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DEPARTMENT OF ADMINISTRATION

Division of Accounts and Reports

INFORMATIONAL CIRCULAR NO: 97-A-002

DATE: September 13, 1996

SUBJECT: Statewide Cost Allocation Plan

EFFECTIVE DATE:

A & R CONTACT: Roger Rooker, Accounting Services (913) 296-3404

APPROVAL:

SUMMARY: Letter of caution from the Federal Department of Health and Human Services regarding disallowances in state plans for pension and insurance funds.

The Division of Accounts and Reports is responsible for the submission of the Statewide Cost Allocation Plan (Plan) required under the provisions of the Federal Office of Management and Budget (OMB) Circular A-87. The Plan for the State of Kansas is submitted to, and approved by, the Federal Department of Health and Human Services (HHS). Recently, HHS issued correspondence advising state governments, that in recent years there have been several disallowances in state plans related to state managed pension and insurance funds. Broadly stated, these disallowances are caused by two practices:

< charging federal programs and state programs different contribution rates for pension and insurance funds; and

< transferring reserves from pension and insurance trust funds to general fund accounts without reducing federal claims under statewide cost allocation plans.

These practices violate the provisions of OMB Circular A-87, which stipulates that federal and state programs must be treated consistently. The practice of transferring reserves from trust funds that include federal matching funds is considered an over billing of actual costs. To the best of our knowledge, agencies of the State of Kansas do not participate in either of these practices.

The “funding group” concept used in the current (and previous) payroll system provides agencies with functionality which allows equitable distribution of all payroll charges. However, since it is

possible to adjust the initial distribution through journal entry adjustments, agencies should take care to ensure that any such adjustments do not result in inequities in these distributions. The Division of Accounts and Reports monitors revenue transfers from pension and trust funds and processes corresponding adjustments to federal programs where appropriate.

As stated above, we do not believe that these practices are a problem in our Plan. However, agencies should be aware that HHS has encountered these practices in other states and has disallowed costs as a result of their findings.