

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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October 10, 2013

Mr. Andrew Sisk
Auditor Controller
Placer County
2970 Richardson Drive
Auburn, CA 95603

Dear Mr. Sisk:

At the request of the California Department of Transportation (Caltrans), the State Controller's Office (SCO) conducted an audit of the Placer County, Community Development Resource Agency, Division of Engineering & Surveying's (CDRA) Indirect Cost Rate Proposal (ICRP) for fiscal years (FY) 2008/2009, FY2009/2010, and FY 2010/2011 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 CDRA's ICRPs for FY 2008/2009, FY2009/2010 and FY2010/2011 are presented in accordance with Title 2, CFR, Part 225. However there was one finding related to the CDRA's inclusion of overstated administrative services and indirect labor costs. The approved indirect cost rates are:

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Final	7/1/2008 to 6/30/2009	76.32%	Engineering & Surveying
Final	7/1/2009 to 6/30/2010	66.43%	Engineering & Surveying
Final	7/1/2010 to 6/30/2011	61.04%	Engineering & Surveying

Base: Total Direct Salaries and Wages plus Fringe Benefits

These rates supersede the rate of 81.43% previously stated in our Acceptance Letter for FY 2008/2009 dated July 13, 2011, and the rates of 70.64% and 65.18% previously stated in our Acceptance Letter for FY 2009/2010 and FY 2010/2011, respectively, dated February 14, 2012. Since the approved indirect cost rates are lower than the previously accepted rates, the CDRA is required to reconcile all prior reimbursement claims using the lower approved rates. Any resulting overpayment should be repaid to Caltrans within 30 days or by the next billing cycle, whichever occurs first.

This report is intended solely for the information of the CDRA, Caltrans Management, the California Transportation Commission, and the Federal Highway Administration (FHWA).

Mr. Andrew Sisk
October 10, 2013
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However, this report is a matter of public record and its distribution is not limited. In addition, this report will be placed on the Caltrans website.

Please retain a copy of this letter with your ICRP. Copies of this letter were sent to the Caltrans District 3, the Caltrans Division of Accounting, and FHWA. If you have any questions, please call Alice Lee, Audit Manager, at (916) 323-7953.

Sincerely,



ZILAN CHEN, Chief
External Audits-Local Governments
Audits and Investigations

Enclosure:

- 1) Audit Report of the Placer County, Community Development Resource Agency's Indirect Cost Rate Proposal prepared by the California State Controller's Office
- 2) ICAP/ICRP Indirect Cost Rate Certification, FY 2008/2009
- 3) ICAP/ICRP Indirect Cost Rate Certification, FY 2009/2010
- 4) ICAP/ICRP Indirect Cost Rate Certification, FY 2010/2011

- c: Janice Richard, Director, Financial Services, Federal Highway Administration
Rodney Whitfield, Financial Manager, Federal Highway Administration
Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
Kara Magdaleno, Administrative Program Assistant, Planning and Finance, Federal Highway Administration
Andrew Finlayson, Chief, State Agency Audit Bureau, California State Controller's Office
Chris Prasad, Audit Manager, State Agency Audit Bureau, State Controller's Office
Sean Tsao, Audit Manager, State Agency Audit Bureau, State Controller's Office
Stella Liao, DLAE, Acting Chief, Office of Local Assistance, Division of Planning and Local Assistance, District 3, California Department of Transportation
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation, California Department of Transportation
Terry Farris, Senior Transportation Planner, State Transit Program, Office of State Policy, Research and Capital, Division of Mass Transportation, California Department of Transportation
C. Edward Philpot, Jr., Chief, Office of Community Planning, Division of Transportation Planning, California Department of Transportation
Tyler Monson, Acting Chief, Regional and Interagency Planning, Division of Transportation Planning, California Department of Transportation
Karen Hunter, Rail Transportation Associate, Division of Rail, California Department of Transportation
Lisa Gore, Associate Accounting Analyst, Local Program Accounting Branch, Local Assistance, California Department of Transportation
David Saia, LAPM/LAPG Coordinator, Division of Local Assistance, California Department of Transportation
Lai Huynh, Audits & Federal Performance Measures Analyst, Division of Local Assistance, California Department of Transportation
Donna Kirkpatrick, Sr. Administrative Services Officer, Placer County, Community Development Resource Agency
P1590-0091, P1590-0225, and P1590-0226



