DEPARTMENT OF TRANSPORTATION
AUDITS AND INVESTIGATIONS
P.O. Box 942874, MS-2
SACRAMENTO, CA 94273-0001
PHONE (916) 323-7111
FAX (916) 323-7141
TTY 711
www.dot.ca.gov

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May 28, 2014

Ms. Terri King
Executive Director
Kings County Association of Governments
339 West "D" Street, Suite B
Lemoore, CA 93245

Re: Kings County Association of Governments
Audit of Indirect Cost Allocation Plan for Fiscal Years 2011 & FY 2012
File Number: P1591-0090

Dear Ms. King:

We have audited the Kings County Association of Governments (KCAG) Indirect Cost Allocation Plans (ICAPs) for the fiscal year (FY) ended June 30, 2011 and June 30, 2012, to determine whether the ICAPs are presented in accordance with Title 2 of the Code of Federal Regulations (CFR) Part 225 and the California Department of Transportation's (Caltrans) Local Assistance Procedures Manual (LAPM) Chapter 5. KCAG management is responsible for the fair presentation of the ICAPs. KCAG proposed indirect cost rates of 50.25 percent for FY 2011 and 42.60 percent for FY 2012 of total direct salaries and wages plus fringe benefits.

We conducted this performance audit in accordance with 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. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the KCAG. Therefore, we did not audit and are not expressing an opinion on the KCAG's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made by the KCAG, as well as evaluating the overall presentation.

The accompanying ICAPs were prepared on a basis of accounting practices prescribed in 2 CFR Part 225 and Caltrans' LAPM Chapter 5, and are not intended to present the results of operations of KCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAPs, a limited review of KCAG's Overall Work Program for FYs 2010/2011 and 2011/2012, review of KCAG's audited financial reports for the FYs ended June 30, 2009 and 2010, and inquiries of KCAG's personnel. Reliance was placed on the audit conclusions set forth in the single audit reports for the FYs ended June 30, 2009 and 2010. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAPs as of March 11, 2014. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Terri King, KCAG's Executive Director on March 11, 2014. Our findings and recommendations take into consideration KCAG's response to our draft findings. Our findings and recommendations, a summary of the KCAG's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, KCAG's ICAPs for the FY 2010/2011 and FY 2011/2012 are presented in accordance with 2 CFR Part 225 and LAPM Chapter 5 except as noted below. The approved indirect cost rates for FY 2010/2011 and FY 2011/2012 are 50.25 percent and 42.60 percent, respectively, of total direct salaries and wages, plus fringe benefits. The approvals are based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

KCAG has an accepted rate of 56.49 percent for FY 2011 and 46.70 percent for FY 2012. Since the approved rates are less than the accepted rates, KCAG must reconcile all prior reimbursed claims under the accepted rate with the approved rate. KCAG will include any overpayments on the next billing.

Finding 1

Based on our review of KCAG's ICAPs for FY 2010/2011 and FY 2011/2012, we found the direct and indirect salaries and fringe benefit costs were misstated. The issues we identified required adjustments to the ICAP, resulting in several revised ICAP schedules. (For criteria, see Attachment I, Finding 1.) Below is a sample of the issues we identified related to salaries and fringe benefit costs:

1. KCAG incorrectly included all the paid time off (PTO) costs in the indirect salaries, instead of including the PTO costs in the fringe benefits which is KCAG's normal practice.

2. KCAG incorrectly applied the estimated fringe benefit rate to the overstated indirect salaries to determine the actual indirect fringe benefit costs. KCAG did not apply the fringe benefit rate, based on actual costs, to indirect salaries, (excluding PTO) to determine their actual indirect fringe benefit costs. This resulted in variances between the estimated fringe benefit rate and actual fringe benefit rates as follows:

Fiscal year	Estimated FB Rate	Actual FB Rate	Variance
FY08/09	60.54%	52.42%	8.12%
FY09/10	54.43%	56.61%	(2.18%)

3. KCAG incorrectly determined the actual fringe benefit costs by applying individual fringe benefit rates to each employee's salary. KCAG's practice in preparing the ICAP schedule based on budget and direct billing is to apply one fringe benefit rate to each employee's salary. KCAG's actual fringe benefit rate for all employees equaled 56.61 percent; however, we found the individual fringe benefit rates varied from 45.34 percent to 83.89 percent.

