State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: RIHUI ZHANG
Division Chief
Local Assistance

Date: August 26, 2015

File: P1590-0310
P1590-0311
P1590-0312

From: MARSUE MORRILL, CPA
Chief, External Audits-Local Governments
Audits and Investigations

C.1.PRG

Subject: **AUDIT REPORT – INDIRECT COST RATE PROPOSAL – COUNTY OF SAN JOAQUIN, DEPARTMENT OF PUBLIC WORKS**

C.1.PRG At the request of the California Department of Transportation (Caltrans), Audits and Investigations (A&I), the State Controller's Office (SCO) conducted an audit of the County of San Joaquin, Department of Public Works' (County) Indirect Cost Rate Proposals (ICRP) for fiscal years (FY) 2009/10, 2010/11, and 2011/12 to determine whether the ICRPs are presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225.

Based on audit work performed by the SCO, we determined the County's ICRPs are presented in accordance with Title 2 CFR Part 225. **The approved indirect cost rates are as follows.**

Rate Type	Audited Rate	FY	Division	Issue Links
Final	44.39%	09/10	Engineering	ISS.1
Final	49.35%	09/10	Development Services	ISS.2
Fixed	44.16%	10/11	Engineering	ISS.3
Fixed	66.70%	10/11	Development Services	ISS.4
Fixed	47.27%	11/12	Engineering	ISS.5
Fixed	54.47%	11/12	Development Services	ISS.6

*Base: Total Direct Salaries and Fringe Benefits

The SCO determined the methodology used by the County to allocate casualty insurance to its divisions was not properly supported. As a result, casualty insurance charges for the Division of Development Services (Division) were overstated by $81,560 in FY 2009/10 and $72,770 in FY 2010/11. This misallocation was responsible for the Division's rates being overstated by 9.07 and 16.40 percent for FYs 2009/10 and 2010/11 respectively.

The Division's audited indirect rates for FY 2009/10 and 2010/11 were found to be lower than the rates of 58.42 and 83.10 percent previously accepted on July 8, 2011 and July 11, 2011 respectively. The County, therefore, must reconcile all prior reimbursement claims using the

lower audited rates. Since, the Division's audited indirect rates for FY 2009/10, 2010/11, and 2011/12 are higher than the rates of 44.01, 44.12 and 46.77 percent previously accepted on July 8, 2011, July 11, 2011, and February 9, 2012 respectively, the County may use the higher audited rates to reconcile prior reimbursement claims. The change between the audited and accepted rates for FY 2011/12's Division is less than one percent and therefore does not require an adjustment to previous reimbursement claims.

In addition, the SCO recommended the County implement policies and procedures to ensure only reasonable, allowable, and allocable costs are included in the indirect cost pool and that these indirect costs are distributed to all benefitted direct costs objectives. Please provide our office with a corrective action plan to address this recommendation, including time lines, by October 9, 2015.

If you have any questions, contact Alice Lee, Audit Manager, at (916) 323-7953.

Attachment

c: Janice Richard, Director, Financial Services, Federal Highway Administration
Jack Lord, Director, Planning and Air Quality, Federal Highway Administration
Kara Magdaleno, Administrative Program Assistant, Planning and Finance, Federal Highway Administration
C. Edward Philpot, Jr., Branch Chief, Grants/Public Engagement, Office of Community Planning, California Department of Transportation
Andrew Finlayson, Chief, State Agency Audit Bureau, California State Controller's Office
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation, California Department of Transportation
Parminder Singh, DLAE, Chief, Office of Local Assistance, District 10, California Department of Transportation
Ezequiel Castro, Chief, Associate Transportation Planner, Division of Mass Transportation, California Department of Transportation
Erin Thompson, Senior Environmental Planner, Division of Transportation Planning, California Department of Transportation
Michael Mock, Audit Manager, State Agency Audit Bureau, State Controller's Office
Sean Tsao, Audit Manager, State Agency Audit Bureau, State Controller's Office
Karen Hunter, Rail Transportation Associate, Division of Rail, California Department of Transportation
Lisa Gore, Associate Accounting Analyst, Division of Accounting, California Department of Transportation
Annette Goudeau, Acting Audits & Federal Performance Measures Analyst, Division of Local Assistance, California Department of Transportation
David Saia, LAPM/LAPG Coordinator, Division of Local Assistance, California Department of Transportation

BETTY T. YEE
California State Controller

June 12, 2015

MarSue Morrill, Chief
External Audits-Local Governments
Audits and Investigations, MS 2
California Department of Transportation
1304 O Street, Suite 200, MS 2
Sacramento, CA 95814

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of the San Joaquin County Department of Department of Public Works. The audit period included ICRPs for fiscal year (FY) 2009-10, FY 2010-11, and FY 2011-12.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 225, Appendices A–F, and the California Department of Transportation's (Caltrans) Local Program Procedures (LPP) 04-10. The county's management is responsible for fair presentation of the ICRPs.

