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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December 5, 2013

Mr. Robert A. Perreault, Jr.
Director of Public Works
County of Plumas
1834 East Main Street
Quincy, CA 95971

Dear Mr. Perreault:

At the request of the California Department of Transportation (Caltrans), the State Controller's Office (SCO) conducted an audit of the County of Plumas, Department of Public Works, Road Fund Division's (County) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2009/2010 to determine whether the ICRP was presented in accordance with Title 2, Code of Federal Regulations (CFR), Part 225.

Based on audit work performed by the SCO, we determined the County's ICRP for FY 2009/2010 is presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rate is 50.18 percent of total direct salaries and fringe benefits.

This rate supercedes the rate of 59.54 percent stated in our Acceptance Letter dated September 26, 2011. Since the audited indirect cost rate is lower than the previously accepted rate, the County is required to reconcile all prior reimbursement claims using the lower audited rate. Any resulting overpayment should be repaid to Caltrans within 30 days or by the next billing cycle, whichever occurs first.

The SCO audit identified $199,869 in direct salaries and benefits that were incorrectly recorded as indirect labor costs, as well as underclaimed direct capital project-related federal and state funds due to understated employee hourly rates in its cost accounting system.

The ICRP is approved for billing and reimbursement purposes based on the understanding that the rate is a final rate and the carry-forward provision does not apply.

This report is intended solely for the information of the County, 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 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 2, the Caltrans Division of Accounting, and FHWA. If you have any questions, please call me at (916) 323-7877.

Sincerely,

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

Enclosure:
Audit Report of County of Plumas, Department of Works prepared by California State Controller's Office
FY 2009/2010 ICRP Certification

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
Ian Howat, Chief, Office of Local Assistance, District 2, 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
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
Phyllis Taddei, Department Fiscal Officer, Department of Public Works, County of Plumas

P1590-0157

PLUMAS COUNTY
DEPARTMENT OF PUBLIC WORKS

Audit Report

INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0034

July 1, 2009, through June 30, 2010

JOHN CHIANG
California State Controller

November 2013

JOHN CHIANG
California State Controller

November 15, 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 audited the indirect cost rate proposal (ICRP) of the Plumas County, Department of Public Works, Road Fund Division for fiscal year (FY) 2009-10. The county proposed an indirect cost rate of 59.54%.

The purpose of the audit was to determine whether (1) the ICRP was in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225; (2) the ICRP was in compliance with the requirements of the California Department of Transportation's (Caltrans) Local Program Procedures Manual 04-10; and (3) the county's cost accounting system was accumulating and segregating reasonable, allocable, and allowable costs.

Our audit identified $199,869 in direct costs, salaries, and benefits that were incorrectly recorded as indirect labor costs. We reclassified these direct labor costs and determined an indirect cost rate of 50.18%, a difference of 9.36%. Furthermore, we found that the county underclaimed capital project-related federal and state funds because the electronic accounting application consistently calculated labor costs at 11.48% less than the actual costs. By not correcting these actual costs, the county agrees that it has missed opportunities to completely recover the Federal Highway Administration and Caltrans funds.

Except for these misclassified and understated labor costs, we determined that the proposed rate is in accordance with the above requirements and that the county's cost accounting system is accumulating and segregating reasonable, allocable, and allowable costs.

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

Sincerely,

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

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Audit Report

Summary

The State Controller's Office audited the indirect cost rate proposal (ICRP) of the Plumas County, Department of Public Works, Road Fund Division for fiscal year (FY) 2009-10. The county proposed an indirect cost rate of 59.54%.

The purpose of the audit was to determine whether (1) the ICRP was in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225); (2) the ICRP was in compliance with the requirements of the California Department of Transportation's (Caltrans) Local Program Procedures Manual (LPP) 04-10; and (3) the county's cost accounting system was accumulating and segregating reasonable, allocable, and allowable costs.

Our audit identified $199,869 in direct costs, salaries, and benefits that were incorrectly recorded as indirect labor costs. We reclassified these direct labor costs and determined an indirect cost rate of 50.18%, a difference of 9.36%. Furthermore, we found that the county underclaimed capital project-related federal and state funds because the electronic accounting application consistently calculated labor costs at 11.48% less than the actual costs. By not correcting these actual costs, the county agrees that it has missed opportunities to completely recover the Federal Highway Administration (FHWA) and Caltrans funds.

Except for these misclassified and understated labor costs, we determined that the proposed rate is in accordance with the above requirements and that the county's cost accounting system was accumulating and segregating reasonable, allocable, and allowable costs.

Background

Plumas County is situated in the Sierra Nevada mountains. The 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 functions are segregated into three divisions; Solid Waste Division, Flood Control Division, and Road Fund Division.

The Road Fund Division is responsible for the transportation infrastructure and maintains the county's 500 bridges and 680 miles of roadways. The division repairs, maintains, designs, and constructs transportation and water drainage infrastructure; and reviews and approves various land development projects.