Additionally, we found KCAG does not reconcile the billed (estimated) direct fringe benefit costs (which includes PTO) and the actual fringe benefit costs at the end of the year. As shown above, the variance between the billed and the actual fringe benefit rate can be material and, if not reconciled, may result in over or under reimbursement.

KCAG failed to use a standard method for determining budgeted, actual and billed expenses related to fringe benefits. This could result in an inequitable distribution of fringe benefit costs, an overstatement of indirect costs, and duplicate billing of costs. Per our request, KCAG revised the FY 2010/2011 and FY 20011/2012 ICAPs to correctly reflect salary and fringe benefit costs.

Recommendation

We recommend the following:

- KCAG accurately classify the PTO as fringe benefits in the ICAP.
- KCAG should ensure fringe benefit costs are properly segregated between direct and indirect costs in the ICAP.
- KCAG should ensure consistent treatment of fringe benefit costs for ICAP budgeting, ICAP actual cost determination, and direct billing purposes.
- KCAG establish procedures to ensure that the reports from the accounting and job costing system support the amounts reported in the ICAP.
- KCAG perform a reconciliation of actual fringe benefit costs with the estimated fringe benefit costs/rate.

- KCAG should request approval of a fringe benefit rate beginning FY 2014/2015, if it continues to direct bill a fringe benefit rate.
- KCAG should review FY 08/09 through FY 12/13 billed fringe benefit costs to determine whether the KCAG has been over reimbursed by Caltrans. KCAG should take into consideration both the over and under billed fringe benefit rates.

Auditee Response
KCAG agreed. See Attachment IV for full response.

Finding 2
KCAG lacks an adequate process to administer the Regional Surface Transportation Program (RSTP) funds. KCAG did not comply with contract administration provisions as required by the agreement between KCAG and Caltrans. The specific provisions are listed in Attachment II. In addition, KCAG did not execute individual formal written agreements between KCAG and the subrecipients. As a result, the subrecipients were not required to comply with fund requirements as well as with critical clauses such as, applicable costs principles, requirements for travel and subsistence, third party contracting, record retention requirements, Caltrans' right to audit and accounting system. See Attachment III for the required provisions. (For criteria, see Attachment I, Finding 2.)

Specifically, KCAG did not monitor its subrecipients for the use of the RSTP funds. Initially, KCAG did not have any supporting documentation from its subrecipients except for the City of Handord, however, once the draft findings were issued other recipients provided the requested information.

Not performing adequate contract management and oversight of the RSTP funds and not having written agreements with fund recipients increases KCAG's and Caltrans' risk of paying for unsupported costs.

Recommendation
We recommend the following:

- KCAG establish written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements, conditions and specifications.
- KCAG develop and implement RSTP Exchange Fund policies and procedures which ensure adequate contract management and oversight of the program funds.
- KCAG should ensure that future fund recipients provide evidence to substantiate the project costs incurred by the fund recipients are in compliance with Section 133(b) and 133(c) of Title 23 United States Code and Article XIX of the California State Constitution.

Auditee Response
KCAG partially agrees. See Attachment IV for full response.

Auditor Analysis
The finding has been modified as KCAG provided additional information which eliminated the disallowance of the RSTP Exchange funds for FY 2011.

Finding 3
Based on our review of KCAG's ICAP schedules for FY 2010/2011 and FY 2011/2012, we found KCAG included the following unallowable costs in the indirect cost pool (for criteria, see Attachment I, Finding 3):

- Direct costs for a consultant fee that was for an outside client and was reimbursed by the client.
- Equipment and depreciation costs related to the acquisition of various capital assets.
- Bank fees related to A.D.P. and Bank of America that were incurred in one FY but were recorded in another FY.

Including costs that are not allowable in the indirect cost pool inflates the indirect cost rate and if not detected, may result in a reimbursement for unallowed costs to KCAG. Per our request, KCAG revised the FY 2010/2011 and 2011/2012 ICAPs and excluded all the costs identified above.

