

DEPARTMENT OF TRANSPORTATION

AUDITS AND INVESTIGATIONS

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March 24, 2015

Mr. Howard Dashiell
Director of Transportation
Mendocino County
Department of Transportation
340 Lake Mendocino Drive
Ukiah, CA 95482-9432

Dear Mr. Dashiell:

At the request of the California Department of Transportation (Caltrans), Audits and Investigations (A&I), the State Controller's Office (SCO) conducted an audit of the Mendocino County, Department of Transportation (County) Indirect Cost Rate Proposals (ICRPs) for fiscal years (FY) 2011/2012 and FY 2012/2013 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 are presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rates are as follows:

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Indirect Cost*	FY 11/12	42.55%	All Programs
First Tier+	FY 11/12	15.23%	All Programs
Indirect Cost*	FY 12/13	48.17%	All Programs
First Tier+	FY 12/13	11.02%	All Programs

* Base: Direct Salaries plus Fringe Benefits

+ Base: Total Salaries

The indirect cost rates of 42.55% and 48.17% supersede the rates of 48.50% and 53.50% accepted for FYs 11/12 and 12/13 respectively on July 26, 2012. Additionally, the First tier rates of 15.23% and 11.02% supersede the rates of 18.74% and 15.12% accepted for FYs 11/12 and 12/13 respectively on July 26, 2012.

Mr. Howard Dashiell
March 24, 2015
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Since the audited indirect rate costs rates are lower than the previously accepted rates, the County is required to reconcile all prior reimbursement claims using the lower audited rates. Any resulting overpayment should be repaid to Caltrans within 30 days or by the next billing cycle, whichever comes first.

The audit identified \$73,416 and \$64,637 of direct labor costs as indirect costs for the County's FY 11/12 and 12/13 indirect cost rates. It also identified \$528,380 and \$474,475 in understated labor costs for the County's FY 11/12 and 12/13 First-tier rates.

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.

Please retain a copy of this letter with your ICRPs. Copies of this letter were sent to Caltrans' District 1, Caltrans' Division of Accounting, and FHWA. If you have any questions, please contact Alice Lee, Audit Manager, at (916) 323-7953.

Sincerely,



ZILAN CHEN
Chief, External Audits
Local Governments
Audits and Investigations

Enclosure:

Mendocino County, Department of Transportation, Audit Report, Indirect Cost Plan Audit,
FY 2011/2012 and FY 2012/2013, Prepared by California State Controller's Office

- c: Janice Richard, Director, Financial Services, Federal Highway Administration
- Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
- Kara Magdaleno, Administrative Program Assistant, Planning and Finance, Federal Highway Administration
- C. Edward Philpot, Jr., Branch Chief, Grants/Public Engagement, Office of Community Planning, California Department of Transportation
- Andrew Finlayson, Chief, State Agency Audit Bureau, California State Controller's Office
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation, California Department of Transportation
- Suzanne Theiss, DLAE, Chief, Office of Local Assistance, District 1, Division of Transportation Planning, California Department of Transportation
- Ezequiel Castro, Chief, Associate Transportation Planner, Division of Mass Transportation, California Department of Transportation
- Erin Thompson, Senior Environmental Planner, Division of Transportation Planning, California Department of Transportation
- Michael Mock, Audit Manager, State Agency Audit Bureau, State Controller's Office
- Sean Tsao, Audit Manager, State Agency Audit Bureau, State Controller's Office
- Karen Hunter, Rail Transportation Associate, Division of Rail, California Department of Transportation
- Lisa Gore, Associate Accounting Analyst, Division of Accounting, California Department of Transportation
- 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

P1590-0364

P1590-0365

**MENDOCINO COUNTY
DEPARTMENT OF TRANSPORTATION**

Revised Audit Report

**INDIRECT COST ALLOCATION PLAN AUDIT OF
CALTRANS CONTRACT NO. 77A0034
(Audit Request No. P1590-0364, P1590-0365)**

July 1, 2011, through June 30, 2013



BETTY T. YEE
California State Controller

January 2015



BETTY T. YEE
California State Controller

January 29, 2015

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 (SCO) audited the indirect cost rate proposals (ICRPs) of Mendocino County Department of Transportation (MCDOT). The audit period included ICRPs for fiscal year (FY) 2011-12 and FY 2012-13.