The proposed indirect cost rate allows the county to recover the FHWA and Caltrans-funded project-related indirect costs.

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 ICRP for FY 2009-10. Changes to the financial management system subsequent to FY 2009-10 were not tested and, accordingly, our conclusion does not pertain to changes arising after 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 county'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; and (3) the county's cost accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit Plumas County'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 county's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

We audited the indirect cost rate proposal of the Plumas County, Department of Public Works, Road Fund Division for FY 2009-10. The county proposed an indirect cost rate of 59.54%. Our audit determined an indirect cost rate of 50.18%, a difference of 9.36%. The proposed rate was overstated because the county incorrectly included $199,869 in direct costs, salaries, and benefits as indirect labor costs. We reclassified these direct labor costs and determined an indirect cost rate of 50.18%.

Furthermore, we found that the county underclaimed capital project-related federal and state funds because the electronic accounting application consistently calculated labor costs at 11.48% less than the actual costs. By not correcting these actual costs, the county agrees that it has missed opportunities to completely recover the FHWA and Caltrans funds.

Except for these misclassified and understated labor costs, we determined that the proposed rate is in accordance with the above requirements and that the county's cost accounting system is accumulating and segregating reasonable, allocable, and allowable costs.

Views of Responsible Official

We conducted an exit conference on August 1, 2012, and discussed our audit results with Robert Perreault, Director, Department of Public Works. Mr. Perreault agreed with the audit results and understood that the final audit report will be issued to Caltrans.

Restricted Use

This report is solely for the information and use of the California Department of Transportation; Plumas County; 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

November 15, 2013

Schedule 1—
Summary of Proposed and Audited Direct Costs, Indirect Costs, and Indirect Cost Rate
July 1, 2009, through June 30, 2010

Description	Proposed	Audited	Difference[1]
Direct Costs			
Salaries and benefits	$ 3,209,646	$ 3,409,515	$ 199,869
Indirect Costs			
Salaries and benefits	1,033,656	833,787	(199,869)
Services, Supplies, and Other			
Administrative–vehicle oil, gas, and maintenance	599	599	—
Annual road report	2,308	2,308	—
Communications	11,364	11,364	—
County cost allocation	191,848	191,848	—
Data charges	564	564	—
Director-wellness/fitness	619	619	—
Facilities maintenance	24,949	24,949	—
Fuel	68	68	—
Insurance	160,135	160,135	—
Information Technology professional services	12,104	12,104	—
Sign materials	6,324	6,324	—
Communication materials	12,812	12,812	—
Miscellaneous materials	29	29	—
Office machine maintenance	721	721	—
Outside repair	13,491	13,491	—
Equipment parts	191,787	191,787	—
Supplies	117,035	117,035	—
Tools	3,219	3,219	—
Training	8,621	8,621	—
Travel	3,910	3,910	—
Utilities	114,704	114,704	—
Sub total	877,212	877,212	—
Total indirect costs	1,910,868	1,710,999	199,869
Indirect cost base–Direct salaries and benefits	$ 3,209,646	$ 3,409,515	$ (199,869)
Indirect Cost Rate	59.54%	50.18%	9.36%

See Findings and Recommendations section.

Findings and Recommendations

FINDING 1—
Unallowable indirect labor costs

The county charged $199,869 in direct labor salaries and fringe benefits costs as indirect costs. As a result, the indirect cost rate was overstated by 9.36%. The county maintains separate accounts and records to accumulate professional engineering staff costs incurred for general engineering activities. Our audit determined that these general engineering activities are for costs incurred for staffing the public counter for routine activities, such as addressing citizens' complaints regarding boundary disputes and property owners' rights of way that did not benefit the Federal Highway Administration (FHWA) and California Department of Transportation (Caltrans)-funded capital projects. The county advised that none of these engineering costs was for future FHWA or Caltrans-funded capital projects. Furthermore, even if these activities were for future capital projects, the county has not maintained records and source documents to substantiate specific general engineering tasks.

These general engineering activities and related costs are allowable business activities; however, the related costs are not chargeable to the FHWA and Caltrans-funded projects due to lack of relative benefits being received. Thus, including these costs as an indirect cost produced a higher indirect cost rate; the county recovered federal and state funds for these non-beneficial indirect costs.

Title 2, *Code of Federal Regulations*, Part 225, (2 CFR 225) Appendix A, Section D(2) states:

> There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost

Section (C)(3)(a) states:

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

Section (F)(1) states, in part:

> Indirect costs are those incurred for common or joint purpose benefitting more than one cost objective. Indirect cost pool should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Appendix B, Section 31, states:

> Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable

> only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

Caltrans-issued Local Assistance Procedure Manual (LAPM), Chapter 5, Federal-Aid Project Authorization (E-76), states:

> Prior to beginning of the reimbursable work, the project phase of the work eligible for reimbursement from federal funds must be formally authorized (approved) by Caltrans and the Federal Highway Administration (FHWA). The payment of federal funds is limited to the amounts approved on the "Authorization to Proceed" or "E-76". . . Important note: Costs incurred prior to the authorization date are never eligible for FHWA reimbursement except for approved Emergency Relief (ER) work. . .

