

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

October 17, 2017

FINANCE MEMORANDUM

MEMO NO. 17-17

TO: All Department Heads

FROM: Wesley K. Machida *Wesley Machida*
Director of Finance

SUBJECT: Negotiation Agreement Approving Central Services Costs and Fringe Benefit Rates for FY 17

Attached is a copy of the negotiation agreement between the State of Hawaii and the U.S. Department of Health and Human Services on behalf of the federal government approving central services costs and fringe benefit rates for the fiscal year ending June 30, 2017.

Although FY 17 is already completed, the negotiation agreement is being transmitted to you for your information and records.

Please note that the central services costs listed in Exhibit A of the agreement are costs that may be allocated only to federal grants, contracts, and other agreements performed by your departments and attached agencies. They should not be construed to reflect the full costs of central services provided to you.

As previously reported in Finance Memorandum No. 17-14, dated October 3, 2017, the fringe benefit rate for FY 17 consisted of the following items:

	<u>FY 17</u>
Pension Accumulation*	17.00%
Pension Administration	0.00%
Retiree Health Insurance	9.39%
Employees' Health Fund	7.60%
Workers' Compensation	1.06%
Unemployment Compensation	0.09%
Social Security	6.20%
Medicare	1.45%
Other Post-Employment Benefits	<u>12.69%</u>
 Composite Rate	 55.48%

*It is noted that during their review of the SWCAP, Cost Allocation Services (CAS) discovered the following:

3. The actuary for the Hawaii Employees' Retirement System was not tasked to compute the actuarially determined contribution rates for FY 15. As a result, the ERS instructed the actuary to go back and calculate the rates. Therefore, it was agreed that the review of the pension costs will be completed once the actuarially determined contribution rates are provided.
4. The State's actuarially determined pension contributions exceeded the Governmental Accounting Standards Board (GASB) Statement No. 68 calculated pension expense. However, 2CFR200.431(g)(3) only allows pension plan costs determined in accordance with GAAP (i.e., GASB 68). The Office of Management and Budget (OMB) is aware of the issue and is currently considering revising the regulations. Therefore, CAS is reserving the right to make an adjustment to the billed pension costs to disallow the pension contributions in excess of the GASB 68 calculated pension expense if OMB does not revise the regulation or issue an exception.

Should you have any questions or require further information, please contact me, or your staff may contact Mr. Neal Miyahira, Administrator of this department's Budget, Program Planning and Management Division, at 586-1530.

Attachment

COST ALLOCATION AGREEMENT
STATE AND LOCAL GOVERNMENTS

State of Hawaii
Department of Budget & Finance
P.O. Box 150
Honolulu, HI 96810

DATE: October 6, 2017
FILING REF.: The preced-
ing agreement was dated:
3/1/16 G13320

SECTION I: ALLOCATED COSTS

The central service costs listed in Exhibit A, attached, are approved on a fixed basis and may be included as part of the costs of the State/local departments and agencies indicated during your fiscal year ended June 30, 2017 for further allocation to Federal grants, contracts and other agreements performed at those departments and agencies.

SECTION II: BILLED COSTS

In addition to Section I, which provides for services furnished but not billed, the services listed below are furnished and billed to State/local departments and agencies.

- A. Department of Accounting and General Services
 - Information and Communication Services Division*
 - State Motor Pool
 - Risk Management
 - Building Leases
- B. Office of the Attorney General
- C. Fringe Benefits*

*See special remarks

STATE/LOCALITY: State of Hawaii

AGREEMENT DATE: October 6, 2017

SECTION III: SPECIAL REMARKS

Cost Allocation Plan

Charges for Fringe Benefits cited in Section II are billed only to special (restricted) fund activities including Federal projects. Department/agency indirect cost rate proposals will include any adjustments necessary to segregate these costs in Section I between the following categories: (1) those which are identifiable to direct programs funded from State general funds, and (2) those which are identifiable with administrative functions of the department/agency. Costs identified with category (1) will be included in the direct cost base, and costs identified with category (2) will be considered to be indirect costs.

Data Processing charges will be billed in accordance with rates established by the State and included in the records of the Information and Communications Services Division (ICSD). The variances between billed costs and actual costs must be carried forward in the computation of future billing rates; but no later than the second succeeding year. It is the responsibility of ICSD to notify departments of billing amounts for each department.

Fringe Benefits

Charges for fringe benefits cited in Section II include pension accumulation, pension administration, other post-retirement benefits, social security taxes, Medicare, health, dental, and life insurance, unemployment compensation, and workers compensation.

