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 17, 2015

File: P1590-0399

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

Subject: **AUDIT REPORT – INDIRECT COST RATE PROPOSAL – CITY OF LOS ANGELES, DEPARTMENT OF TRANSPORTATION**

C.1.PRG

At the request of the Caltrans, Audits and Investigations (A&I), the State Controller's Office (SCO) conducted an audit of the City of Los Angeles, Department of Transportation's (City) indirect cost rate proposal (ICRP) for fiscal year (FY) 2010/11 to determine whether the ICRP is presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225. The audit report is attached.

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

C.1.PRG

Rate Type	Fiscal Year	Rate*	Applicable To	
Final	FY 10/11	10.37%	Department Administration*	ISS.1
Final	FY 10/11	22.83%	Compensated Time Off*	
Final	FY 10/11	41.31% Δ	Fringe benefits**	
Final	FY 10/11	22.25% Δ	Central Services**	

* Base: Total Direct Salaries and Wages
** Base: Total Direct Salaries & Wages plus Compensated Time Off
Δ Approved by the U.S. Department of Health and Human Services

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
Steve Novotny, DLAE, Chief, Office of Local Assistance, District 7, Division of Transportation Planning, 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

CITY OF LOS ANGELES, DEPARTMENT OF TRANSPORTATION

Audit Report

INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0034 (Audit Request No. P1590-0399)

July 1, 2010, through June 30, 2011

BETTY T. YEE

California State Controller

June 2015

BETTY T. YEE
California State Controller

June 29, 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 proposal (ICRP) of the City of Los Angeles, Department of Transportation. The audit period included the ICRP for fiscal year (FY) 2010-11. The city proposed the following indirect cost rates for FY 2010-11:

- Department Administration Support, 10.37%
- Compensation Time Off, 22.83%
- Fringe Benefits, 41.31%
- Central Services, 22.25%

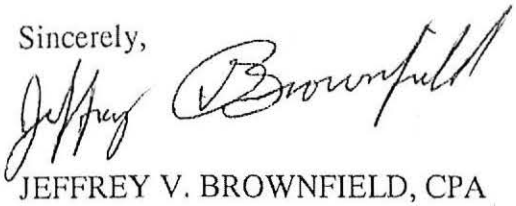
See Schedules 1a through 1d for detailed calculation of indirect cost rates.

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

We determined that the city's accounting system appears adequate to properly capture costs and that the project costs were allowable, reasonable, and in compliance with applicable federal and state laws and regulations, and the fiscal provisions stipulated in the contract. In addition, payments to contractor were made in a timely manner, were in accordance with contract provisions, and were properly approved by Caltrans contract officers. Our audit did not disclose any reportable conditions.

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

Sincerely,



JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ls

cc: Andrew Finlayson, Chief, State Agency Audits Bureau
Division of Audits, State Controller's Office
Michael Mock, Manager
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 proposal (ICRP) of the City of Los Angeles, Department of Transportation. The audit period included ICRP for fiscal year (FY) 2010-11. The city proposed the following indirect cost rates for FY 2010-11:

- Department Administration Support, 10.37%
- Compensation Time Off, 22.83%
- Fringe Benefits, 41.31%
- Central Services, 22.25%

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

We determined that the city's accounting system appears adequate to properly capture costs and that the project costs were allowable, reasonable, and in compliance with applicable federal and state laws and regulations, and the fiscal provisions stipulated in the contract. In addition, payments to contractor were made in a timely manner, were in accordance with contract provisions, and were properly approved by Caltrans contract officers. Our audit did not disclose any reportable conditions.

Background

The City of Los Angeles is a Mayor-Council-Commission form of government, as originally adopted by voters of the City of Los Angeles, effective July 1, 1925 and reaffirmed by a new Charter effective July 1, 2000. A Mayor, City Controller, and City Attorney are elected by City residents every four years. Fifteen City Council members representing fifteen districts are elected by the people for four-year terms, for a maximum of two terms. Members of Commissions are generally appointed by the Mayor, subject to the approval of the City Council. General Managers of the various City departments are also appointed by the Mayor, subject to confirmation by the City Council. Most employees of the City are subject to the civil service provisions of the City Charter.