JOHN CHIANG
California State Controller

September 5, 2013

Zilan Chen, 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. Chen:

The State Controller's Office completed an audit of the Placer County Community Development Resource Agency's (CDRA) indirect costs rate proposals (ICRPs) for fiscal year (FY) 2008-09, FY 2009-10, and FY 2010-11. The CDRA provides engineering and surveying services to the County's Department of Public Works (DPW) for the Federal Highway Administration (FHWA) and the California Department of Transportation (Caltrans)-funded capital projects. The DPW subsequently recovers the FHWA/Caltrans funds.

The CDRA proposed indirect cost rates based on final costs of 81.43%, 70.64%, and 65.18% for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. Our audit determined whether the (1) proposed rates were in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225; (2) ICRPs were in compliance with the requirements for ICRP preparation and application identified in Caltrans Local Program Procedures 04-10; and (3) CDRA's accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Our audit determined indirect cost rates of 76.32%, 66.43%, and 61.04%, differences of 5.11%, 4.21%, and 4.14% for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The differences were due to the CDRA's inclusion of overstated administrative services and indirect labor costs.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/nh

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Audit Report

Summary

The State Controller's Office (SCO) completed an audit of the Placer County Community Development Resource Agency's (CDRA) indirect cost rate proposals (ICRP) for fiscal year (FY) 2008-09, FY 2009-10, and FY 2010-11. The CDRA provides engineering and surveying services to the County's Department of Public Works (DPW) for the Federal Highway Administration (FHWA) and the California Department of Transportation (Caltrans)-funded capital projects. The DPW subsequently recovers the FHWA/Caltrans funds.

The CDRA proposed indirect cost rates based on final costs of 81.43%, 70.64%, and 65.18% for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. Our audit determined whether the (1) proposed rates were in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225); (2) ICRPs were in compliance with the requirements for ICRP preparation and application identified in the Caltrans Local Program Procedures (LPP) 04-10; and (3) CDRA's accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Our audit determined indirect cost rates of 76.32%, 66.43%, and 61.04%, differences of 5.11%, 4.21%, and 4.14% for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The differences were due to the CDRA's inclusion of overstated administrative services and indirect labor costs.

Background

The Placer County government is overseen by an elected five-member Board of Supervisors (Board). The Board sets priorities for the County and, through delegated authority to the County Administrative Office, oversees most County departments and programs, including the Department of Public Works (DPW).

The DPW is responsible for the construction and maintenance of roads and infrastructure. However, on an as-needed basis, the DPW enters into agreements with the CDRA to provide engineering and surveying services for the DPW's FHWA/Caltrans-funded transportation capital projects. The DPW reimburses the CDRA for project-related incurred direct and indirect costs. The county subsequently recovers the FHWA/Caltrans funds.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P150-0137). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0034, dated March 31, 2010, 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 ICRPs for FY 2008-09, FY 2009-10, and FY 2010-11. Changes to the financial management system subsequent to June 30, 2011, were not tested and, accordingly, our conclusion does not pertain to changes arising after these fiscal years.

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 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; (3) and the County's accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit the CDRA'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

We completed an audit of the Placer County CDRA's indirect cost rate proposals for FY 2008-09, FY 2009-10, and FY 2010-11. The CDRA proposed indirect cost rates based on each fiscal year's actual cost of 81.43%, 70.64%, and 65.18%, respectively. Our audit determined indirect cost rates of 76.32%, 66.43%, and 61.04%, differences of 5.11%, 4.21%, and 4.14% for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The rate differences, as described in the Finding and Recommendation, were due to the CDRA's inclusion of overstated administrative services and indirect labor costs.

