

DEPARTMENT OF TRANSPORTATION

AUDITS AND INVESTIGATIONS

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July 25, 2013

Ms. Susan R. Klassen
 Director
 Department of Transportation and Public Works
 Sonoma County
 2300 County Center Drive, Suite B100
 Santa Rosa, CA 95403

Dear Ms. Klassen:

At the request of the California Department of Transportation (Caltrans), the State Controller's Office (SCO) conducted an audit of the Sonoma County, Department of Transportation and Public Works' (County) Indirect Cost Rate Proposals (ICRP) for fiscal year (FY) 2009/2010 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 County's ICRPs for FY 2010/2011 and FY2011/2012 are presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rates are:

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Final	7/1/2009 to 6/30/2010	45.42%	Road Division
Final	7/1/2010 to 6/30/2011	39.84%	Road Division

Base: Total Direct Salaries and Wages plus Fringe Benefits

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.

Ms. Susan R. Klassen
July 25, 2013
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Please retain a copy of this letter with your ICRP. Copies of this letter were sent to the Caltrans District 4, the Caltrans Division of Accounting, and FHWA. If you have any questions, please call me at (916) 323-7877.

Sincerely,

A handwritten signature in black ink, appearing to read 'Zilan Chen', with a long horizontal line extending to the right.

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

Enclosure:

Audit Report of Sonoma County, Department of Transportation and Public Works prepared by California State Controller's Office

- c: Janice Richard, Director, Financial Services, Federal Highway Administration
Michael Avery, Financial Integrity Review Evaluation Manager, Federal Highway Administration
Rodney Whitfield, Financial Manager, Federal Highway Administration
Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
Rebecca Bennett, Director, Local Programs, 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
Sylvia Fung, Chief, Office of Local Assistance, Division of Planning and Local Assistance, District 4, 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
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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
Dawn Flowers, Accountant II, Department of Transportation and Public Works - Road Division, Sonoma County

P1590-0324 and P1590-0325

**SONOMA COUNTY DEPARTMENT OF
TRANSPORTATION AND PUBLIC
WORKS**

Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF
CALTRANS CONTRACT NO. 77A0034
Audit Request No. P1590-0324 and P1590-0325**

July 1, 2009, through June 30, 2011



JOHN CHIANG
California State Controller

July 2013



JOHN CHIANG
California State Controller

July 18, 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 Sonoma County Department of Transportation and Public Works indirect cost rate proposal (ICRP) for fiscal year (FY) 2009-10 and FY 2010-11. The County proposed final (actual) cost-based rates, meaning indirect cost rates were based on actual costs of 45.42% and 39.84% for FY 2009-10 and FY 2010-11, respectively.

Our audit determined that the (1) proposed rates were in compliance with the cost principles prescribed in Title 2 of the *Code of Federal Regulations*, Part 225; (2) ICRPs were in compliance with Caltrans Local Program Procedures 04-10; and (3) the County's cost accounting system was accumulating and segregating reasonable, allocable, and allowable costs.

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

Sincerely,

A handwritten signature in cursive script, reading "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

Audit Report

Summary

The State Controller's Office (SCO) completed an audit of the Sonoma County Department of Transportation and Public Works (County) indirect cost rate proposal (ICRP) for fiscal year (FY) 2009-10 and FY 2010-11. The County proposed final cost-based rates, meaning indirect cost rates were based on actual costs of 45.42% and 39.84% for FY 2009-10 and FY 2010-11, respectively.

Our audit determined that the (1) proposed rates were in compliance with the cost principles prescribed in Title 2 of the *Code of Federal Regulations*, Part 225; (2) ICRPs were in compliance with Caltrans Local Program Procedures (LPP) 04-10; and (3) the county's cost accounting system was accumulating and segregating reasonable, allocable, and allowable costs.

Background

The Sonoma 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 Transportation and Public Works.

The Department of Transportation and Public Works includes 10 functional divisions, including the Road Fund Division (Road Fund). The Road Fund is the primary financial resource for road maintenance and construction activities, as well as other public works planning and management functions. The Road Fund activities include Finance and Administration, Engineering Services, and Maintenance Operations.