We conducted the audit to determine whether (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 CalTrans' Local Programs Procedures 04-10, and (3) MCDOT's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Our audit determined that the indirect cost rates for MCDOT were 42.55% and 48.17% for FY 2011-12 and FY 2012-13, respectively. These differences of 5.95% and 5.33% were a result of the inclusion of direct labor costs as indirect costs. Furthermore, our audit determined a first-tier rate of 15.23% and 11.02% for FY 2011-12 and FY 2012-13, respectively. This variance of 3.51% and 4.10% was a result of MCDOT excluding recoverable actual labor costs from the distribution base, while these activities benefitted from MCDOT's general overhead expenses.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone 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/kw

cc: Andrew Finlayson, Bureau Chief
State Agency Audits Bureau
Division of Audits, State Controller's Office
Chris Prasad, Audit Manager
Division of Audits, State Controller's Office
Payam Ameri, Auditor-in Charge
Division of Audits, State Controller's Office

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Revised Audit Report

Summary

The State Controller's Office (SCO) completed its audit of the Mendocino County Department of Transportation's (MCDOT) indirect cost rate proposals (ICRPs) for fiscal year (FY) 2011-12 and FY 2012-13. MCDOT proposed estimated indirect cost rates of 48.50% and 53.50% for FY 2011-12 and FY 2012-13, respectively. In addition, MCDOT proposed estimated first-tier rates of 18.74% and 15.12% for FY 2011-12 and FY 2012-13, respectively.

We conducted the audit to determine whether (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 California Department of Transportation's (Caltrans) Local Programs Procedures (LPP) 04-10, and (3) MCDOT's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Our audit determined indirect costs rates of 42.55% and 48.17%, differences of 5.95% and 5.33%, for FY 2011-12 and FY 2012-13, respectively. The differences were due to MCDOT including \$73,416 and \$64,637 of direct labor costs as indirect costs. MCDOT provided engineering services to the Mendocino Council of Government (MCOG), the transportation planning agency for the county and the four incorporated cities of Ukiah, Fort Bragg, Willits, and Point Arena. MCOG reimbursed MCDOT for these direct labor services. MCDOT recorded these reimbursed services as indirect activities instead. As a result, the indirect costs were overstated and direct costs were understated, causing the indirect cost rate to be understated.

Furthermore, our audit determined first-tier rates of 15.23% and 11.02%, differences of 3.51% and 4.10%, for FY 2011-12 and FY 2012-13, respectively. This variance was a result of MCDOT excluding recoverable actual labor costs (specifically "mechanic labor" and "county forces shop overhead labor") from the distribution base, while these activities benefitted from MCDOT's general overhead expenses. Therefore, the recovered actual labor costs were \$528,380 and \$474,475, understated for FY 2011-12 and FY 2012-13, respectively.

Background

The Mendocino County Department of Transportation consists of four Divisions: Administration & Business Services, Engineering, Land Improvement, and Roads.

MCDOT's primary responsibilities include:

- Operation, maintenance, and improvements of roads, bridges and other related features such as signage, drainage, and pavement markings
- Coordination with various local, state, and federal agencies to acquire funding for projects, and to ensure compliance with regulations and environmental requirements

- Process and provide guidelines for various land entitlements, such as subdivisions, boundary line adjustments, and use permits in conjunction with other County departments
- Operation and administration of two airports in Mendocino County: the Little River Airport and the Round Valley Airport

MCDOT's Road Fund includes the following budget units:

- 1) Administration and Routine Road Maintenance
- 2) Storm Damage
- 3) Federal and State Programs

Administration and Routine Road Maintenance is responsible for providing services to operations of the County Maintained Road System. The County Maintained Road System includes 1,011 centerline miles of roadway and related features such as bridges, roadside drainage systems, and road network signage. The maintenance engineering and technical assistance, administration, and business services all function to support the County Maintained Road System. Transportation funds from various local, state, and federal programs constitute the County Road Fund, generally as reimbursement for funds previously spent by the county for projects approved based on a formula or competitive award.