The City of Los Angeles, Department of Transportation (LADOT) leads transportation planning, design, construction, maintenance, and operations in the City of Los Angeles. LADOT works together and partners with other agencies to provide safe, accessible transportation services and infrastructure in the city and the region.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1590-0399). 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 ICRP 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 ICRP for FY 2010-11. Changes to the financial management system subsequent to FY 2010-11 were not tested and, accordingly, our conclusion does not pertain to changes arising after this 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 city's ICRP was presented in compliance with the cost principles prescribed in 2 CFR 225; (2) the ICRP was in compliance with the requirements for ICRP preparation and application identified in the Caltrans LPP 04-10; (3) and 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 audits 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 costs and direct costs bases by validating amounts claimed to supporting evidential matter; and
- Tested the ICAP calculation by ensuring only allowable costs were included within the rate.

We did not audit the City of Los Angeles, Department of Transportation's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the proposed ICRP was in accordance with the 2 CFR 225 and LPP 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

We determined that the City of Los Angeles, Department of Transportation's accounting system appears adequate to capture costs and that the project costs were allowable, reasonable, and in compliance with applicable federal and state laws and regulations and the fiscal provisions as stipulated by the contract. In addition, payments to contractor were made in a timely manner, are in accordance with contract provisions, and are properly approved by Caltrans contract officers. Our audit determined the rates to be as follows:

- Department Administration Support, 10.37%
- Compensation Time Off, 22.83%
- Fringe Benefits, 41.31%
- Central Services, 22.25%

Views of Responsible Officials

We discussed our audit results with the city's representative during an exit conference conducted via email on May 18, 2015. Bernie Apolonio, Fiscal Systems Specialists, agreed with the audit results. Mr. Apolonio 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 the City of Los Angeles, Department of Transportation; 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.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 29, 2015

Schedule 1—
Summary of Proposed and Audited Rates
July 1, 2010, through June 30, 2011

Rate Type	Proposed Rate	Audited Rate	Difference	Reference
Department Administration Support	10.37%	10.37%	0%	Schedule 1a
Compensation Time Off	22.83%	22.83%	0%	Schedule 1b
Fringe Benefits*	41.31%	41.31%	0%	Schedule 1c
Central Services*	22.25%	22.25%	0%	Schedule 1d

*Rates were approved by the U.S. Department of Health and Human Services

Schedule 1a—
Summary of ICRP Costs
City of Los Angeles, Department of Transportation
Department Administration Support Rate
Fiscal Year 2010-11

	Proposed Rate	Audited Rate	Difference
Direct Cost:			
Direct Salaries and Benefits	$ 100,704,547	$ 100,704,547	-
Indirect Costs:			
Salaries and Wages	9,002,337	9,002,337	-
Fringe Benefits	3,718,865	3,718,865	-
Central Services	2,003,020	2,003,020	-
Overtime	77,626	77,626	-
Printing and Bindling	5,427	5,427	-
Travel	-	-	-
Construction Expense	-	-	-
Contractual Expense	82,580	82,580	-
Field Equipment Expense	-	-	-
Investigations	-	-	-
Transportation	-	-	-
Utilities Expense Private Comp	-	-	-
Paint and Sign Maintenance	-	-	-
Signal Supplies and Repairs	-	-	-
Uniforms	-	-	-
Office and Administrative	417,086	417,086	-
Operating supplies	-	-	-
Indirect Cost Carryforward	(4,859,749)	(4,859,749)	-
Total Indirect Cost	$ 10,447,192	$ 10,447,192	-
Total Direct Costs	$ 100,704,547.00	$ 100,704,547.00	-
Indirect Cost Rate	10.37%	10.37%	-