For charging purposes, the following benefits rates may be used:

	Fixed for the Period
	<u>7/1/16 - 6/30/17</u>
Pension Accumulation	17.00%
Pension Administration	0.00%
Other Post-Retirement Benefits	12.69%
Retiree Health Insurance	9.39%
Workers' Compensation	1.06%
Unemployment Compensation	0.09%

All other benefits will be charged based on the actual rates in effect at the time the charges are made.

STATE/LOCALITY: State of Hawaii

AGREEMENT DATE: October 6, 2017

SECTION IV: CONDITIONS

The amounts approved in Section I and the billings for the services listed in Section II are subject to the following conditions:

A. LIMITATIONS: (1) Charges resulting from this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. (2) Such charges represent costs incurred by the State/locality which are legal obligations of the State/locality and are allowable under Title 2 of the Code of Federal Regulations, Part 200 (2 CFR 200). (3) The same costs that are treated as indirect costs are not claimed as direct costs. (4) Similar types of costs are accorded consistent accounting treatment. (5) The information provided by the State/locality which was used to establish this Agreement is not later found to be materially incomplete or inaccurate.

B. ACCOUNTING CHANGES: This Agreement is based on the accounting system purported by the State/locality to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from use of this Agreement require prior approval of the authorized representative of the Cognizant Agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from allocated cost to a billed cost. Failure to obtain approval may result in cost disallowances.

C. FIXED AMOUNTS: If fixed amounts are approved in Section I of this Agreement, they are based on an estimate of the costs for the period covered by the Agreement. When the actual costs for this period are determined, adjustments will be made to the amounts of a future year to compensate for the difference between the costs used to establish the fixed amounts and actual costs.

D. BILLED COSTS: Charges for the services listed in Section II will be billed in accordance with rates established by the State/locality. These rates will be based on the estimated costs of providing the services. Adjustments for variances between billed costs and the actual allowable costs of providing the services, as defined by 2 CFR 200, will be made in accordance with procedures agreed to between the State/locality and the Cognizant Agency.

E. USE BY OTHER FEDERAL AGENCIES: This Agreement was executed in accordance with the authority in 2 CFR 200, and should be applied to grants, contracts and other agreements covered by 2 CFR 200, subject to any limitations in Paragraph A above. The State/locality may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.

BY THE STATE/LOCALITY

State of Hawaii
(STATE/LOCALITY)

Wesley Machida

(SIGNATURE)

Wesley K. Machida

(NAME)

Director of Finance

(TITLE)

Oct 19, 2017

(DATE)

BY THE COGNIZANT AGENCY

ON BEHALF OF THE FEDERAL GOVERNMENT
DEPARTMENT OF HEALTH AND HUMAN SERVICES

(AGENCY)

Arif M. Karim -A

Digitally signed by Arif M. Karim -A
DN: c=US, o=U.S. Government, ou=HHS, ou=PSC, ou=People,
cn=Arif M. Karim -A, 0.9.2342.19200300.100.1.1=2000212895
Date: 2017.10.11 13:10:51 -0500

(SIGNATURE)

Arif Karim

(NAME)

Director, Cost Allocation Services

(TITLE)

October 6, 2017

(DATE)

HHS Representative

Naomi Tamashiro

Telephone

(415) 437-7820

State of Hawaii
 Summary of Fixed Costs for
 State Fiscal Year Ending June 30, 2017

