

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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March 18, 2014

Mr. Nelson K. Smith
Finance Director
City of Bakersfield
1600 Truxtun Avenue
Bakersfield, CA 93301

Dear Mr. Smith:

At the request of the California Department of Transportation (Caltrans), the State Controller's Office (SCO) conducted an audit of the City of Bakersfield, Department of Public Works, Division of Engineering's (City) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2013/2014 to determine whether the ICRP is presented in accordance with Title 2, Code of Federal Regulations (CFR), Part 225.

Based on audit work performed by the SCO, we determined the City's ICRP for FY 2013/2014 is presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rate is 99.54 percent of total direct salaries and wages.

The ICRP submission is approved for billing and reimbursement purposes, based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

This report is intended solely for the information of the City, 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 6, the Caltrans Division of Accounting, and FHWA.

Mr. Nelson K. Smith
March 18, 2014
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If you have any questions, please call Alice Lee, Audit Manager, at (916) 323-7953.

Sincerely,



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

Enclosure:

Audit Report of the City of Bakersfield, Department of Public Works

- c: Randy McKeegan, Accounting Supervisor, City of Bakersfield
 - 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
 - Jim Perrault, Chief, Office of Local Assistance, Division of Planning and Local Assistance, District 6, 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
 - Erin Thompson, Senior Transportation Planner, 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
- P1590-0374



JOHN CHIANG
California State Controller

March 6, 2014

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 proposal (ICRP) of the City of Bakersfield, Department of Public Works (DPW). The audit period included the ICRP for fiscal year (FY) 2013-14. The DPW proposed an indirect cost rate of 99.54%, based on \$2,853,631 in indirect costs and fringe benefits, and \$2,866,831 in direct salaries.

Our audit determined that: (1) the proposed rate 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 for ICRP preparation and application identified in the California Department of Transportation's Local Programs Procedures Manual 04-10; (3) the DPW's accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

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

Sincerely,

A handwritten signature in black ink that reads "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposal (ICRP) of the City of Bakersfield, Department of Public Works (DPW). The audit period included ICRP for fiscal year (FY) 2013-14.

The purpose of the audit was to determine whether (1) the city's ICRP was presented 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 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.

Our audit determined that: (1) the proposed rate was 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 California Department of Transportation's Local Programs Procedures Manual (LPP) 04-10; (3) the DPW's accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Background

The City of Bakersfield government operates a council-manager form of government which vests authority in an elected city council which, in turn, delegates to the authority to run the day-to-day operations of the city including the DPW. The DPW, under the leadership of the council appointed director, provides infrastructure design, construction, maintenance, and inspection services that include designing, installing, and maintaining traffic control systems; maintaining street surfaces, publicly owned facilities, and street lighting, monitoring, operating and maintaining waste water treatment facilities, sanitary sewer and storm drain systems, and a recycling center; maintaining the fleet vehicles, equipment, and telecommunication systems; and handling public inquiries. The department consists of eight divisions that include Administration, Engineering, Wastewater, General Services, Streets, Equipment, Thomas Roads Improvement Program, and Solid Waste.

The proposed department-wide indirect cost rate, which is a product of department-wide indirect salaries, fringe benefits, services, and supplies, divided by the direct labor salaries, enables the county to recover Federal Highway Administration and Caltrans-funded capital project-related indirect costs for FY 2013-14.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1590-0374). 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 2013-14.

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 conclusions based on our audit objectives.

Our audit was conducted to determine whether (1) the city'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; (3) and accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit the City of Bakersfield'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 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 department's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

We completed an audit of the City of Bakersfield, Department of Public Works, ICRP for FY 2013-14. The DPW proposed an indirect cost rate of 99.54%, based on \$2,853,631 in indirect costs and fringe benefits, and \$2,866,831 in direct salaries.

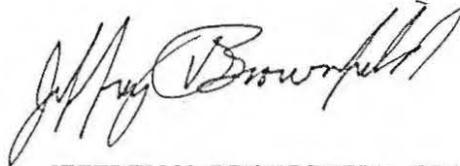
Our audit determined that: (1) the proposed rate was in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225; (2) the ICRP was in compliance with the requirements for ICRP preparation and application identified in the California Department of Transportation's Local Programs Procedures Manual 04-10; (3) the DPW's accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

**Views of
Responsible
Official**

We discussed our audit results with the city's representative during an exit conference conducted on January 10, 2014. Randy McKeegan, Accounting Supervisor, agreed with the audit results. Mr. McKeegan understood that the final audit report will be issued to Caltrans.

Restricted Use

This report is solely for the information and use of the City of Bakersfield; 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

March 6, 2014

**Schedule 1—
Summary of Proposed and Audited Direct Costs,
Indirect Cost, and Indirect Cost Rate
Fiscal Year 2013-14**

	Proposed and Audited FY 2013-14
Direct costs:	
Direct salaries and wages	\$ 2,749,171
Unallowable direct salaries and wage	18,153
Direct other pay	99,508
Total	2,866,832
Indirect costs:	
Indirect salaries and wages	407,033
Fringe benefits	2,057,621
Subtotal	2,464,654
Other indirect costs:	
Repair and maintenance	15,958
Insurance allocation	32,161
Telephone	34,164
Duplication	2,979
Credit card charges	3,303
Outside services	46
Department administration charge (3% of total salaries and other pay)	98,216
Subtotal:	186,827
Total indirect costs	2,651,481
Plus carry forward adjustment	202,150
Total indirect costs	2,853,631
Indirect costs base-direct salaries and wages	\$ 2,866,832
Indirect cost rate	99.54%