**Views of
Responsible
Official**

We discussed our audit results with the CDRA's representative during an exit conference conducted on May 13, 2012. Donna Kirkpatrick, Administrative Services Officer, agreed with the audit results. Ms. Kirkpatrick 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 California Department of Transportation; Placer County Community Development Agency; 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

September 5, 2013

**Schedule 1—
Summary of Proposed and Audited Indirect Cost Rates
July 1, 2009, through June 30, 2011**

<u>Division</u> <u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
2008-09	81.43%	76.32%	(5.11%)	Schedule 1A
2009-10	70.64%	66.43%	(4.21%)	Schedule 1B
2010-11	65.18%	61.04%	(4.14%)	Schedule 1C

**Schedule 1A—
Summary of Proposed and Audited Direct Costs,
Indirect Costs, and Indirect Cost Rate
Fiscal Year 2008-09**

	Proposed	Audited	Differences
Direct costs:			
Salaries	\$ 2,366,540	\$ 2,366,540	\$ —
Benefits	1,210,374	1,210,374	—
Total direct salaries and benefits	<u>\$ 3,576,914</u>	<u>\$ 3,576,914</u>	<u>\$ —</u>
Indirect costs:			
Salaries	\$ 846,633	\$ 835,246	\$ (11,387)
Benefits	420,183	420,183	—
Total indirect salaries and benefits	<u>\$ 1,266,816</u>	<u>\$ 1,255,429</u>	<u>\$ (11,387)</u>
Indirect services, supplies, and other expenses:			
Clothes and personal items	\$ 1,693	\$ 1,693	\$ —
Communications	45,553	45,553	—
Mobile communication devices	6,424	6,424	—
Equipment maintenance	4,614	4,614	—
Membership dues	3,018	3,018	—
Personal computer acquisition	6,730	6,730	—
Printing	6,846	6,846	—
Other supplies	679	679	—
Office supplies	12,087	12,087	—
Postage	2,042	2,042	—
Professional services	729	729	—
Professional services—county	12,441	12,441	—
Professional services—Bickford	—	—	—
Publications and legal notices	2,971	2,971	—
Computer software lease	36,070	36,070	—
Building rent—Truckee	2,5236	25,236	—
Small instruments	3,283	3,283	—
Fuels and lubricants	21	21	—
School expenditures	744	744	—
Special department expense—1099 reportable	444	444	—
Special department expenses	135	135	—
Training	4,555	4,555	—
Travel	1,115	1,115	—
Mileage	490	490	—
Lodging	1,759	1,759	—
Vehicle expense	29,319	29,319	—
Meals	972	972	—
Transfer out A-87 costs	801,778	801,778	—
Intrafund transfers in—general fund	—	—	—
Intrafund transfers in—road fund	—	—	—
Intrafund transfers in—county office bldg	—	—	—

Schedule 1A (continued)

	Proposed	Audited	Differences
Intrafund transfers out—maintenance	534	534	—
Intrafund transfers out—administrative charge	372,229	200,706	(171,523)
Intrafund transfers out—management information systems services	122,114	122,114	—
Intrafund transfers out—professional specialized services—purchased	—	—	—
Intrafund transfers out rent & leases	139,387	139,387	—
Total indirect services, supplies, and other expenses	\$ 1,646,012	\$ 1,474,489	\$ (171,523)
Total indirect costs	\$ 2,912,828	\$ 2,729,918	\$ (182,910)
Indirect costs rate	81.43%	76.32%	-5.11%

