




County of Riverside  
OFFICE OF THE AUDITOR-CONTROLLER  
STANDARD PRACTICE MANUAL

		<b>SUBJECT: EXTERNAL RATE REVIEWS</b>
<b>SECTION:</b>	<b>11</b>	<b>CATEGORY: SPECIALIZED ACCOUNTING</b>
<b>POLICY NUMBER:</b>	<b>1101</b>	
<b>REVISED DATE:</b>	<b>2/23/17</b>	<b>APPROVED BY:</b> 

**PURPOSE:** To establish policies, procedures, and clarify the roles of the Auditor-Controller's Office (ACO) and the department developing rates/fees that are charged pursuant to Government Code Sections 54985 - 54988 and Board of Supervisors' Policy Number B-4, *Rates Charged for Current Services*.

**SCOPE:** Applies to all County departments, agencies, special districts, and authorities—collectively referred to as “entities”—that are governed by the Board of Supervisors or that are considered part of the County reporting entity.

**POLICY:** This policy should be used when it is necessary for county entities to recover the actual cost of providing service by charging a fee that is not fixed or prohibited by provisions of the law.

This policy does not apply to fees charged internally within the county or those charged for contract services to cities which are guided by Board of Supervisors' Policy B-28, *Charges for Internal Services* and Policy B-3, *Contract Services to Cities*, respectively.

**PROCEDURE:** All county departments are required to submit their request for establishing or updating a rate/fee to the Auditor-Controller's Office for methodology review and compliance with *Office of Management and Budget 2 CFR, Chapter I, Chapter II, Part 200, et al. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, prior to submitting to the Board of Supervisors' for public hearing and consideration for approval.

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**DEPARTMENT RESPONSIBILITIES**

- 1) Develop rates/fees based on actual cost of providing services. Costs should be supportable and whenever possible tie to timesheets, invoices or other documentation. A consistent and equitable methodology must be utilized when costs have to be allocated.
- 2) Actual costs should include both direct and indirect costs. Indirect costs, such as the department administrative costs utilized for the function in which the rate is being developed, as well as countywide indirect costs, such as those identified to the function in the countywide cost allocation plan, should be included in the rates.
- 3) Once all actual costs have been identified for the function in which the rate is developed, a consistent, equitable allocation basis (such as direct hours, number of employees, square foot, etc.) should be divided into the cost to arrive at the proposed rate.
- 4) Internal departmental review should be performed to ensure all costs are captured and accounted for in the rate proposal before the rate request is submitted to the ACO.
- 5) Complete the *Rate Review SPM Form SA-1*.
- 6) Submit the electronic Excel file for rate/fee calculation along with the complete rate/fee package to the ACO. It is important to take into consideration the review process timeline and allow sufficient time for revisions and involvement of other stakeholders such as the Executive Office review/approval process, Clerk of the Board agenda schedule, public hearing of proposed rate and 30 day lag between Board of Supervisor approval and effective date of rate/fee.

a. Complete rate/fee package contains the following:

**Note:** Incomplete rate/fee packages submitted to the ACO will be returned until complete documentation is submitted.

- *SPM Form SA-1*
- A copy of the related *MinuteTraq* rate/fee *Form 11*. If the proposed rate does not recover all costs of providing services, the amount not recovered by the rate and the funding source should be disclosed in the *Form 11* for full disclosure on the motion proposed to the Board.
- If multiple rates/fees are included in the *Form 11*, please provide a summary, by rate, comparing the proposed rates/fees to the current rates/fees, the dollar amount of the change, the percentage change and a brief explanation for the change. If there is only one rate, this information may be included on *Form SA-1*.
- Supporting documentation. The following list is not all inclusive and additional information may be required in order to validate the data used to calculate the rates/fees.
  - Direct salary/benefits costs by classification; including hourly rate of pay and benefits rate.
  - Direct costs by line item included in the rate/fee (non-salary/benefit).
  - Departmental administrative overhead costs included in rate/fee, as well as the total administrative cost allocated to all departments/divisions/functions (or Indirect Cost Rate Proposal (ICRP) prepared by independent outside contractor, if one exists and is used). In the absence of having a prepared ICRP, a 10% *de minimus* rate may be applied.

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- Countywide overhead costs (cost allocation plan amount, and method, if any, to allocate to proposed rate/fee).
  - Schedule of fixed asset amortization, if applicable to rate.
  - Time studies, if applicable.
  - Methodology for productive hourly rate computations, if applicable.
  - Related offsetting revenues.
- b. Timing to submit rate/fee package for review.
- It is the department's responsibility to ensure complete rate review packages are submitted timely to ensure performance of a review and any revisions, if necessary.
  - Rates should be reviewed annually to determine if updating is necessary based on the actual current cost to perform services.
  - Rate review packages should be submitted in advance for the upcoming fiscal year, if possible, to facilitate budget projections, or after the fiscal year-end, to capture actual costs.
  - Costs should not be developed at the end of the fiscal year for current year charges.
  - To ensure your submission is given prompt attention, packages should not be submitted between November and the end of January. This time is devoted to internal rate reviews for Internal Service Funds and General Support Services.

**AUDITOR-CONTROLLER'S RESPONSIBILITIES**

- 1) The ACO Audits and Specialized Accounting Division staff will review the completed rate/fee package and discuss methodology with the department to obtain an understanding of the following:
  - a. Nature of service/product being provided.
  - b. Customer base obtaining the service/product.
- 2) Review the approach utilized in identifying, summarizing and/or allocating direct and indirect costs, along with the correlation of the costs to the service product and the ability to support costs, as well as the basis of allocating the costs to customers. Examine supporting documentation, as deemed necessary.
- 3) Verify accuracy of calculation to determine cost is reasonable and viable, additionally the allocation basis is consistent and in compliance with the cost accounting standards.
- 4) The ACO will discuss with the department any significant concern observed during the review process, in order to alleviate concern and ensure compliance.
- 5) Review Form 11 to ensure consistency with data obtained during review process. If rate does not fully recover cost of providing service/product or includes other charges, for example, asset replacement costs, ensure the information is fully disclosed in the Form 11.
- 6) Once satisfied with methodology of rate(s) and Form 11, completion of the ACO review will be documented in the County MinuteTraq Board Agenda system and through it's workflow forwarded to the County Executive Office for further review and submission to the Clerk of the Board for scheduling on the Board agenda.

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