Recommendation
We recommend:

- KCAG modify their existing Chart of Accounts to include accounts that accumulate both unallowable direct and indirect costs.
- KCAG ensure that only those costs that meet the allowability criteria established by the 2 CFR Part 225 be included in future ICAPs.

Auditee Response
KCAG agreed. See Attachment IV for full response.

Finding 4 (Unresolved Prior Audit Finding)
KCAG utilizes the County of Kings' Policies and Procedures where applicable, however, a separate and distinct policy and procedure manual for KCAG is needed to ensure adequate internal controls. (For criteria, see Attachment I, Finding 4.) This finding has been reported in our audit reports issued in March 2008, May 2010, and October 2010. Although this finding has been reported on multiple occasions, KCAG is either unable or unwilling to fully develop a detailed policy and procedure manual, specific to KCAG.

Failure to establish KCAG's financial management system policies and procedures may result in the overstatement of indirect costs and continued delays in future ICAP approvals.

Recommendation
We recommend the KCAG make it a priority to establish written policies and procedures which include details for all aspects of KCAG's financial management system, including, but not

limited to the following: (1) Accounting practices, (2) timekeeping, (3) travel, (4) procurement and contract management, and (5) billing to local, state and federal agencies.

Auditee Response
KCAG agreed. See Attachment IV for full response.

Finding 5
KCAG's Requests for Reimbursements (RFRs) submitted to Caltrans were not properly prepared. We found the "WE current amount billed" and "Total local match" amounts in the RFRs include ineligible and unallowable costs. (For criteria, see Attachment I, Finding 5.) Specifically, we found:

- KCAG improperly recorded ineligible and unallowable expenses as allowable direct costs in a direct WE.
- After a manual adjustment, KCAG improperly recorded the ineligible and unallowable expenses as local match. KCAG failed to properly record the costs to an indirect or unallowable cost account.

Because the ineligible and unallowable expenses were excluded from the "PL amount billed", which is the amount reimbursed by Caltrans and because the local match amount in the RFR was an overmatch, the ineligible and unallowable costs were not reimbursed by Caltrans.

Additionally, KCAG's billings did not provide a breakdown of the expenditures incurred that would provide Caltrans adequate information to determine the allowability of costs included in the RFR. It is KCAG's responsibility to ensure only allowable costs are included on the billings; however, providing a breakdown of expenditures allows funding agencies to appropriately perform their review and approval of billed costs.

Recording ineligible and unallowable costs in a direct work element increases the risk of non-compliance with state and federal regulations, and if not detected, may result in a reimbursement for unallowed costs to KCAG. Also, there is a risk of not meeting the local match as the amount of total eligible costs include ineligible and unallowable costs.

Recommendation
We recommend:

- KCAG ensure that only those costs that meet the allowability criteria established by the MFTA be included in the billings to Caltrans.
- KCAG ensure billings to Caltrans include descriptions of activities performed and a breakdown of the costs incurred.
- KCAG modify their existing Chart of Accounts to include accounts that accumulate both unallowable direct and indirect costs.

Auditee Response
KCAG agreed. See Attachment IV for full response.

This report is intended solely for the information of KCAG, Caltrans Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited. In addition, this report will be posted on Caltrans website.

Please retain the approved ICAPs for your files. Copies were sent to the Caltrans District 6, the Caltrans Division of Accounting and the FHWA. If you have any questions, please contact Amada Maenpaa, Audit Manager, at (916) 323-7868 or Teresa Greisen, Audit Manager, at (916) 323-7910.

Sincerely,

ZILAN CHEN, Chief
External Audits – Local Governments
Audits & Investigations

Enclosures

c: Janice Richard, Director of Financial Services, Federal Highway Administration
Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
Kara Magdaleno, Administrative Officer, Federal Highway Administration
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation, California Department of Transportation
Paul Albert-Marquez, Chief, South District Planning Branch, District 6, California Department of Transportation
Erin Thompson, Senior Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning, California Department of Transportation
James Perrault, DLAE, Senior Transportation Engineer, Local Assistance Branch, District 6, Division of Transportation Planning, California Department of Transportation
Lisa Gore, Associate Account Analyst, Local Program Accounting Branch, California Department of Transportation
Karen Hunter, Rail Transportation Associate, Division of Rail, California Department of Transportation
Lai Huynh, 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

Atttachment I

Criteria

Finding 1

1a 49 CFR Part 18.20(b)(1) and (3) state, that accurate, current, and complete disclosure of the financially-assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Also, effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

1b 2 CFR Part 225, Appendix B Section 8(d)(5) states such benefits, whether treated as indirect cost or as direct costs, shall be allocated to federal awards an all other activities in a manner consistent with the pattern of benefits attributable to the individual or group(s) of employees whose salaries and wages are chargeable to such federal awards.

1c 2 CFR Part 225, Appendix E, Section A(1) states, that cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

Finding 2

2a 49 CFR Part 18.36 (b) (2) states, in part, grantees and subgrantees will maintain a contract administration which ensures that contractors perform in accordance to the terms, conditions, and specifications in their contracts or purchase orders.

2b 49 CFR, Part 18.20 (b) (3) states, in part, effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Finding 3

3a 2 CFR Part 225, Appendix A, Section E(1) states, direct costs are those that can be identified specifically with a final cost objective.

3b 2 CFR Part 225, Appendix B, Section 15 (1) and (5) state in part, capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. Equipment and other capital expenditures are unallowable as indirect costs.

3c KCAG's Master Fund Transfer Agreement No. 74A0120, Article III, Article I, Section I, states that only work performed during the term of, and consistent with, the work elements in the OWP may be reimbursed. Reimbursements are based upon the fiscal year, July 1 - June 30. All work performed subsequent to the end of each fiscal year (June 30) can only be reimbursed in the following fiscal year and is subject to the approved OWP and annual OWPA for that corresponding fiscal year.

Criteria

Finding 4

49 CFR Part 18.20 (b) (3) states, in part, effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Finding 5

5a KCAG's Master Fund Transfer Agreement No. 74A0120, Article III, Section 3.B states, "RTPA shall establish and maintain, and shall require that its subrecipients, contractors and subcontractors shall establish and maintain, an accounting system conforming to Generally Accepted Accounting Principles (GAAP) to support Requests for Reimbursement which segregate and accumulate the costs of work elements by line item and produce Quarterly Reports which clearly identify reimbursable costs and other expenditures by OWP work elements."

5b 2 CFR Part 225, Appendix A, Section C(1)(a) and (b) state, in part to be allowable costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be allocable to Federal awards.

5c 49 CFR 18.20 (b)(1) and (2) state, accurate, current and complete disclosure of the financial results of federal financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Also, grantees must maintain accounting records which adequately identify the source and application of funds provided for financially-assisted activities.

5d 49 CFR 18.24 (a)(1) states, allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by others cash donations from non-Federal third parties.

Atttachment II

Administration Provisions Required
By Agreement Number X11-6135(028) between Caltrans and KCAG

1. RTPA agrees to allocate all of these Funds only for those projects (a) implemented by cities, counties, and other agencies as are authorized under Article XIX of the California State Constitution, in accordance with the requirements of Section 182.6(d)(1) of the Streets and Highways Code.

2. RTPA agrees to require project sponsors receiving those Funds provided under this Agreement to establish a special account for the purpose of depositing therein all payments received from RTPA pursuant to this Agreement: (a) for cities within their Special Gas Tax Street Improvement Fund, (b) for counties, within their County Road Fund, and (c) for all other sponsors, a separate account.

3. RTPA agrees, in the event a project sponsor fails to use Funds received hereunder in accordance with the terms of this Agreement, to require that project sponsor to return those exchange Funds to KCAG for credit to the account established under item 2 above. In the event of any such requirement by State, RTPA shall provide written verification to State that the requested corrective action has been taken.

4. RTPA shall not award a construction contract over $10,000 or other contracts over $25,000 [excluding professional service contracts of the type which are required to be procured in accordance with Governmental Code Sections 4525 (d) (e) and (f)] on the basis of a non competitive negotiation for work to be performed using Funds without the prior written approval of State.