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

	Proposed	Audited	Differences
Direct costs:			
Salaries	\$ 2,387,410	\$ 2,403,495	\$ 16,085
Benefits	1,214,096	1,223,319	9,223
Total direct salaries and benefits	<u>\$ 3,601,506</u>	<u>\$ 3,626,814</u>	<u>\$ 25,308</u>
Indirect costs:			
Salaries	\$ 759,708	\$ 735,509	\$ (24,199)
Benefits	376,074	366,851	(9,223)
Total indirect salaries and benefits	<u>\$ 1,135,782</u>	<u>\$ 1,102,360</u>	<u>\$ (33,422)</u>
Indirect services, supplies, and other expenses:			
Clothes and personal items	\$ 1,186	\$ 1,186	\$ —
Communications	29,291	29,291	—
Mobile communication devices	9,895	9,895	—
Equipment maintenance	4,785	4,785	—
Membership dues	3,292	3,292	—
Personal computer acquisition	—	—	—
Printing	6,540	6,540	—
Other supplies	929	929	—
Office supplies	6,747	6,747	—
Postage	1,430	1,430	—
Professional services	729	729	—
Professional services—county	—	—	—
Publications and legal notices	1,232	1,232	—
Computer software lease	15,620	15,620	—
Building rent—truckee	25,610	25,610	—
Small instruments	1,255	1,255	—
Fuels and lubricants	3	3	—
School expenditures	30	30	—
Special department expense—1099 reportable	339	339	—
Special department expenses	69	69	—
Training	2,549	2,549	—
Travel	855	855	—
Mileage	418	418	—
Lodging	798	798	—
Vehicle expense	30,985	30,985	—
Meals	754	754	—
Transfer out A-87 costs	800,850	800,850	—
Intrafund transfers in—general fund	—	—	—
Intrafund transfers in—road fund	—	—	—
Intrafund transfers in—county office building	—	—	—
Intrafund transfers in—county library fund	—	—	—
Intrafund transfers out maintenance—services	98,289	98,289	—

Schedule 1B (continued)

	<u>Proposed</u>	<u>Audited</u>	<u>Differences</u>
Intrafund transfers out—administrative charge	217,391	116,016	(101,375)
Intrafund transfers out—management information systems services	112,197	112,197	—
Intrafund transfers out utilities	34,324	34,324	—
Total indirect services, supplies, and other expenses	<u>\$ 1,408,392</u>	<u>\$ 1,307,017</u>	<u>\$ (101,375)</u>
Total indirect costs	<u>\$ 2,544,174</u>	<u>\$ 2,409,377</u>	<u>\$ (134,797)</u>
Indirect costs rate	<u>70.64%</u>	<u>66.43%</u>	<u>-4.21%</u>

**Schedule 1C—
Summary of Proposed and Audited Direct Costs,
Indirect Costs, and Indirect Cost Rate
Fiscal Year 2010-11**

	Proposed	Audited	Differences
Direct costs:			
Salaries	\$ 2,245,366	\$ 2,250,707	\$ 5,341
Benefits	1,099,696	1,102,243	2,547
Total direct salaries and benefits	<u>\$ 3,345,062</u>	<u>\$ 3,352,950</u>	<u>\$ 7,888</u>
Indirect costs:			
Salaries	\$ 773,273	\$ 753,943	\$ (19,330)
Benefits	355,288	352,741	(2,547)
Total indirect salaries and benefits	<u>\$ 1,128,561</u>	<u>\$ 1,106,684</u>	<u>\$ (21,877)</u>
Indirect services, supplies, and other expenses:			
Clothes and personal items	\$ 1,319	\$ 1,319	\$ —
Communications	24,741	24,741	—
Mobile communication devices	7,963	7,963	—
Equipment maintenance	4,261	4,261	—
Maintenance—computer equipment	40	40	—
Membership dues	2,992	2,992	—
Personal computer acquisition	1,380	1,380	—
Printing	6,179	6,179	—
Other supplies	77	77	—
Office supplies	6,601	6,601	—
Postage	1,031	1,031	—
Professional services	627	627	—
Professional services—county	—	—	—
Professional or specialize services			
Purchased—Bickford Ranch	—	—	—
Publications and legal notices	284	284	—
Computer software lease	8,591	8,591	—
Building rent—Truckee	25,739	25,739	—
Small instruments	1,146	1,146	—
Fuels and lubricants	8	8	—
School expenditures	—	—	—
Special department expense—1099 reportable	373	373	—
Special department expenses	54	54	—
Training	1,568	1,568	—
Travel	1,026	1,026	—
Mileage	—	—	—
Lodging	1,688	1,688	—
Vehicle expense	(42,478)	(42,478)	—
Meals	747	747	—
Transfer out A—87 costs	521,558	521,558	—
Intrafund transfers in—general fund	(450)	(450)	—
Intrafund transfers in—road fund	—	—	—