The indirect cost rates were adjusted because:

The State Controller's Office completed an audit of the San Joaquin County Public Works Department's Indirect Cost Rate Proposals (ICRPs) for fiscal year (FY) 2009-10, FY 2010-11, and FY 2011-12. The ICRP package consisted of two individualized indirect cost rates, one for the Engineering Division and one for the Development Services Division, both rates included a built-in indirect cost rate for the Administration Division. The county used the final rate method to determine its proposed rates for FY 2009-10, meaning that rates are based on actual costs from FY 2009-10. Proposed final rates were 44.01% for the Engineering Division and 58.42% for the Development Services Division for FY 2009-10. The county used the fixed rate with carry-forward option for FY 2010-11 and FY 2011-12, meaning that the rates are based on the previous two years' actual costs. This is the first time the county will begin using this method. The proposed rates for the Engineering Division were 44.12% for FY 2010-11 and 46.77% for FY 2011-12, for the Development Services Division were 83.10% for FY 2010-11 and 54.28% for FY 2011-12, and the Administration Division was 15.95% for FY 2009-10.

Our audit determined indirect cost rates for the Engineering Division of 44.39% for FY 2009-10; 44.16% for FY 2010-11; and 47.27% for FY 2011-12; resulting in differences of 0.38%, 0.04%, and 0.50% respectively. We determined the Development Services Division rates of 49.35% for FY 2009-10; 66.70% for FY 2010-11; and 54.47% for FY 2011-12; resulting in differences of -9.07%, -16.40%; and 0.19% respectively. We determined the Administrative Division rate of 15.91% for FY 2009-10; resulting in a difference of -.04%. We identified overstated and understated indirect costs and instances of unallowable indirect costs that caused the proposed rates to be overstated and understated.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Carolyn Berg for

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Andrew Finlayson, Chief, State Agency Audits Bureau
Division of Audits, State Controller's Office
Michael Mock, Manager, State Agency Audits Bureau
Division of Audits, State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of the San Joaquin County Department of Public Works. The audit period included ICRPs for fiscal year (FY) 2009-10, FY 2010-11, and FY 2011-12.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendices A–F, and the California Department of Transportation's (Caltrans) Local Program Procedures (LPP) 04-10. The county's management is responsible for fair presentation of the ICRP.

The ICRP package consisted of two individualized indirect cost rates, one for the Engineering Division and one for the Development Services Division. Both rates included a built-in indirect cost rate for the Administration Division. The county used the final rate method to determine its proposed rates for FY 2009-10, meaning that rates are based on actual costs from FY 2009-10. Proposed final rates were 44.01% for the Engineering Division and 58.42% for the Development Services Division for FY 2009-10. The county used the fixed rate with carry-forward option for FY 2010-11 and 2011-12, meaning that the rates are based on the previous two years' actual costs. This is the first time the county will begin using this method. The proposed rates for the Engineering Division were 44.12% for FY 2010-11 and 46.77% for FY 2011-12; for the Development Services Division were 83.10% for FY 2010-11 and 54.28% for FY 2011-12; and for the Administration Division was 15.95% for FY 2009-10.

Our audit determined indirect cost rates for the Engineering Division of 44.39% for FY 2009-10; 44.16% for FY 2010-11; and 47.27% for FY 2011-12; resulting in differences of 0.38%, 0.04%, and 0.50% respectively. We determined the Development Services Division rates of 49.35% for FY 2009-10; 66.70% for FY 2010-11; and 54.47% for FY 2011-12; resulting in differences of -9.07%, -16.40%, and 0.19% respectively. We determined the Administrative Division rate of 15.91% for FY 2009-10, resulting in a difference of -.04%. We identified overstated and understated indirect costs and instances of unallowable indirect costs that caused the proposed rates to be overstated and understated.

Background

San Joaquin County is governed by a five-member board of supervisors that is responsible for setting policy, enacting ordinances and regulations, as well as overseeing the various county departments.

The Public Works Department (PWD) is responsible for the maintenance, reconstruction, and construction of county roads, highways, and bridges. The department also is responsible for flood control and drainage, and reviews all subdivision development plans. The PWD also is charged with maintaining and operating county sanitary landfills, sewage disposal plants, and domestic water systems.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1590-0310, P1590-0311, and P1590-0312). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0044, dated June 1, 2014, between the SCO and Caltrans, which provides that the SCO will perform audits of proposed ICRPs submitted to Caltrans from local government agencies to ensure compliance with 2 CFR 225 (formerly Office of Management and Budget Circular A-87) and LPP 04-10.
- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state and may audit the disbursement of any money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The scope of the audit was limited to the select financial and compliance activities. The audit consisted of recalculating the ICRPs and making inquiries of department personnel. The audit also included tests of individual accounts in the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs and an assessment of the internal control system related to the ICRPs for FY 2009-10 through FY 2011-12. Changes to the financial management system subsequent to FY 2009-10 were not tested and, accordingly, our conclusion does not pertain to changes arising after that fiscal year.

We conducted this performance audit in accordance with the generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was conducted to determine whether (1) the county's ICRPs were presented in compliance with the cost principles prescribed in 2 CFR 225; (2) the ICRPs were in compliance with the requirements for ICRP preparation and application identified in the Caltrans LPP 04-10; and, (3) the county's accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed the agency's prior audit reports;
- Reviewed the agency's written policies and procedures relating to accounting systems, procurement, and project/contract management;
- Interviewed employees, completed the internal control questionnaire, and performed a system walk-through in order to gain an understanding of the agency's internal controls, accounting systems, timekeeping and payroll systems, procurement and billing processes;
- Performed limited test of controls on a haphazard sample of transactions to confirm and validate existing documented processes and procedures;
- Tested project costs accounting systems;
- Tested indirect cost and direct cost bases by validating amounts claimed to supporting evidential matter; and
- Tested the ICAP calculation by ensuring that only allowable costs were included within the rate.

We did not audit San Joaquin County's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the proposed ICRPs were in accordance with the 2 CFR 225 and LLP 04-10. In addition to developing appropriate auditing procedures, our review of internal control was limited to gaining an understanding of the transaction flow, accounting system, and applicable controls to determine the department's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

The county proposed indirect cost rates for the Engineering Division of 44.01% for FY 2009-10, 44.12% for FY 2010-11, and 46.77% for FY 2011-12. The county also proposed indirect cost rates for the Development Services Division of 58.42% for FY 2009-10, 83.10% for FY 2010-11, and 54.28% for FY 2011-12. The county also proposed indirect cost rates for the Administration Division of 15.91% for FY 2009-10. Our audit determined indirect cost rates for the Engineering division of 44.39%, a difference of 0.38% for FY 2009-10; 44.16%, a difference of 0.04% for FY 2010-11; and 47.27%, a difference of 0.50% for FY 2011-12. Our audit determined indirect cost rates for the Development Services division of 49.35%, a difference of -9.07% for FY 2009-10; 66.70%, a difference of -16.40% for FY 2010-11; and 54.47%, a difference of 0.19% for FY 2011-12. Our audit determined indirect cost rates for the Administration Division of 15.91%, a difference of -.04% for FY 2009-10. We identified overstated and understated indirect costs and instances of unallowable indirect costs that caused the proposed rates to be overstated and understated.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted on October 29, 2013. Jeri Wong, Accounting Manager; Roger Janes, Business Administrator; and Jeff Wolfkamp, Assistant Auditor-Controller, agreed with the audit results. Ms. Wong declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of San Joaquin County; the California Department of Transportation; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Carolyn Barry for

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 12, 2015

Schedule 1—
Summary of Proposed and Audited Rates
July 1, 2009, through June 30, 2012

Division Fiscal Year	Proposed Rate	Audited Rate	Difference	Reference
Engineering Division				
FY 2009-10	44.01%	44.39%	0.38%	Schedule 1A
FY 2010-11	44.12%	44.16%	0.04%	Schedule 1D
FY 2011-12	46.77%	47.27%	0.50%	Schedule 1F
Development Services Division				
FY 2009-10	58.42%	49.35%	(9.07%)	Schedule 1B
FY 2010-11	83.10%	66.70%	(16.40%)	Schedule 1E
FY 2011-12	54.28%	54.47%	0.19%	Schedule 1G
Administration Division				
FY 2009-10	15.95%	15.91%	(0.04%)	Schedule 1C

Schedule 1A—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Engineering Division
Fiscal Year 2009-10

	Proposed Rate FY 2009-10	Audited Rate 2009-10	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 4,731,383.32	$ 4,731,383.32	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits	781,943	781,943	-	
Office expense - general	1,627	1,627	-	
Office supplies - purchasing ISF	5,288	5,288	-	
Printing/duplicating	175	175	-	
Postage	1,800	1,800	-	
Office expense - subscriptions/periodicals	2,771	2,771	-	
Communications	31,492	31,492	-	
Communications - cell phones	4,113	4,113	-	
Memberships	496	496	-	
Maintenance - equipment	2,856	2,856	-	
Maintenance - software	34,980	34,980	-	
Rents and leases - copy machines	369	369	-	
Transportation and travel	144	144	-	
Trans and travel - training seminars, workshops	2,659	2,659	-	
Professional services - County	75	75	-	
Professional and special services - engineering	16,445	12,290	(4,155)	Finding 1
Publications and legal notices	4,798	4,798	-	
Special departmental expense	3,121	3,121	-	
Licenses and permits	500	500	-	
Engineering supplies	544	544	-	
Software and related licenses	14,399	14,399	-	
Clothing and personal supplies	187	187	-	
Household expense	982	982	-	
Utilities	1,236	1,236	-	
Small purchases - furniture	920	920	-	
Radio maintenance - ISF	895	895	-	
Rents and leases - office automation equip	38,324	38,324	-	
Insurance - workers' compensation	26,873	26,873	-	
Insurance - casualty	34,285	56,209	21,924	Finding 1
Equipment usage	991	991	-	
Subtotal Division Indirect Costs	1,015,287	1,033,056	17,769	
First-tier Administration allocation	754,656	754,656	-	
Division A-87 County costs	312,321	312,321	-	
Carry-forward from 2 years prior	178	178	-	
Total Indirect Costs	$ 2,082,442	$ 2,100,211	$ 17,769	
Total Direct Salaries and Benefits	$ 4,731,383	$ 4,731,383	$ -	
Indirect Cost Rate	44.01%	44.39%	0.38%	

Schedule 1B—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Development Services Division
Fiscal Year 2009-10

	Proposed Rate FY 2009-10	Audited Rate FY 2009-10	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 899,088	$ 899,088	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits	185,221.35	185,221.35	-	
Office expense - general	1,821.76	1,821.76	-	
Printing	34.88	34.88	-	
Postage	1,715.33	1,715.33	-	
Office expense - subscriptions/periodicals	121.37	121.37	-	
Communications	9,930.44	9,930.44	-	
Communications - cell phones	193.19	193.19	-	
Transportation and travel - training seminars workshops	184.04	184.04	-	
Professional services - County	72.19	72.19	-	
Special departmental expense	696.11	696.11	-	
Software and related licenses	3,758.53	3,758.53	-	
Small tools and instruments	85.58	85.58	-	
Rent and leases - office automation equipment	12,715.61	12,715.61	-	
Insurance - workers' compensation	6,095.00	6,095.00	-	
Insurance - casualty	92,438.17	10,878.00	(81,560.17)	Finding 1
Equipment usage	312.76	312.76	-	
Subtotal Division Indirect Costs	$ 315,396.31	$ 233,836.14	$(81,560.17)	
First-tier Administration allocation	143,404.46	143,404.46	-	
Division A-87 County costs	66,463.96	66,463.96	-	
Total Indirect Costs	$ 525,265	$ 443,705	$(81,560.17)	
Total Direct Salaries and Benefits	$ 899,088	$ 899,088	-	
Indirect Cost Rate	58.42%	49.35%	(9.07%)	

Schedule 1C—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Public Works Administration
Fiscal Year 2009-10

	Proposed Rate FY 2009-10	Audited Rate FY 2009-10	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 24,429,167.71	$ 24,429,167.71	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits - actual	2,879,099	2,879,099	-	
Office expense - general	2,585	2,585	-	
Office supplies - purchasing ISF	32,829	32,829	-	
Printing	1,429	1,429	-	
General office supplies	3,406	3,406	-	
Office Expense - blue prints and reprographics	109	109	-	
Office expense - postage	5,219	5,219	-	
Office Expense - subs and periodicals	3,208	3,208	-	
Communications - cell phones	68,414	68,414	-	
Communications services - cell phone	898	898	-	
Memberships	6,728	6,728	-	
Maintenance - equipment	3,439	3,439	-	
Maintenance - software	12,147	12,147	-	
Maintenance of equipment - information systems	7,130	7,130	-	
Rents and leases - copying machine	52,600	52,600	-	
Transportation and travel - general	583	583	-	
Transportation and travel - training	9,870	8,118	(1,752)	Finding 1
Transportation and travel - motorpool	15,744	15,744	-	
Transportation and travel - MP - replace factor	747	747	-	
Professional services - general	7,032	7,032	-	
Professional services	44,612	36,032	(8,580)	Finding 1
Professional services - County	182,018	182,018	-	
Training tools and supplies	178	178	-	
Professional and special services - training	17	17	-	
Publications and legal notices	-	-	-	
Special departmental expense	3,799	3,799	-	
Licenses and permits	125	125	-	
Software and related licenses	99,393	99,393	-	
Safety training material	1,850	1,850	-	
Miscellaneous expense	1,750	1,750	-	
Household expense	741	741	-	
Household expense - janitor service	17,099	17,099	-	
Bottled water - ISF	291	291	-	
Utilities	77,425	77,425	-	
Maintance - structure and ground	6,141	6,141	-	
Maintence - structure/grounds - security alarm system	208	208	-	
Rents - structures and grounds	17,001	17,001	-	
Small tools and instruments	5,106	5,106	-	
Small purchases - furniture	1,121	1,121	-	

Schedule 1C (Continued)—

	Proposed Rate FY 2009-10	Audited Rate FY 2009-10	Difference	Reference
Subtotal Division Indirect Costs	$ 3,572,093	$ 3,561,761	$ (10,332)	
Radio maintenance - ISF	2,730	2,730	-	
Rents/Leases - radio ISF	108	108	-	
Rents/Leases -audio equipment - ISF	23,802	23,802	-	
Data processing charges	25,368	25,368	-	
Insurance - workers' compensation	19,272	19,272	-	
Insurance - casualty	88,442	88,442	-	
Materials from inventory store	5,879	5,879	-	
County A-87 indirect cost charges	158,365	158,365	-	
Total Indirect Costs	$ 3,896,059	$ 3,885,727	$ (10,332)	
Total Direct Salaries and Benefits	$ 24,429,168	$ 24,429,168	-	
Indirect Cost Rate	15.95%	15.91%	(0.04%)	

Schedule 1D—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Engineering Division
Fiscal Year 2010-11

	Proposed Rate FY 2010-11	Audited Rate FY 2010-11	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 5,927,269	$ 5,927,269	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits	805,956	805,956	-	
Office expense - general	814	814	-	
Office supplies - purchasing ISF	5,162	5,162	-	
Printing/duplicating	84	84	-	
Postage	1,441	1,441	-	
Office expense - subscriptions/periodicals	788	788	-	
Communications	29,169	29,169	-	
Communications - cell phones	4,003	4,003	-	
Maintenance - equipment	3,052	3,052	-	
Maintenance - software	41,333	41,333	-	
Rents and leases - copy machines	438	438	-	
Transportation and travel	190	190	-	
Transportation and travel - training seminars, w	2,167	2,167	-	
Professional and special services - engineering	10,387	10,387	-	
Special departmental expense	(6)	(6)	-	
Licenses and permits	600	600	-	
Engineering supplies	555	555	-	
Miscellaneous expense	120	120	-	
Clothing and personal supplies	550	550	-	
Household expense	349	349	-	
Utilities	65	65	-	
Maintance - structures and grounds	444	444	-	
Small tools and instruments	4,458	4,458	-	
Radio maintenance - ISF	892	892	-	
Rents and leases - office automation equipment	51,716	51,716	-	
Insurance - workers' compensation	20,966	20,966	-	
Insurance - casualty	32,714	34,961	2,247	Finding 1
Subtotal Division Indirect Costs	$ 1,018,406	$ 1,020,653	$ 2,247	
Equipment usage	799	799	-	
Subtotal Division indirect costs	1,019,206	1,021,453	2,247	
First-tier Administration allocation	1,257,174	1,257,174	-	
Division A-87 County costs	338,954	338,954	-	
Carry-forward from 2 years prior	87	87	-	
Total Indirect Costs	$ 2,615,421	$ 2,617,668	$ 2,247	
Total Direct Salaries and Benefits	5,927,269	5,927,269	-	
Indirect Cost rate	44.13%	44.16%	0.04%	