5. Any subcontract or agreement entered into by RTPA as a result of disbursing Funds received pursuant to this agreement shall contain all of the fiscal provisions of this Agreement: and shall mandate that travel and per diem reimbursements and third-party contract reimbursements to subcontractors will be allowable as project costs only after those costs are incurred and paid for by the subcontractors.

Atttachment III

Provisions Required By Agreement Number X11-6135(028) between Caltrans and KCAG

1. RTPA agrees to comply with, and require all project sponsors to comply with 2 CFR Part 225 (previously Office of Management and Budget A-87), Cost Principles for State, Local, and Indian Tribal Governments, and 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

2. RTPA will assure that its Fund recipients will be obligated to agree that (a) Contract Cost Principles and Procedures, 48 CFR, Federal Acquisition Regulations System, Chapter 1, Part 31, et seq., shall be used to determine the allowability of individual Project cost items and (b) those parties shall comply with Federal administrative procedures in accordance with 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments. Every sub-recipient receiving Funds as a contractor or sub-contractor under this Agreement shall comply with Federal administrative procedures in accordance with 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

3. Any subcontract or agreement entered into by RTPA as a result of disbursing Funds received pursuant to this Agreement shall contain all of the fiscal provisions of this Agreement; and shall mandate that travel and per diem reimbursements and third-party contract reimbursements to subcontractors will be allowable as project costs only after those costs are incurred and paid for by the subcontractors.

4. The preaward requirements of third party contractor/consultants with RTPA should be consistent with Local Program Procedures as published by State.

5. RTPA, its contractors and subcontractors shall establish and maintain an accounting system and records that properly accumulate and segregate Fund expenditures by line item. The accounting system of RTPA, contractors and subcontractors shall conform to Generally Accepted Accounting Principles (GAAP), enable the determination of incurred costs at interim points of completion, and provide support for reimbursement payment vouchers or invoices.

6. For the purpose of determining compliance with this agreement and other matters connected with the performance of RTPA's contracts with third parties RTPA, RTPA's contractors and subcontractors and State shall each maintain, and make available for inspection all books, documents, papers, accounting and other evidence pertaining to the performance of such contracts, but not limited, to the costs of administering those various contracts. All of the above referenced parties hsall make such materials available at their respective offices at all reasonable times for three years from the date of final payment of funds to RTPA. STATE, the California State Auditor, or any duly authorized representative of STATE or the United States Department of Transportation, shall each have access to any books, records, and documents that are pertinent for audits, examinations, excerpts, and transactions, and RTPA shall furnish copies thereof if requested.

7. Payments to only RTPA for travel and subsistent expenses of RTPA forces and it subcontractors claimed for reimbursement or applied as local match credit shall not exceed rates authorized to be paid exempt non-represented State employees under current State Department of Personnel Administration rules. If the rates invoiced are in excess of those authorized DPA rates, then RTPA is responsible for the cost difference any overpayments shall be reimbursed to State on demand.

Kings County Association of Governments
339 W. "D" Street, Suite B, Lemoore, California 93245
(559) 852-2654 ❖ FAX (559) 924-5632
www.kingscog.org

Member Agencies: Cities of Avenal, Corcoran, Hanford and Lemoore, County of Kings

AUDIT FINDINGS

Finding 1
Based on our review of KCAG's ICAPs for FY 2010/2011 and FY 2011/2012, we found the direct and indirect salaries and fringe benefit costs were misstated. The issues we identified required adjustments to the ICAP, resulting in several submissions. Below is a sample of the issues we identified related to salaries and fringe benefit costs:

1. KCAG incorrectly included the paid time off (PTO) costs in the indirect salaries; however, KCAG's practice is to include the PTO costs in the fringe benefits.

2. KCAG incorrectly applied the estimated fringe benefit rate to the overstated indirect salaries to determine the actual indirect fringe benefit costs. KCAG did not apply the fringe benefit rate, based on actual costs, to indirect salaries, (excluding PTO) to determine their actual indirect fringe benefit costs. This resulted in variances between the estimated fringe benefit rate and actual fringe benefit rates as follows:

Fiscal year	Estimated FB Rate	Actual FB Rate	Variance
FY08/09	60.54%	52.42%	8.12%
FY09/10	54.43%	56.61%	(2.18%)

3. KCAG incorrectly determined the fringe benefit costs by applying individual fringe benefit rates to each employee's salary. KCAG's practice for ICAP budgeting and direct billing is to apply one fringe benefit rate to each employee's salary. KCAG's actual fringe benefit rate for all employees equaled 56.61 percent; however, we found the individual fringe benefit rates varied from 45.34 percent to 83.89 percent.
(For criterias, see Attachment I, Finding 1.)