Schedule 1b—
Summary of ICRP Costs
City of Los Angeles, Department of Transportation
Compensation Time Off Rate
Fiscal Year 2010-11

Description	Amount Paid	Audit Adjustment	Allowable Cost	CTO Base Salary	CTO Amount
Hours Worked at Adjusted Rate	$ 1,830,662.51	$ -	$ 1,830,662.51	$ 1,830,662.51	
Bereavement Leave	$ 125,850.23	$ -	$ 125,850.23	$ -	$ 125,850.23
Civic Duty Court Appearance	$ 51.40	$ -	$ 51.40	$ -	$ 51.40
Catastrophic Tume Used By Civilian	$ 1,659.60	$ -	$ 1,659.60	$ -	$ 1,659.60
Deployment Service	$ 43,506.48	$ -	$ 43,506.48	$ -	$ 43,506.48
Floating Holiday	$ 575,145.54	$ -	$ 575,145.54	$ -	$ 575,145.54
Family Illness	$ 586,910.30	$ -	$ 586,910.30	$ -	$ 586,910.30
Holiday	$ 4,618,118.93	$ -	$ 4,618,118.93	$ -	$ 4,618,118.93
Hours Worked	$ 77,790,935.27	$ -	$ 77,790,935.27	$ 77,790,935.27	$ -
Injury on Duty	$ 1,386,386.89	$ -	$ 1,386,386.89	$ -	$ 1,386,386.89
Jury Duty	$ 215,700.75	$ -	$ 215,700.75	$ -	$ 215,700.75
Light Duty	$ 367,190.02	$ -	$ 367,190.02	$ -	$ 367,190.02
Leave wity Pay	$ 30,652.23	$ -	$ 30,652.23	$ -	$ 30,652.23
Military Leave	$ 58,743.15	$ -	$ 58,743.15	$ -	$ 58,743.15
Personal Leave	$ 77,494.47	$ -	$ 77,494.47	$ -	$ 77,494.47
Preventive Medicine	$ 100,928.43	$ -	$ 100,928.43	$ -	$ 100,928.43
Sick Hours at 100%	$ 2,876,341.81	$ -	$ 2,876,341.81	$ -	$ 2,876,341.81
Sick Hours at 75%	$ 476,601.29	$ -	$ 476,601.29	$ -	$ 476,601.29
Accumulated Overtime Off at 150%	$ 195,685.45	$ -	$ 195,685.45	$ -	$ -
Accumulated Overtime Off at 100%	$ -	$ -	$ -	$ -	$ -
Hours Worked with Bonus	$ 1,903,099.03	$ -	$ 1,903,099.03	$ 1,903,099.03	$ -
Union Release Time	$ 6,168.00	$ -	$ 6,168.00	$ -	$ 6,168.00
Vacation	$ 7,062,516.46	$ -	$ 7,062,516.46	$ -	$ 7,062,516.46
	$ 100,330,348.24	$ -	$ 100,330,348.24	$ 81,524,696.81	$ 18,609,965.98

Total CTO Amount	$ 18,609,965.98
Total CTO Base Salary	$ 81,524,696.81
Indirect Cost Rate	22.83%

Schedule 1c—
Summary of ICRP Costs
City of Los Angeles, Department of Transportation
Fringe Benefit Rate
Fiscal Year 2010-11