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 2011-12 and FY 2012-13. Changes to the financial management system subsequent to FY 2011-12 and FY 2012-13 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 accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit Mendocino County'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

Our audit determined indirect costs rates of 42.55% and 48.17%, differences of 5.95% and 5.33%, for FY 2011-12 and FY 2012-13, respectively. The differences were due to MCDOT including \$73,416 and \$64,637 of direct labor costs as indirect costs. MCDOT provided engineering services to MCOG, the transportation planning agency for the county and the four incorporated cities of Ukiah, Fort Bragg, Willits, and Point Arena. MCOG reimbursed MCDOT for these direct labor services. MCDOT recorded these reimbursed services as indirect activities instead. As a result, the indirect costs were overstated and direct costs were understated, causing the indirect cost rate to be understated.

Furthermore, our audit determined first-tier rates of 15.23% and 11.02%, differences of 3.51% and 4.10%, for FY 2011-12 and FY 2012-13, respectively. This variance was a result of MCDOT excluding recoverable actual labor costs (specifically "mechanic labor" and "county forces shop overhead labor") from the distribution base, while these activities benefitted from MCDOT's general overhead expenses. Therefore, the recovered actual labor costs were \$528,380 and \$474,475, understated for FY 2011-12 and FY 2012-13, respectively.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted on November 14, 2013. Chamise Cubbison, Deputy Director, Administration and Business Services; and Amber Munoz, Senior Department Analyst, agreed with the audit results. Ms. Cubbison 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 Mendocino County Department of Transportation; the California Department of Transportation; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.



JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

January 29, 2015

Summary of Proposed and Audited Rates July 1, 2011, through June 30, 2013

<u>Division and Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
ICRP 2011-12	48.50%	42.55%	-5.95%	Schedule 1
First-tier 2011-12	18.74%	15.23%	-3.51%	Schedule 2
ICRP 2012-13	53.50%	48.17%	-5.33%	Schedule 3
First-tier 2012-13	15.12%	11.02%	-4.10%	Schedule 4

**Schedule 1—
Summary of Direct Costs, Indirect Costs,
and Carry-forward
Fiscal Year 2011-12**

	Proposed Amount	Audited Amount	Audit Adjustment
Direct labor:			
Total direct salaries and benefits	\$ 4,196,336	\$ 4,269,752	\$ 73,416
Indirect labor:			
Total indirect salaries and benefits	\$1,929,315	\$1,852,899	\$(76,416)
<u>Indirect services, supplies, and other expenses</u>			
Adjustment of salary and fringe in first-tier allocation	(401,426)	(401,426)	—
General overhead (at approved rate)	360,887	343,547	(17,340)
Equipment maintenance	34,389	34,389	—
Clothing and personal items	15,826	15,826	—
Communications	21,275	21,275	—
Office equipment - repair	6,405	6,405	—
Building and grounds - rents	1,141	1,141	—
Insurance	—	—	—
Other maintenance	448	448	—
Special department expense	6	6	—
Memberships	1,933	1,933	—
Transportation and travel	13,404	13,404	—
Computer services	5,058	5,058	—
Office expense	35,363	35,363	—
Professional services	18,376	18,376	—
Medical and dental	6,810	6,810	—
Education and training	3,235	3,235	—
Publications	2,525	2,525	—
Total indirect services, supplies, and other expenses	125,655	108,315	(17,340)
Total indirect costs	2,054,970	1,961,214	(93,756)
Carry-forward	(305,810)	(305,810)	—
Total indirect after carry-forward	1,749,160	1,655,404	(93,756)
Total direct salaries and benefits	4,196,336	4,269,752	73,416
Approved indirect cost rate for fiscal year 2009-10	42.15%	42.15%	42.15%
Recovered indirect costs	1,768,756	1,799,700	30,945
Carry forward used for fiscal year 2011-12	(19,595)	(144,296)	(124,701)
Estimated indirect costs	2,054,970	1,961,214	(93,756)
Indirect costs carry-forward	(19,595)	(144,296)	(124,701)
Total indirect costs	2,035,375	1,816,918	(218,457)
Indirect costs base - direct salaries and benefits	4,196,336	4,269,752	73,416
Indirect costs rate	48.50%	42.55%	-5.95%