Additionally, we found KCAG does not reconcile the billed (estimated) direct fringe benefits rate (which includes PTO) and the actual fringe benefit costs at the end of the year. As shown above, the variance between the billed and the actual fringe benefit rate can be material and, if not reconciled, may result in over-reimbursement to KCAG by Caltrans.

KCAG failed to use a standard method for determining budgeted, actual and billed expenses related to fringe benefits. This could result in an inequitable distribution of fringe benefit costs, an overstatement of indirect costs, and duplicate billing of costs. Per our request, KCAG revised the FY 2010/2011 and FY 20011/2012 ICAPs to correctly reflect salary and fringe benefit costs.

Recommendation
We recommend the following:

- KCAG accurately classify the PTO as fringe benefits in the ICAP.
- KCAG should ensure fringe benefit costs are properly segregated between direct and indirect costs in the ICAP.
- KCAG should ensure consistent treatment of fringe benefit costs for ICAP budgeting, ICAP actual cost determination, and direct billing purposes.
- KCAG establish procedures to ensure that the reports from the accounting and job costing system support the amounts reported in the ICAP.
- KCAG perform a reconciliation of actual fringe benefit costs with the estimated fringe benefit costs/rate.
- KCAG should request approval of a fringe benefit rate beginning FY 2014/2015, if it continues to direct bill a fringe benefit rate.
- KCAG should review FY 08/09 through FY 12/13 fringe benefit costs billed. As such, KCAG should reconcile actual fringe benefits costs to fringe benefits costs invoiced and reimbursed by Caltrans and repay Caltrans for any over billings. KCAG should consider both the over and under billed fringe benefit rates.

KCAG Response:

KCAG agrees with the recommendations. KCAG has or will implement the recommendations. KCAG has requested samples of fringe benefit rate approval formats in order to evaluate that option.

Finding 2
KCAG lacks an adequate process to administer the Regional Surface Transportation Program (RSTP) funds. KCAG did not comply with contract administration provisions as required by the agreement between KCAG and Caltrans. The specific provisions are listed in Attachment II. In addition, KCAG did not execute individual formal written agreements between KCAG and the subrecipients. As a result, the subrecipients were not required to comply with fund requirements as well as with critical clauses such as, applicable costs principles, requirements for travel and subsistence, third party contracting, record retention requirements, Caltrans' right to audit and accounting system. See Attachment III for the required provisions.
(For criterias, see Attachment I, Finding 2.)

Not performing adequate contract management and oversight of the RSTP funds and not having written agreements with fund recipients increases KCAG's and Caltrans' risk of paying for unsupported costs.

Based on our review, we determined that $948,843 of the $1,421,754 in RSTP exchange funds is unallowable. KCAG stated they did not monitor the funds and KCAG's supporting documentation amounted to a letter to the subrecipients. Also, the subrecipients did not provide supporting documentation, except for the City of Hanford. As such, the City of Hanford costs appear reasonable and allowable. The other fund recipients include the City of Avenal, City of Corcoran, City of Lemoore and County of Kings.

Recommendation
We recommend the following:

- KCAG reimburse Caltrans $948,843.
- KCAG establish written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements, conditions and specifications.
- KCAG develop and implement RSTP Exchange Fund policies and procedures which ensure adequate contract management and oversight of the program funds.
- KCAG should ensure that future fund recipients provide evidence to substantiate the project costs incurred by the fund recipients are in compliance with Section 133(b) and 133(c) of Title 23 United States Code and Article XIX of the California State Constitution.