Cost Pool	Indirect Costs Applicable to Transportation	Audit Adjustment	Allowable Cost	Transportation Salaries Base	Indirect Cost Rates
Retirement (Civilians)	$ 23,158,782.00	$ -	$ 23,158,782.00	$ 91,023,952.00	25.44%
Flex Benefit Program	$ 11,615,643.00	$ -	$ 11,615,643.00	$ 106,374,329.00	10.92%
Employee Assistance	$ 26,097.00	$ -	$ 26,097.00	$ 106,374,329.00	0.02%
Ordinance Life Insurance	$ 6,238.00	$ -	$ 6,238.00	$ 106,374,329.00	0.01%
Medicare	$ 1,390,218.00	$ -	$ 1,390,218.00	$ 109,706,883.00	1.27%
Union Sponsored Benefits	$ 365,373.00	$ -	$ 365,373.00	$ 106,374,329.00	0.34%
Unused Sick/Vacation Payout	$ 576,927.00	$ -	$ 576,927.00	$ 106,374,329.00	0.54%
Unemployment Claims	$ 73,926.00	$ -	$ 73,926.00	$ 109,706,883.00	0.07%
Workers Compensation	$ 4,620,714.00	$ -	$ 4,620,714.00	$ 109,706,883.00	4.21%
Carry Forward (Negative)	$ (1,608,867.00)	$ -	$ (1,608,867.00)	$ 106,374,329.00	-1.51%
Totals	$ 40,225,051.00		$ 40,225,051.00		41.31%

Schedule 1d—
Summary of ICRP Costs
City of Los Angeles, Department of Transportation
Central Services Rate
Fiscal Year 2010-11