The Road Fund primarily incurs costs for capital projects funded by the Federal Highway Administration (FHWA) and Caltrans. Caltrans has provisionally approved the above-mentioned proposed rates, allowing the County to seek capital project-related indirect costs reimbursements.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1590-0324 and P1590-0325). 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 and FY 2010-11. Changes to the financial management system subsequent to these fiscal years 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 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 is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit Sonoma County Department of Transportation and Public Work'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 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 Sonoma County Department of Transportation and Public Works indirect cost rate proposal for FY 2009-10 and FY 2010-11. The County proposed final-actual costs-based indirect cost rates of 45.42% and 39.84%, for FY 2009-10 and FY 2010-11, respectively.

Our audit determined that the (1) proposed rates were in compliance with the cost principles prescribed in 2 CFR 225, (2) ICRPs were in compliance with Caltrans LPP 04-10, and (3) the County's cost accounting system was accumulating and segregating reasonable, allocable, and allowable costs.

**Views of
Responsible
Officials**

We conducted an exit conference on June 12, 2013, and discussed our audit results with Randy Siple, Fiscal Accounting Manager, and Dawn Flowers, Accountant. During our conference, Mr. Siple and Ms. Dawn agreed with the audit results and understood that a final report will be issued to Caltrans.

Restricted Use

This report is solely for the information and use of the California Department of Transportation; Sonoma County Department of Transportation and Public Works; 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

July 18, 2013

**Schedule 1—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rates
Fiscal Years 2009-10 and 2010-11**

	<u>Proposed and Audited</u>	
	<u>FY 2009-10</u>	<u>FY 2010-11</u>
Direct costs		
Salaries and fringe benefits	\$ 13,253,241	\$ 11,954,937
Indirect costs		
Indirect salaries and fringe benefits	2,404,734	1,947,262
Services, supplies, and other		
Clothing/personal	30,298	35,182
Communications	104,497	113,133
Paging services	2,309	380
Cell phone service	31,905	27,780
Food	199	1,174
Janitorial service	11,892	12,298
Liability insurance	1,299,543	1,218,568
Maintenance-equipment	25,860	33,849
Maintenance-buildings/improvements	82,256	94,300
Maintenance-road signals	604	19
Laboratory supplies	6,810	3,852
Memberships	6,497	4,284
Miscellaneous office expense	2,580	4,202
Office expense	60,105	64,959
Postage	3,490	4,789
Books/periodicals	3,003	4,616
Printing services	11,407	19,801
Professional/specialist	4,390	7,350
Contract services	684	9,021
Consultant service	39,760	80,394
Permits	747	1,603
Engineering services	6,732	18,137
Legal services	24,074	35,739
Fiscal accounting	282,555	249,674
Public/legal notice	2,850	—
Rents/leases-equipment	26,529	31,170
Small tools/instruments	39,430	48,947
Software	85,178	81,736
Special department road sign	59,064	46,536
Hazardous waste	1,980	—
Training-in-service	16,070	22,104
Tuition/textbook	60	—
Road materials	13,688	21,436
Gas/oil	1,420	8,414
County car expense	81,096	74,496
Travel expense	10,003	16,433
Private car expense	9,909	9,657

Schedule 1 (continued)

	<u>Proposed and Audited</u>	
	<u>FY 2009-10</u>	<u>FY 2010-11</u>
Indirect costs		
Utilities	72,088	77,486
Data processing	334,072	236,813
Data processing - new projects	3,799	10,722
Information system desktop modernization	37,198	7,706
Information system small tools/software	9,040	—
Laboratory equipment	1,152	2,764
Intangible software	14,425	14,425
A-87 charge	1,396,128	—
Computer hardware	—	43
Audit accounting services	—	1,000
Risk management - benefit administration	—	46,370
License fees	—	132
Professional development-administrative	—	125
Field equipment	—	1,198
Prior year encumbrance- small tools	—	9,678
Prior year encumbrance - special department	—	1,201
Carry forward adjustment from FY 2007/08	(642,072)	—
Subtotal of services, supplies, and other	3,615,303	2,815,696
Total indirect costs	6,020,037	4,762,958
Indirect costs base - Direct salaries and fringe benefits	\$ 13,253,241	\$ 11,954,937
Indirect cost rate	45.42%	39.84%

State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>