KCAG Response:

KCAG does not agree in total with the finding. KCAG has received documentation and evidence from each of the RSTP Exchange fund recipients to validate compliance with the RSTP Exchange Agreement's requirements, conditions and specifications and to ensure that project costs incurred are in compliance with applicable laws. KCAG will establish written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements, conditions and specifications. KCAG will develop and implement RSTP Exchange Fund policies and procedures which will ensure adequate contract management and oversight of the program funds.

Finding 3
Based on our review of KCAG's ICAP submissions for FY 2010/2011 and FY 2011/2012, we found KCAG included the following unallowable costs in the indirect cost pool:

- Unallowed direct costs for a consultant fee that was for an outside client and was reimbursed by the client.
- Unallowed equipment and depreciation costs related to the acquisition of various capital assets.
- Unallowed bank fees related to A.D.P. and Bank of America that were incurred in one FY but were recorded in another FY.
  (For criterias, see Attachment I, Finding 3.)

Including costs that are not allowable in the indirect cost pool inflates the indirect cost rate and if not detected, may result in a reimbursement for unallowed costs to KCAG. Per our request, KCAG revised the FY 2010/2011 and 2011/2012 ICAPs and excluded all the costs identified above.

Recommendation
We recommend the KCAG ensure that only those costs that meet the allowability criteria established by the 2 CFR Part 225 be included in future ICAPs.

KCAG Response:

KCAG agrees with the finding. KCAG will ensure that only allowable costs are included in future ICAPs. KCAG has a depreciation schedule for the equipment and depreciation costs related to the acquisition of various capital assets, which have been included in the RTPA's TDA Financial and Compliance Audit Report for use in the ICAP to include only the allowable depreciation cost in correspondence with the depreciation schedule.

Finding 4 (Unresolved Prior Audit Finding)
This finding has been reported in our audit reports issued in March 2008, May 2010, and October 2010. Although this finding has been reported on multiple occasions, KCAG has not fully developed a detailed policy and procedure manual, specific to KCAG. KCAG utilizes the County of Kings' Policies and Procedures where applicable, however, a separate and distinct policy and procedure manual for KCAG is needed to ensure adequate internal controls, particularly as related to labor charges. (For criteria, see Attachment IA, Finding 4.)

Failure to establish KCAG's financial management system policies and procedures may result in the overstatement of indirect costs and continued delays in future ICAP approvals.

Recommendation
We recommend the KCAG make it a priority to establish written policies and procedures which include details for all aspects of KCAG's financial management system, including, but not limited to the following: (1) Accounting practices, (2) timekeeping, (3) travel, (4) procurement and contract management, and (5) billing to local, state and federal agencies.

KCAG Response:

KCAG agrees with the recommendation. KCAG will prioritize the development of a Policy and Procedure Manual for financial management activities to include the areas specified above.

Finding 5
KCAG's Requests for Reimbursements (RFRs) submitted to Caltrans were not properly prepared. We found the "WE current amount billed" and "Total local match" amounts in the RFRs include ineligible and unallowable costs. Specifically we found:

- KCAG improperly recorded ineligible and unallowable expenses as allowable direct costs in a direct WE.
- After a manual adjustment, KCAG improperly recorded the ineligible and unallowable expenses as local match. KCAG failed to properly record the costs to an indirect or unallowable cost account. (For criteria, see Attachment IA, Finding 5)

Because the ineligible and unallowable expenses were excluded from the "PL amount billed", which is the amount reimbursed by Caltrans and because the local match amount in the RFR was an overmatch, the ineligible and unallowable costs were not reimbursed by Caltrans.

Additionally, KCAG's billings did not provide a breakdown of the expenditures incurred that would provide Caltrans adequate information to determine the allowability of costs included in the RFR. It is KCAG's responsibility to ensure only allowable costs are included on the billings; however, providing a breakdown of expenditures allows funding agencies to appropriately perform their review and approval of billed costs.

Recording ineligible and unallowable costs in a direct work element increases the risk of non-compliance with state and federal regulations, and if not detected, may result in a reimbursement for unallowed costs to KCAG. Also, there is a risk of not meeting the local match as the amount of total eligible costs include ineligible and unallowable costs.

Recommendation
We recommend:

- KCAG ensure that only those costs that meet the allowability criteria established by the MFTA be included in the billings to Caltrans.
- KCAG ensure billings to Caltrans include descriptions of activities performed and a breakdown of the costs incurred.
- KCAG modify their existing Chart of Accounts to include accounts to accumulate both unallowable direct and indirect costs.