Schedule 1C (continued)

	<u>Proposed</u>	<u>Audited</u>	<u>Differences</u>
Intrafund transfers in—county office building	—	—	—
Intrafund transfers out maintenance—buildings and improvements	90,663	90,663	—
Intrafund transfers out—administrative charge	243,626	131,675	(111,951)
Intrafund transfers out—management information systems services	100,047	100,047	—
Intrafund transfers out utilities	40,481	40,481	—
Total indirect services, supplies, and other expenses	<u>\$ 1,051,882</u>	<u>\$ 939,931</u>	<u>\$ (111,951)</u>
Total indirect costs	<u>\$ 2,180,443</u>	<u>\$ 2,046,615</u>	<u>\$ (133,828)</u>
Indirect costs rate	<u>65.18%</u>	<u>61.04%</u>	<u>-4.14%</u>

Finding and Recommendation

FINDING — Overstated indirect costs

The Placer County Community Development Resource Agency (CDRA) proposed final (actual) costs based indirect cost rates of 81.43%, 70.64%, and 65.18% for fiscal year (FY) 2008-09, FY 2009-10, and FY 2010-11, respectively. Our audit found that the proposed rates were overstated. We determined indirect cost rates of 76.32%, 66.43%, and 61.04%, differences of 5.11%, 4.21%, and 4.14% for these fiscal years, respectively. The differences were due to overstated indirect costs as follows:

- The administrative services charges were overstated by \$171,523, \$101,375, and \$111,951 for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The county applied an allocation rate of 85.46%, 87.38%, 85.02% to charge CDRA Administrative Services Divisions costs to the Engineering and Surveying Division for these fiscal years. Our audit found that the allocation rate was inequitable because the Administrative Services Division cost was assigned only an allocation base of the Engineering and Surveying Divisions costs, whereas all of the CDRA divisions and their respective direct cost objectives benefitted from the indirect activities of the Administrative Services Division. Furthermore, our audit found that indirect labor costs were also directly charged to Federal Highway Administration and California Department of Transportation projects. Thus, the allocation bases to distribute the administrative charge caused the county to duplicate and inequitably charge the indirect activities to the Engineering and Surveying Division, resulting in an overstated indirect cost rate.
- The indirect labor costs were overstated by \$11,387, \$33,422, and \$21,877 for FY 2008-09, FY 2009-10, and FY 2010-11, respectively. The county misclassified as indirect charges direct labor costs for Cost Objective 10042 (mPower). In addition, the county combined and categorized the year-end direct labor accruals as indirect costs. The county did not maintain records to segregate the accrued direct and indirect labor costs. The misclassified direct labor charges were as follows:

Direct Cost Activity	Fiscal Year		
	2008-09	2009-10	2010-11
<u>mPower</u>			
Salaries		\$ 16,085	\$ 5,341
Fringe benefits		9,223	2,547
Subtotal	\$ —	25,308	7,888
<u>Year-end accruals</u>	11,387	8,114	13,989
Total misclassified direct labor costs	\$ 11,387	\$ 33,422	\$ 21,877

Title 2, *Code of Federal Regulations*, Part 225, (2 CFR 225), Appendix A, C. Basic Guidelines, 3. Allocable costs 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." Subsection j provides, "Be adequately documented."

2 CFR 225, Appendix A, E. Direct Costs, 1. General states: "Direct costs are those that can be identified specifically with a particular final cost objective."

2 CFR 225, Appendix A, F. Indirect Costs, 1. states, in part: "Indirect costs are those: Incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. . . ."

Recommendation

We recommend that the CDRA exclude these unallowable indirect costs and revise and resubmit to Caltrans the FY 2008-09, FY 2009-10, and FY 2010-11 ICRPs. In addition, we recommend that the CDRA implement policies and procedures to ensure that the indirect cost rates are proposed for direct costs objectives that equitably benefit from these charges. We also recommend that the CDRA implement policies and procedures to ensure that allowable indirect costs are properly determined and included in the ICRP.

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

<http://www.sco.ca.gov>