Cost Pool	Indirect Costs Applicable to Transportation	Audit Adjustment	Allowable Cost	Transportation Salaries Base	Indirect Cost Rates
Buuilding Leases	$ 2,983,603.00	$ -	$ 2,983,603.00	$ 109,706,883.00	2.72%
Building Depreciation	$ 692,061.00	$ -	$ 692,061.00	$ 109,706,883.00	0.63%
Communications Lease	$ 741,253.00	$ -	$ 741,253.00	$ 109,706,883.00	0.68%
Computer Assets Depreciation	$ 37,904.00	$ -	$ 37,904.00	$ 109,706,883.00	0.03%
Equipment Use Allowance	$ 27,444.00	$ -	$ 27,444.00	$ 109,706,883.00	0.03%
Gas	$ 60,860.00	$ -	$ 60,860.00	$ 109,706,883.00	0.06%
General Cit Purposes	$ 71,008.00	$ -	$ 71,008.00	$ 109,706,883.00	0.06%
Insurance	$ 3,074.00	$ -	$ 3,074.00	$ 109,706,883.00	0.00%
Liability Claims		$ -	$ -	$ 109,706,883.00	0.00%
Petroleum Products	$ 657,087.00	$ -	$ 657,087.00	$ 109,706,883.00	0.60%
Vehicle Depreciation	$ 5,310,570.00	$ -	$ 5,310,570.00	$ 109,706,883.00	4.84%
Water and Electricity	$ 661,397.00	$ -	$ 661,397.00	$ 109,706,883.00	0.60%
Emergency Operations Bd	$ 31,601.00	$ -	$ 31,601.00	$ 109,706,883.00	0.03%
CAO: Budget	$ 140,261.00	$ -	$ 140,261.00	$ 109,706,883.00	0.13%
CAO: Employee Relations	$ 83,453.00	$ -	$ 83,453.00	$ 109,706,883.00	0.08%
CAO: General Support	$ 252,703.00	$ -	$ 252,703.00	$ 109,706,883.00	0.23%
CAO: Mgmt & Policy Analysis	$ 325,471.00	$ -	$ 325,471.00	$ 109,706,883.00	0.30%
CAO: Municipal Facilities	$ 22,084.00	$ -	$ 22,084.00	$ 109,706,883.00	0.02%
ATTY: Civil Liab./Wrk Comp	$ 2,047,190.00	$ -	$ 2,047,190.00	$ 109,706,883.00	1.87%
ATTY: Employee Realtions	$ 124,598.00	$ -	$ 124,598.00	$ 109,706,883.00	0.11%
ATTY: Land Use	$ 38,723.00	$ -	$ 38,723.00	$ 109,706,883.00	0.04%
City Clerk: Council & Pub Svcs	$ 14,881.00	$ -	$ 14,881.00	$ 109,706,883.00	0.01%
City Clerk: Records Mgmt	$ 36,217.00	$ -	$ 36,217.00	$ 109,706,883.00	0.03%
City Ethics Commission	$ 23,064.00	$ -	$ 23,064.00	$ 109,706,883.00	0.02%
Controller: Payable	$ 284,384.00	$ -	$ 284,384.00	$ 109,706,883.00	0.26%
Controller: Budget/Gen Acct	$ 169,079.00	$ -	$ 169,079.00	$ 109,706,883.00	0.15%
Controller: CAP	$ 5,320.00	$ -	$ 5,320.00	$ 109,706,883.00	0.00%
Controller: FMIS	$ (8,630.00)	$ -	$ (8,630.00)	$ 109,706,883.00	-0.01%
Controller: Internal Audit	$ 226,953.00	$ -	$ 226,953.00	$ 109,706,883.00	0.21%
Controller: Payroll/FiscalSys	$ 282,575.00	$ -	$ 282,575.00	$ 109,706,883.00	0.26%
Controller: Single Audit	$ 16,560.00	$ -	$ 16,560.00	$ 109,706,883.00	0.02%
Controller: Workers Comp	$ 193.00	$ -	$ 193.00	$ 109,706,883.00	0.00%
Emer Prep City Dept Coord	$ 30,894.00	$ -	$ 30,894.00	$ 109,706,883.00	0.03%
Employee Relations Board	$ 32,282.00	$ -	$ 32,282.00	$ 109,706,883.00	0.03%
Envirn Affairs: Coord Depts	$ 16,381.00	$ -	$ 16,381.00	$ 109,706,883.00	0.01%
Finance: Citywide Collections	$ 55,191.00	$ -	$ 55,191.00	$ 109,706,883.00	0.05%
GSD: AssetMgmt/Leasg/RealEst	$ 146,905.00	$ -	$ 146,905.00	$ 109,706,883.00	0.13%
GSD: Building Services	$ 2,299,842.00	$ -	$ 2,299,842.00	$ 109,706,883.00	2.10%
GSD: Construction Division	$ 50,373.00	$ -	$ 50,373.00	$ 109,706,883.00	0.05%
GSD: Fleet Services	$ 6,412,722.00	$ -	$ 6,412,722.00	$ 109,706,883.00	5.85%
GSD: Mail & Messenger	$ 84,414.00	$ -	$ 84,414.00	$ 109,706,883.00	0.08%
GSD: Parking Services	$ 63,504.00	$ -	$ 63,504.00	$ 109,706,883.00	0.06%
GSD: Supply Services	$ 3,562,581.00	$ -	$ 3,562,581.00	$ 109,706,883.00	3.25%
ITA: IT Services		$ -	$ -	$ 109,706,883.00	0.00%
ITA: Communications Div.	$ 1,793,733.00	$ -	$ 1,793,733.00	$ 109,706,883.00	1.64%
ITA: Telecommunications	$ 37,461.00	$ -	$ 37,461.00	$ 109,706,883.00	0.03%
Personnel: Workers Comp	$ 1,461,504.00	$ -	$ 1,461,504.00	$ 109,706,883.00	1.33%
Personnel: Support Services	$ 633,078.00	$ -	$ 633,078.00	$ 109,706,883.00	0.58%
Con ADM: Odd. Of Contr. Compl	$ 176.00	$ -	$ 176.00	$ 109,706,883.00	0.00%
ENG: Gen Eng Imprmt	$ 52.00	$ -	$ 52.00	$ 109,706,883.00	0.00%
CERS ADMIN. Overheads	$ 142,429.00	$ -	$ 142,429.00	$ 109,706,883.00	0.13%
Carry Forward (negative)	$ (7,777,796.00)	$ -	$ (7,777,796.00)	$ 109,706,883.00	-7.09%
	$ 24,408,667.00		$ 24,408,667.00	$ -	22.25%

Total CTO Amount	$ 24,408,667.00
Total CTO Base Salary	$ 109,706,883.00
Indirect Cost Rate	22.25%

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov