

County of Sonoma
County Cost Allocation Plan

FIELD REVIEW REPORT

For the Fiscal Year Ended June 30, 2024
Report issued May 5, 2025



Malia M. Cohen
California State Controller's Office

Field Review Report

Scope

The State Controller's Office (SCO) reviewed the County of Sonoma Cost Allocation Plan for fiscal year (FY) 2025-26 to determine whether the plan was prepared in accordance with the federal Office of Management and Budget (OMB) Circular Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Grants (Uniform Guidance), found at Title 2, Code of Federal Regulations (2 CFR), Part 200; and with supplemental guidance promulgated by the federal Department of Health and Human Services (HHS). Our review consisted principally of making inquiries with county personnel, and applying analytical procedures to the material used to prepare the cost plan. Our review does not constitute an audit in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the county's financial statements.

Background

OMB has designated HHS as the cognizant agency for cost allocation under Uniform Guidance for all California counties. By special agreement, HHS has delegated to SCO the authority to review, negotiate, and approve the countywide cost allocation plans for California counties. As a part of the approval process, we perform field reviews to verify that the data incorporated into county cost allocation plans is adequately supported.

Uniform Guidance establishes principles for determining allowable indirect costs incurred by governmental units under grants, cost reimbursement contracts, and other agreements with the federal government. Uniform Guidance provides for recognition of central service costs that benefit grant programs. It identifies the major types of costs normally incurred in grant performance and classifies them as allowable or unallowable. It provides for the development of necessary instructions related to the determination of indirect costs, and makes it possible for direct costs to be allocated against a federal grant without a transfer of funds between the grantee departments involved. It establishes criteria for direct charges for services and limits the amount of unreserved retained earnings that may be accumulated by internal service funds (ISFs). For a governmental unit to recover the costs of central support services performed outside of a grantee department, that governmental unit must prepare an annual consolidated local government-wide cost allocation plan.

Findings and Recommendations

Finding 1 – Self-Insured Health Insurance ISF

The Self-Insured Health Insurance ISF has reached a point where maintaining its own reserve is no longer a cost-effective alternative to fully insured programs. In August 2023, the Human Resources department issued a Request for Proposal for employee and retiree medical plan benefits, and received responses from six vendors. All proposals were evaluated by a subcommittee of the Joint Labor Management Benefits Committee, with the assistance of the County’s benefit consultants, the Segal Company. In January 2024, the subcommittee recommended to add a fully insured Anthem MA PPO Plan, and to renew agreements with Kaiser, Sutter Health Plus, and Western Health Advantage. This agreement with Anthem BC provides a medical plan option for County Medicare retirees and their Medicare eligible dependents, effective June 1, 2024. The implementation of this Anthem Medicare Advantage Plan will reduce the premium rate by 55.8% compared to the current County Health Plan rate of \$646.52. This term runs through May 31, 2027, with an increased month administrative fee increasing to \$48.26 per enrollee. These changes stabilize premiums, transfer underwriting risk to carriers, and reduce the need to accumulate large self-insurance reserves as the Human Resources department reduces the number of enrollees in the County Health Plan until the County can more accurately predict the date the ISF will be dissolved.

Until then, the ISF is drawing down its existing fund balance to offset rate increases for users and occasionally granting rate holidays. The County is working with its actuary to oversee the eventual dissolution of this ISF, while still providing participants with a consistent level of service.

2 CFR 200.447(d)(3) states that “contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions.” By moving to fully insured plans, the County replaces its own reserve calculations with carrier-certified rates. Additionally, under 2 CFR 200.447(d)(5), whenever funds are transferred from a self-insurance reserve to other accounts, refunds must be made to the Federal Government for its share of funds transferred. Before drawing down any remaining balance, the County must reconcile and certify that no residual federal-funded reserves remain. If any reserves remain, those reserves must be refunded to the awarding agency immediately.

Recommendation:

To ensure full compliance and accountability, SCO recommends that in the County's next Cost Plan submission, the Health ISF must include the following items:

- 1) Board of Supervisors resolutions authorizing the transition to fully insured coverage, and approving a wind-down plan with a set timeline.
- 2) Procurement records to show that all vendor selections complied with Uniform Guidance procurement standards under 2 CFR 200.320.

Comments

Discussion with County Official

We discussed the findings and recommendations in this Field Review Report with county officials at an exit conference on Friday, April 11, 2025. County officials did not raise any factual objections.

Conclusion

Please provide a response to this report within 30 days of the report issue date in memo or letter format signed by the County's chief financial officer. Specifically, your response should address the accuracy of the review findings and include your views concerning the findings and recommendations, as well as any planned corrective actions. If the response satisfactorily addresses the findings, we will approve the Sonoma County's Cost Allocation Plan for FY 2025-26.

Sincerely,

Sandeep Singh

SANDEEP SINGH, Manager
Local Government Policy Section
Local Government Programs and Services Division

Staff:

Loc Trinh, Cost Plans Supervisor
Local Government Policy Section
(916) 327-2284

Daniel Basso, Cost Plans Analyst
Local Government Policy Section
(916) 327-8905