Recommendation

We recommend that the county revise and resubmit the Indirect Cost Rate Proposal by excluding these undistributed direct labor costs from the indirect cost pool, and reclassifying these as direct labor costs. We further recommend that the county implement policies and procedures to ensure that only reasonable, allowable, and allocable costs are included in the indirect cost pool and that these indirect costs are distributed to all benefitted direct costs objectives.

FINDING 2—Underclaimed capital project costs

The County underclaimed capital project-related federal and state funds because the electronic accounting application calculated labor cost at 11.48% less than the actual costs. The county's job cost accounting system, Cost Accounting Management System (CAMS), consistently understated each employee's rate because labor cost components (earned vacation and sick time off) were mistakenly excluded when calculating the productive hourly rates. The county maintains two accounting applications to accumulate and report financial data.

The county auditor-controller's office maintains the financial accounting system, FINPLUS, which is accumulated throughout the accounting cycle. The financial accounting system does not have the ability to record transactions, revenues, and expenses at individual departments' cost objective levels, therefore, it utilizes the CAMS application to record such detailed transactions. In CAMS, except for the labor related transactions, all other activities (services, supplies, material, and outsourced services) are recorded at actual cost. The labor costs, however, are valued and recorded at predetermined productive hourly rates that are generally estimated at the beginning of the fiscal year. Because estimated and actual costs can and often vary, the county should have, but has not, taken action to adjust the CAMS data as required.

This finding is consistent with Caltrans FY 2006-07 ICRP audit results. Caltrans had determined that the county applied labor rates used in the CAMS that were unsupported, specifically, the fringe benefits costs, which had to be manually recalculated. In October 2012, the county

identified, a software malfunction, and has taken action to properly identify all the estimated labor rate components for determining productive hourly rates. The county is now able to approximate actual labor costs.

For FY 2009-10 and preceding years, by not correcting these actual costs, the county agrees that it has missed opportunities to completely recover the FHWA and Caltrans funds.

2 CFR 225, Apendix 8.h.(5).(e) states:

> Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
>
> i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed.
>
> ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
>
> iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

LAPM, Chapter 5, Accounting/Invoices, Section 5.2, Requirement for Reimbursement, Invoice Submital, states, in part, "The local agency may submit monthly invoices for reimbursement of participating costs (costs eligible for federal and/or state reimbursement). Amounts claimed must reflect the cost of completed work, which has been paid for."

Recommendation

In October 2012, the county corrected its computer malfunction to ensure that estimated productive hourly rates reasonably approximate the actual costs, however, we recommend that the county establish policies and procedures to ensure that the estimated and actual labor costs are compared periodically to ensure that the estimated project costs reasonably represent the actual costs. Doing so will allow the county to properly recognize, record, and recover the project related direct costs.

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

http://www.sco.ca.gov

Indirect Cost Rate Proposal
Plumas County Department of Public Works - Road
09/10 Indirect Cost 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 Plumas County Department of Public Works and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
FINAL	07/01/09 – 06/30/10	50.18 %	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 rates(s) would be subject to renegotiations 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 actual costs; and, (6) The costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

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:

The fixed rate used in this Agreement is based on the costs for the period covered by the rate.

D. Audit Adjustments:
Immaterial adjustments resulting from the audit of information contained in the plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustment 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 Calculation: Revised per audit 4/19/13

FY 2010 Budgeted Indirect Costs		
Carry Forward		0
FY 2010 Indirect Costs		1,710,999
FY 2010 Budgeted Direct Salaries And Wages plus fringe benefits		3,409,515
FY 2010 Indirect Cost Rate		50.18 %

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 2010 (July 1, 2009 to June 30, 2010) 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 of 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 rate.

I declare that the foregoing is true and correct,

Government Unit: Plumas County Department of Public Works - Road

Signature: Robert A Perreault
Date: DEC 3, 2013

Reviewed, Approved and Submitted by:

Name of Official: Robert A Perreault, Jr.

Title: Director of Public Works

Date of Execution: DEC 3, 2013

Signature:
Date: 12/03/13

Prepared by:

Name of Official: Phyllis Taddei

Title: Department Fiscal Officer

Phone: (530) 283-6490

INDIRECT COST RATE APPROVAL

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

Signature

Reviewed and Approved by:
(Name of Audit Manager)

Title: Chief, External Audits Local Governments

Date: 12 5 13

Phone Number:
(916) 323-7877

Signature

Reviewed and Approved by: Alice Lee
(Name of auditor)

Title: Audit Manager

Date: 12 5 13

Phone Number: (916) 323-7953