Grantee Departments	Building		Legislative Auditor	DAGS Admin	Risk Management		Central Services	Lease Mgt	Records	State Procurement Office	
	Depreciation										
Retirement Fund	2,371		0	0	0	0	3,885	0	0	0	0
AG-not central services	455,519		4,689	0	0	0	1,007,058	48,339	39,898	0	32,349
Governor-Not CS	694,698		1,108	0	0	0	884,244	6,910	646	0	52,165
Lieutenant Governor	111,957		140	0	0	0	95,136	0	89	0	49,753
Business & Economic Development*	104,189		(47,874)	0	0	0	335,949	3,714	2,032	0	59,858
Taxation	492,762		1,711	0	0	0	952,646	0	5,026	0	45,312
Agriculture	135		3,385	0	0	0	262,348	0	379	0	43,316
Land & Natural Resources	627,761		268,085	0	0	0	1,184,772	25,514	1	0	(45,155)
Transportation	14,165		53,719	0	0	0	(389,650)	3,714	1,861	0	(21,264)
Education*	286,889		123,768	0	0	0	1,795,987	33,467	19,707	0	149,652
University of Hawaii*	20,385		57,819	0	0	0	87,986	0	8,463	0	51,862
Defense	3,688		306,499	0	0	0	14,139	7,432	369	0	22,274
Health	(37,564)		97,142	0	0	0	2,791,201	96,683	50,568	0	(165,530)
Hawaiian Home Lands	2,576		1,111	0	0	0	5,823	6,910	4,627	0	44,487
Judiciary	(55,280)		0	0	0	0	120,269	0	0	0	44,465
Human Services	53,712		174,371	0	0	0	1,623,325	163,675	41,176	0	(29,924)
Labor	858,379		126,078	0	0	0	879,709	26,557	56,549	0	13,429
DAGS not CS	106,646		(17,557)	2,571,022	0	0	55,542	18,592	0	0	0
DAGS Risk Mgmt	14,775		0	29,008	0	0	30,218	0	0	0	0
DAGS Motor Pool	0		0	56,956	0	0	3,196	0	0	0	0
DAGS Lease-Hemmeter	781,447		0	0	0	0	1,154,710	0	0	0	0
DAGS Lease-Kapolei	1,184,872		0	0	0	0	1,879,778	0	0	0	0
ICSD not CS	408,309		0	1,058,761	0	0	662,049	0	0	0	0
DAGS Surplus Property	(10,410)		0	16,671	0	0	100,468	0	0	0	0
OIMT	84,104		0	0	0	0	178,120	0	0	0	0
B & F not CS	70,066		182,271	0	0	0	404,204	26,035	0	0	0
Comm & Consumer Affairs	301,024		19,380	0	0	0	(112,399)	14,873	7,866	0	45,313
Public Safety	84,461		(11,617)	0	0	0	(134,592)	40,379	18,435	0	(2,613)
Legislature	2,025,352		0	0	0	0	2,067,361	0	456	0	50,377
Hawaiian Affairs	0		0	0	0	0	0	0	379	0	43,104
Honolulu County	0		0	0	0	0	0	0	0	0	62,752
Maui County	0		0	0	0	0	0	0	0	0	53,728
Hawaii County	0		0	0	0	0	0	0	0	0	55,402
Kauai County	0		0	0	0	0	0	0	0	0	57,226
Health Systems Corporation	0		0	0	0	0	0	0	0	0	(1,456)
All Others*	638,946		(80)	0	0	0	1,014,888	0	0	0	0
Summary Total	9,325,934		1,344,148	3,732,418	0	0	18,958,270	522,794	258,557	0	710,900

Groups (denoted by *)

State of Hawaii
 Summary of Fixed Costs for
 State Fiscal Year Ending June 30, 20