**Schedule 2—
Summary of Labor Costs and General Overhead
Fiscal Year 2011-12**

	Proposed Amount	Audited Amount	Audit Adjustment
Labor costs:			
Administration labor	\$ 1,271,375	\$ 1,271,375	\$ —
Undistributed engineering labor	256,514	183,098	(73,416)
Road crew construction labor	466,247	466,247	—
Engineering labor - preliminary engineering	383,941	383,941	—
Engineering labor - right of way	34,595	34,595	—
Engineering labor - construction engineering	319,643	393,059	73,416
Signal labor	—	—	—
Patching labor	480,898	480,898	—
Snow removal labor	53,928	53,928	—
Storm damage labor	298,170	298,170	—
Other maintenance labor	1,635,450	1,635,450	—
Force account labor	9,519	9,519	—
County forces road inventory	39,469	39,469	—
County forces shop overhead labor	—	108,623	108,623
Mechanic labor	—	365,852	365,852
Total indirect salaries and benefits	<u>5,249,749</u>	<u>5,724,224</u>	<u>474,475</u>
General overhead			
County forces labor	401,426	401,426	—
County forces equipment	68,647	68,647	—
Inventory materials	2,315	2,315	—
Outside materials	19,535	19,535	—
Outside equipment parts and supplies	1,170	1,170	—
Household supplies	22,761	22,761	—
Liability insurance	245,480	245,480	—
Radio maintenance	267	267	—
Utilities	27,746	27,746	—
Structures and grounds maintenance	6,102	6,102	—
Other costs	4,548	4,548	—
Adjustment to inventory	—	—	—
Special departmental expense	70	70	—
Safety materials and supplies	8,014	8,014	—
Communications telephone	13,862	13,862	—
A-87 cost allocation plan	432,751	432,751	—
Actual first-tier costs	<u>1,254,694</u>	<u>1,254,694</u>	<u>—</u>
Carry-forward	<u>285,404</u>	<u>285,404</u>	<u>—</u>
Total first-tier costs	<u>969,290</u>	<u>969,290</u>	<u>—</u>
Total actual labor costs	5,249,750	5,724,225	
Approved first-tier rate for fiscal year 2009-10	23.62%	23.62%	
Total recovered first-tier costs	<u>1,239,991</u>	<u>1,352,062</u>	
First-tier carry forward used for fiscal year 2011-12	<u>\$ (270,701)</u>	<u>\$ (382,772)</u>	

**Schedule 2a—
Carry-forward Calculation
First-tier General Overhead
Fiscal Year 2011-12**

	Proposed Amount	Audited Amount	Audit Adjustment
Estimated first-tier costs	\$ 1,254,694	\$ 1,254,694	
First-tier carry forward	(270,701)	(382,772)	
Total estimated first-tier costs	\$ 983,993	\$ 871,922	
First tier cost base - total actual labor costs	5,249,750	5,724,225	—
Approved indirect cost first tier rate:	<u>18.74%</u>	<u>15.23%</u>	<u>-3.51%</u>