Schedule 1E—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Development Services Division
Fiscal Year 2010-11

	Proposed Rate FY 2010-11	Audited Rate FY 2010-11	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 443,727	$ 443,727	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits	121,501	121,501	-	
Office expense - general	1,698	1,698	-	
Postage	1,917	1,917	-	
Communications	7,500	7,500	-	
Maintenance - equipment	108	108	-	
Transportation and travel	477	477	-	
License and permits	150	150	-	
Miscellaneous expense	124	124	-	
Small tools and instruments	863	863	-	
Rents and leases - office automation equip	8,769	8,769	-	
Insurance - workers' compensation	5,812	5,812	-	
Insurance - casualty	84,700	11,930	(72,770)	Finding 1
Subtotal Division Indirect Costs	$ 233,619	$ 160,849	$ (72,770)	
First-tier Administration allocation	94,115	94,115	-	
Division A-87 County costs	40,995	40,995	-	
Carry-forward from 2 years prior	-	-	-	
Total Indirect Costs	**$ 368,728**	**$ 295,958**	$ (72,770)	
Total Direct Salaries and Benefits	$ 443,727	$ 443,727	-	
Indirect Cost Rate	83.10%	66.70%	(16.40%)	

Schedule 1F—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Engineering Division
Fiscal Year 2011-12

	Proposed Rate FY 2011-12	Audited Rate FY 2011-12	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 6,041,660	$ 6,041,660	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits	989,850	989,850	-	
Office expense - general	785	785	-	
Office supplies - purchasing ISF	7,475	7,475	-	
Printing/duplicating	220	220	-	
Postage	52	52	-	
Office expense - subscriptions/periodicals	4,201	4,201	-	
Communications	1,823	1,823	-	
Communications - non-ISF	32,400	32,400	-	
Communications - cell phones	4,800	4,800	-	
Maintenance - equipment	6,850	6,850	-	
Maintenance - software	40,104	40,104	-	
Rents and leases - copy machines	500	500	-	
Transportation and travel	1,645	1,645	-	
Transportation and travel - training seminars, workshops	12,174	12,174	-	
Professional services - County	43	43	-	
Professional and special services - engineering	20,171	20,171	-	
Special departmental expense	150	150	-	
Licenses and permits	4,688	4,688	-	
Engineering supplies	5,420	5,420	-	
Miscellaneous expense	44	44	-	
Clothing and personal supplies	300	300	-	
Household expense	750	750	-	
Small tools and instruments	6,882	6,882	-	
Radio maintenance - ISF	1,183	1,183	-	
Rents and leases - office automation equipment	21,809	21,809	-	
Insurance - workers' compensation	17,423	17,423	-	
Insurance - casualty	33,893	46,535	12,642	Finding 1
Subtotal Division Indirect Costs	$ 1,215,635	$ 1,228,277	$ 12,642	
Equipment usage	900	900	-	
Subtotal division indirect costs	1,216,535	1,229,177	12,642	
First-tier Administration allocation	1,419,790	1,419,790	-	
Division A-87 County costs	188,733	188,733	-	
Carry-forward from 2 years prior	166	17,930	17,764	
Total Indirect Costs	$ 2,825,224	$ 2,855,630	$ 30,406	
Total Direct Salaries and Benefits	$ 6,041,660	$ 6,041,660	-	
Indirect Cost Rate	46.76%	47.27%	0.50%	

Schedule 1G—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
Development Services Division
Fiscal Year 2011-12

	Proposed Rate FY 2011-12	Audited Rate FY 2011-12	Difference	Reference
Direct Costs:				
Direct salaries and benefits	$ 501,419	$ 501,419	$ -	
Indirect Costs (Division):				
Indirect salaries and benefits	110,318	110,318	-	
Materials, services and supplies	491	491	-	
Office expense - general	1,000	1,000	-	
Postage	1,800	1,800	-	
Office expense - subscriptions/periodicals	500	500	-	
Communications	4,000	4,000	-	
Transportation and travel	200	200	-	
Transportation and travel - training seminars workshc	1,000	1,000	-	
Transportation and travel - training	-	-	-	
Professional services	1,500	1,500	-	
Professional services - county	273	273	-	
Licenses and permits	150	150	-	
Miscellaneous expense	1,153	1,153	-	
Small tools and instruments	200	200	-	
Rents and leases - office automation equipment	2,974	2,974	-	
Insurance - workers' compensation	3,799	3,799	-	
Insurance - casualty	7,385	8,351	966	Finding 1
Subtotal Division Indirect Costs	$ 136,742	$ 137,708	$ 966	
First-tier Administration allocation	117,833	117,833	-	
Division A-87 County costs	17,591	17,591	-	
Carry-forward from 2 years prior	5	5	-	
Total Indirect Costs	**$ 272,171**	**$ 273,137**	$ 966	
Total Direct Salaries and Benefits	$ 501,419	$ 501,419	-	
Indirect Cost Rate	54.28%	54.47%	0.19%	

