreement. If the lease fits the definition of either a sale-and-leaseback arrangement, a less-than-arms-length lease, or a material equity lease, the claiming of lease payments will be limited to the amount the county would be entitled to claim had the equipment been purchased outright at the beginning of the lease. This generally limits the claiming of equipment costs to depreciation over its useful life. Unallowable costs incurred in equipment acquisitions should be reported as Extraneous on the DFA 325.1.

When reviewing each equipment lease to determine the appropriate claiming method, counties should keep the following points in mind:

1. In order to meet the definition of a material equity lease, a lease must first be non-cancelable. According to Section 3550 of the State Controller's Handbook of Cost Plan Procedures, if a lease is cancelable on a remote contingency, such as failure by the Board of Supervisors to appropriate funds for the lease payments in future fiscal years, the lease is still considered to be non-cancelable for federal and state grant reimbursement purposes.

   A cancelable lease exists when, under the terms of the lease agreement, the county has the right to cancel the lease without further obligation and possession of the property reverts to the lessor. Cancelable leases will be treated as operating leases for claiming purposes, with the monthly lease payments eligible for claiming. A discussion on capital leases and operating leases can be found in Chapter 11 of the State Controller's Manual of Accounting Standards and Procedures for Counties.

2. Some counties have created a nonprofit capital asset corporation for purposes of acquiring and financing assets for use by the county. The equipment is usually acquired by this entity and leased to the county, with title of the equipment passing to the county upon completion of the lease. Equipment acquired through such an arrangement will be treated as if the county itself had acquired it directly, since the corporation is invariably not at arms-length from the county, and the lease will meet the definition of a material equity lease.

V. **Foster and Adoptive Parents Training**

This is to advise counties that Section 14-230 of Division 14, Staff Development and Training Regulations, Staff Development Manual, is in the process of being reviewed and repealed. Travel and per diem related to short term training of foster and adoptive parents are allowable as administrative costs rather than Staff Development costs. Effective immediately, counties are instructed to claim these expenditures as a direct cost on the DFA 325.1B to the appropriate Child Welfare Services or Adoptions Program component. The DFA 327.4 Direct Costs and Fraud Modification page has been revised accordingly.

All questions concerning this letter should be directed to the Fiscal Policy and Procedures Bureau at (916) 445-7046 or ATSS 8-485-7046.

ROBERT L. GARCIA
Acting Deputy Director
Administration

cc: CWDA

GRANTS ADMINISTRATION MANUAL

6-10-00 Purpose
10 Applicability
20 Definitions
30 Policy

6-10-00 PURPOSE

This chapter prescribes Department policy on the costs that may be charged to HEW grants for leased buildings, land, and equipment. The Chapter supplements the guidance on rental costs in the cost principles prescribed in Subpart Q of 45 CFR Part 74.

6-10-10 APPLICABILITY

This Chapter applies to all HEW grants, except those awarded to educational institutions subject to the cost principles in OMB Circular A-21. (Note: the cost principles for educational institutions contain provisions on rental costs which are similar to those contained in this Chapter.)

6-10-20 DEFINITIONS

A. Sale and leaseback arrangement--An arrangement under which property owned by an organization is sold to and leased back from another organization or individual.

B. Less-than-arms length lease--A lease under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to, those between (1) divisions of an organization (2) organizations under common control through common officers, directors, or members, and (3) an organization and a director, trustee, officer, or key employee of the organization, or his/her family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

C. Material equity lease--A lease under which the lessee acquires a material equity in the leased property. A material equity in the property exists if the lease is noncancelable, or is cancelable only upon the occurrence of some remote contingency, and has one or more of the following characteristics:

1. The lessee has the right to purchase the property for a price which at the beginning of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase option).

2. Title to the property passes to the lessee during or after the lease period.

3. The term of the lease (initial term plus periods covered by bargain renewal options, if any) is equal to 75% or more of the economic life of the property, i.e ., the period the property is expected to be economically usable by one or more users.

6-10-30 POLICY

A. Subject to the limitations prescribed in paragraphs B. through D. of this Section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as rental cost of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property.

B. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed under applicable costs principles had the lessee continued to own the property.

C. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed under applicable cost principles had title to the property vested in the lessee.

D. Rental costs under material equity leases are allowable only up to the amount that would be allowed under applicable cost principles had the lessee purchased the property on the date the lease agreement was executed (e.g., depreciation or use allowances, maintenance, taxes, insurance etc., but excluding unallowable costs).