**Schedule 3—
Summary of Direct Costs, Indirect Costs,
and Carry-forward
Fiscal Year 2012-13**

	Proposed Amount	Audited Amount	Audit Adjustment
Direct labor:			
Salaries	\$ 4,238,247	\$ 4,302,884	\$ 64,637
Total direct salaries and benefits	4,238,247	4,302,884	64,637
Indirect labor:			
Salaries	1,904,603	1,839,966	(64,637)
Total indirect salaries and benefits	1,904,603	1,839,966	(64,637)
<u>Indirect services, supplies, and other expenses</u>			
Adjustment of salary and fringe in first-tier allocation	(338,791)	(338,791)	—
General overhead at approved rate	469,117	449,752	(19,365)
Equipment maintenance	33,543	33,543	—
Clothing and personal items	15,636	15,636	—
Communications	22,356	22,356	—
Office equipment - repair	6,622	6,622	—
Building and grounds - rents	—	—	—
Insurance	—	—	—
Other maintenance	525	525	—
Special department expense	91	91	—
Memberships	1,797	1,797	—
Transportation and travel	1,864	1,864	—
Computer services	—	—	—
Office expense	27,188	27,188	—
Professional services	21,526	21,526	—
Medical and dental	5,568	5,568	—
Education and training	4,356	4,356	—
Publications	3,306	3,306	—
Total indirect services, supplies, and other expenses	274,704	255,339	(19,365)
Total indirect costs	2,179,307	2,095,305	(84,002)
Carry-forward	(325,538)	(325,538)	—
Total indirect after carry-forward	1,853,769	1,769,767	(84,002)
Total direct salaries and benefits	4,238,247	4,302,884	64,637
Approved indirect cost rate for fiscal year 2009-10	41.66%	41.66%	41.66%
Recovered indirect costs	1,765,654	1,792,581	26,928
Carry-forward used for fiscal year 2011-12	88,115	(22,814)	(110,930)
Estimated indirect costs	2,179,307	2,095,305	(84,002)
Indirect costs carry-forward	88,115	(22,814)	(110,930)
Total indirect costs	2,267,423	2,072,491	(194,932)
Indirect costs base - direct salaries and benefits	\$ 4,238,247	\$ 4,302,884	\$ 64,637
Indirect costs rate	53.50%	48.17%	-5.33%

Schedule 4— Summary of Labor Costs and General Overhead Fiscal Year 2012-13

	Proposed Amount	Audited Amount	Audited Adjustment
Labor costs:			
Administration labor	\$ 1,264,781	\$ 1,264,781	\$ —
Undistributed engineering labor	301,032	236,395	(64,637)
Road crew construction labor	135,107	135,107	—
Engineering labor - preliminary engineering	518,859	518,859	—
Engineering labor - right of way	41,089	41,089	—
Engineering labor - construction engineering	164,670	229,307	64,637
Signal labor	—	—	—
Patching labor	485,332	485,332	—
Snow removal labor	86,652	86,652	—
Storm damage labor	442,427	442,427	—
Other maintenance labor	1,682,223	1,682,223	—
Force account labor	92,045	92,045	—
County forces road inventory	61,463	61,463	—
County forces shop overhead labor	—	122,002	122,002
Mechanic labor	—	406,378	406,378
Total indirect salaries and benefits	<u>5,275,680</u>	<u>5,804,060</u>	<u>528,380</u>
General overhead			
County forces labor	338,791	338,791	—
County forces equipment	52,405	52,405	—
Inventory materials	1,107	1,107	—
Outside materials	14,576	14,576	—
Outside equipment parts and supplies	1,076	1,076	—
Household supplies	23,469	23,469	—
Liability insurance	297,859	297,859	—
Radio maintenance	—	—	—
Utilities	22,841	22,841	—
Structures and grounds maintenance	22,224	22,224	—
Other costs	6,072	6,072	—
Adjustment to inventory	—	—	—
Special departmental expense	—	—	—
Safety materials and supplies	10,297	10,297	—
Communications telephone	12,888	12,888	—
A-87 cost allocation plan	369,572	369,572	—
Actual first-tier costs	1,173,177	1,173,177	
Carry-forward	<u>32,142</u>	<u>32,142</u>	
Total first-tier costs	1,205,319	1,205,319	
Total actual labor costs	<u>5,275,680</u>	<u>5,804,060</u>	
Approved first-tier rate for fiscal year 2009-10	29.96%	29.96%	
Total recovered first-tier costs	<u>1,580,594</u>	<u>1,738,896</u>	
First-tier carry-forward used for fiscal year 2011-12	(375,275)	(533,577)	

**Schedule 4a—
Carry-forward Calculation
First-tier General Overhead
Fiscal Year 2012-13**

	Proposed Amount	Audited Amount	Audit Adjustment
Estimated first-tier costs	\$1,173,177	\$1,173,177	
First tier carry-forward	(375,275)	(533,577)	
Total estimated first-tier costs	797,902	\$639,600	
First tier cost base - total actual labor costs	5,275,680	5,804,060	—
Approved indirect cost first-tier rate:	15.12%	11.02%	-4.10%

**State Controller's Office
Division of Audits
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