EXHIBIT A

Grantee Departments	Accounting				ICSD Charges	Budget and Finance		B&F Financial Administration	Employers		Human Resources
	Pre-Audit	Internal Audit	Finance	Administration		Union Trust Fund	Resources				
Retirement Fund	0	0	0	0	(76)	820,359	0	0	171,093	102,900	
AG-not central services	57,369	28,577	(54)	0	0	57,602	3,146	0	3,228	477,457	
Governor-Not CS	7,246	3,676	0	0	0	81,731	236	0	306	59,962	
Lieutenant Governor	4,032	908	0	0	0	950	81	0	112	18,116	
Business & Economic Development*	39,740	15,819	0	0	0	261,393	1,924	0	1,433	211,698	
Taxation	14,480	226,766	161,296	0	0	2,223	166,906	0	1,930	292,360	
Agriculture	93,991	21,696	(108)	0	0	131,736	2,763	0	1,407	208,558	
Land & Natural Resources	353,096	57,894	(81)	0	0	122,343	7,512	0	4,046	599,455	
Transportation	292,696	104,282	0	0	0	197,474	11,552	0	12,322	1,807,116	
Education*	504,467	536,084	508,571	0	0	179,871	1,815	0	118,569	684,613	
University of Hawaii*	(10,544)	223,018	(54)	0	0	66,439	817	0	47,154	(435,184)	
Defense	20,632	21,737	(3,518)	0	0	75,579	2,500	0	1,925	286,958	
Health	415,171	206,054	0	0	0	476,694	16,376	0	14,001	2,049,915	
Hawaiian Home Lands	67,613	16,143	0	0	0	79,312	2,336	0	672	100,235	
Judiciary	272,522	175,978	(12,496)	0	0	1,405	24,601	0	10,148	616,781	
Human Services	456,176	252,477	0	0	0	133,815	66,088	0	10,306	1,499,964	
Labor	68,992	(248,991)	(54)	0	0	186,679	(6,332)	0	2,611	371,885	
DAGS not CS	0	0	0	0	349,527	0	0	0	0	0	
DAGS Risk Mgmt	0	0	0	0	0	0	0	0	0	0	
DAGS Motor Pool	0	0	0	0	0	0	0	0	0	0	
DAGS Lease-Hemmeter	0	0	0	0	0	0	0	0	0	0	
DAGS Lease-Kapolei	0	0	0	0	0	0	0	0	0	0	
ICSD not CS	0	0	0	0	0	0	0	0	0	0	
DAGS Surplus Property	0	0	0	0	0	0	0	0	0	0	
OMMT	0	0	0	0	0	0	0	0	0	0	
B & F not CS	0	0	0	0	4,169	1,776,933	0	0	0	0	
Comm & Consumer Affairs	110,109	18,494	(108)	0	0	85,605	1,998	0	2,112	312,811	
Public Safety	228,740	41,045	(596)	0	0	107,318	0	0	13,439	2,026,941	
Legislature	3,849	7,520	69,487	0	0	1,405	239	0	3,210	187,251	
Hawaiian Affairs	(5,242)	3,007	0	0	0	1,405	0	0	904	54,558	
Honolulu County	(29)	12	0	0	0	1,405	2	0	70,226	44,310	
Maui County	(24)	61,065	0	0	0	1,405	10,176	0	16,974	10,672	
Hawaii County	(191)	124	0	0	0	1,405	19	0	17,956	11,148	
Kauai County	(65)	(9)	0	0	0	1,405	(1)	0	9,000	5,538	
Health Systems Corporation	0	0	0	0	0	0	0	0	21,389	52,192	
All Others*	9,438	6,051	0	0	0	20,210	1,083	0	11,873	156,898	
Summary Total	3,004,264	1,779,427	722,265	0	353,620	4,874,101	317,837	0	568,346	11,815,108	

Groups (denoted by *)

State of Hawaii
 Summary of Fixed Costs for
 State Fiscal Year Ending June 30, 20

EXHIBIT A

Grantee Departments	Governor	Disability Compensation	Pub Safety Protective Svcs	Total Fixed Costs
Retirement Fund	(55,439)	0	0	1,045,093
AG-not central services	(1,027)	1,454	(5,242)	2,210,382
Governor-Not CS	(945,471)	302	0	847,759
Lieutenant Governor	(31)	0	961,053	1,242,306
Business & Economic Development*	(452)	6,989	(11,303)	985,109
Taxation	(564)	1,887	0	2,364,521
Agriculture	(445)	5,300	0	774,481
Land & Natural Resources	(1,278)	7,019	177,706	3,388,690
Transportation	(4,034)	32,120	4,387	2,120,460
Education*	(39,679)	197,686	93,906	5,195,273
University of Hawaii*	(15,595)	63,494	0	166,060
Defense	(601)	2,360	0	761,973
Health	(4,606)	16,515	25,645	6,048,265
Hawaiian Home Lands	(206)	(97)	0	331,552
Judiciary	(3,311)	7,390	0	1,202,472
Human Services	(3,440)	13,488	0	4,457,209
Labor	(933)	947	0	2,335,505
DAGS not CS	0	0	(28,871)	3,054,901
DAGS Risk Mgmt	0	0	10,768	84,769
DAGS Motor Pool	0	0	0	60,152
DAGS Lease-Hemmeter	0	0	0	1,936,157
DAGS Lease-Kapolei	0	0	0	3,064,650
ICSD not CS	0	0	101,863	2,230,782
DAGS Surplus Property	0	0	0	106,729
OLMT	0	0	39,737	301,961
B & F not CS	0	0	0	2,453,678
Comm & Consumer Affairs	(672)	936	0	807,372
Public Safety	(4,013)	54,049	26,364	2,487,740
Legislature	(847)	459	0	4,416,099
Hawaiian Affairs	(284)	(320)	0	97,511
Honolulu County	(28,029)	246,680	0	397,329
Maui County	(6,721)	31,774	0	179,049
Hawaii County	(6,773)	31,399	0	110,489
Kauai County	(3,312)	29,013	0	98,795
Health Systems Corporation	(8,047)	76,937	0	143,013
All Others*	(3,610)	6,320,370	243,607	8,419,574
Summary Total	(1,139,420)	7,149,931	1,639,420	65,937,920

Groups (denoted by *)