KCAG Response:

KCAG agrees with the finding. KCAG will ensure that only those costs that meet the allowability criteria established by the MFTA be included in the billings to Caltrans and that the billings include descriptions of activities performed and a breakdown of their costs. KCAG will be working with the County Finance Department to modify the Chart of Accounts to include both unallowable direct and indirect costs.

Kings County Association of Governments
FY 2010-11 Indirect Cost Allocation Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Kings County Association of Governments and approved by Caltrans.

SECTION 1: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	7/01/10 to 6/30/11	50.25%	All Programs

* Base: Total Direct Salaries and Wages plus Fringe Benefits

SECTION II: General Provisions

A. Limitations:

The rates in 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. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the 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 indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined - either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements - any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency. The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2010-11 Budgeted Indirect Costs	$ 210,993
Carry Forward from FY 2008-09	($ 12,423)
Adjusted Indirect Costs for FY 2010-11	$ 198,570
FY 2010-11 Budgeted Direct Salaries and Wages plus Fringe Benefits	$ 395,200
FY 2010-11 Indirect Cost Rate	50.25%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2011 (July 1, 2010 to June 30, 2011) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Kings County Association of Governments

Signature: Terri King

Reviewed, Approved and Submitted by:

Name of Official: Terri King

Title: Executive Director

Date of Execution: 6-24-13

Signature: Terri King

Prepared by:

Name of Official: Terri King

Title: Executive Director

Date of Execution: 6-24-13

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Annabel Alvarez

Signature

Reviewed and Approved by:

Title: Auditor

Date: 5-27-2014

Phone Number: 916-323-7871

Signature

Reviewed and Approved by: Zilan Chen

Title: Chief, External Audits

Date: 5-27-2014

Phone Number: (916) 323-7877

Kings County Association of Governments
FY 2012 Indirect Cost Allocation Plan

The indirect cost rate plan contained herein is for use on grants, contracts and other agreements with the Federal Government and the California Department of Transportation (Department), subject to the provisions in Section II. This rate was prepared by the Kings County Association of Governments and approved by Department.

SECTION I: Rates

Rate Type*	Effective Period	Rate**	Applicable to
Fixed with carry forward	7/1/11 to 6/30/12	42.60%	All Programs

* Base: Total Direct Salaries and Wages plus Fringe Benefits

SECTION II: General Provisions

A. Limitations:

The rate in this Agreement is subject to any statutory or administrative limitations and applies to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rate is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; (4) The information provided by the organization which was used to establish the rate is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the 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 indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined – either by the grantee's Single Audit, or if a Single Audit is not required, then by the grantee's audited financial statements – any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plans approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this acceptance is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the accepted rate in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the accepted rate to the appropriate base to identify the proper amount of indirect cost allocable to these programs.

G. Rate Calculation:

FY 2012 Budget Indirect Costs	$	229,585
Carry Forward from FY 2010	$	(57,134)
Budgeted FY 2012 Indirect Costs	$	172,451
FY 2012 Budgeted Direct Salaries & Wages Plus Fringe Benefits	$	404,859
FY 2012 Indirect Cost Rate		42.60%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I, Terri King, have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in the proposal to establish billing or final indirect cost rates for fiscal year 2012 (July 1, 2011 to June 30, 2012) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and 2 Code of Federal Regulations (CFR), Part 225, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Kings County Association of Governments

Signature:	Terri King	Signature:	Terri King
Reviewed, Approved and Submitted by:		Prepared by:	
Name of Official:	Terri King	Name of Official:	Terri King
Title:	Executive Director	Title:	Executive Director
Date of Execution:	5-28-14	Telephone No.:	(559) 852-2678

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: Annabel Alvarez

Reviewed and Approved by:

Name of Auditor: Annabel Alvarez

Title: Auditor

Telephone No.: 916·323-7871

Signature: Zolan

Reviewed and Approved by:

Name of Official: Zolan Chen

Title: Chief External Auditor

Telephone No.: (916) 323-7877