Finding and Recommendation

FINDING — Understated and overstated indirect costs

The county proposed indirect cost rates for the Engineering Division of 44.01% for FY 2009-10, 44.12% for FY 2010-11, and 46.77% for FY 2011-12. The county also proposed indirect cost rates for the Development Services Division of 58.42% for FY 2009-10, 83.10% for FY 2010-11, and 54.28% for FY 2011-12. Our audit determined indirect cost rates for the Engineering Division of 44.39%, a difference of 0.38% for FY 2009-10; 44.16%, a difference of 0.04% for FY 2010-11; and 47.27%, a difference of 0.50% for FY 2011-12. Our audit determined indirect cost rates for the Development Services Division of 49.35%, a difference of -9.07% for FY 2009-10; 66.70%, a difference of -16.40% for FY 2010-11; and 54.47%, a difference of 0.19% for FY 2011-12. We identified overstated and understated indirect costs and instances of unallowable indirect costs that caused the proposed rates to be overstated and understated.

Understated and overstated indirect costs:

- The County included unallowable casualty insurance charges for the Engineering Division and Development Services Division during fiscal years (FY) 2009-10, FY 2010-11, and FY 2011-12. Our audit found that the casualty insurance charges were for general liability, auto, and crime. The allocation methodology was based on each division's 10-year loss history and an allocation plan based on a fixed percentage of the overall general liability amount. The portion that represented the fixed percentage was not adequately supported. Therefore, we recalculated an allowable amount based on the Engineering and Development Services Division's percentages of the 10-year loss history compared with the county's calculation of 10-year loss history total. Subsequently, we multiplied those percentages by the total allocation amount. Our audit determined that the casualty insurance charges for the Engineering Division were understated by $21,924 in FY 2009-10, $2,247 in FY 2010-11, and $12,642 in FY 2011-12. Casualty insurance charges for the Development Services Division were overstated by $81,560 in FY 2009-10, $72,770 in FY 2010-11, and understated by $966 in FY 2011-12.

Unallowable indirect costs:

- The county erroneously included $4,155 of direct professional services costs for traffic studies for various projects. Instead of recording these pre-award activities as direct project costs, the county included these as indirect activities.

- The county recorded $8,580 in unrelated consulting services. These costs benefitted other divisions, Field Engineering and Channel Maintenance and were unrelated to any indirect activities that benefitted the Administrative Division.

- The County included $1,752 lobbying expenses. The lobbying costs were incurred for the "OneVoice Trip," where various local government officials travelled to Washington D.C. to meet with senators to discuss the transportation-related current status and local transportation issues. The primary purpose of the meeting was to encourage lawmakers to enact laws and regulations that would be beneficial to local communities.

Title 2, *Code of Federal Regulations* (2 CFR 225), Appendix A, section C (1)(a)(b) states:

> Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following criteria: b. be necessary and reasonable for proper and efficient performance and administration of Federal awards, b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix A, section F (1) states:

> General. Indirect costs are those: incurred for a common joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix A, section B (11) states:

> "Cost Objective" means a function, organizational subdivision, contract, grant, or other activity for which data are needed and for which costs are incurred.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix A, section C (3)(a) states:

> A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix B (24) (a) General states:

> The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix B (24) (b) Executive lobbying costs states:

> Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally-sponsored agreement or regulatory matter on any basis other than the merits of the matter.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix B, section 22.d (3), states in part:

> Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix B, section 22.d (4), states in part:

> ...If individual departments or agencies of the governmental unit experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.

Recommendation

We recommend that the county implement policies and procedures to ensure that only reasonable, allowable, and allocable costs are included in the indirect cost pool and that these indirect costs are distributed to all benefitted direct cost objectives.