

**DEPARTMENT OF TRANSPORTATION**

**AUDITS AND INVESTIGATIONS**

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*Serious drought  
 Help save water!*

June 8, 2015

Mr. Juan C. Perez  
 Director, Transportation Department  
 Transportation Land Management Agency  
 County of Riverside  
 4080 Lemon Street  
 Riverside, CA 92505-1629

Dear Mr. Perez:

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 County of Riverside, Department of Transportation’s (County) indirect cost rate proposal’s (ICRP) for fiscal years (FY) 2011/2012 and FY 2013/2014 to determine whether the ICRPs are presented in accordance with Title 2, Code of Federal Regulations, Part 225 (2CFR225).

Based on audit work performed by the SCO, we determined the County’s ICRPs are presented in accordance with 2CFR225. The approved indirect cost rates are as follows:

<u>Rate Type*</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
Fixed	FY 2011/2012	78.50%	All Programs
Fixed	FY 2013/2014	86.01%	All Programs

\* Base: Total Direct Salaries plus Fringe Benefits

SCO found the County overstated total indirect costs by \$116,179 and understated total indirect costs by \$340,059 for FYs 2011/2012 and 2013/2014 respectively. As a result, SCO’s audited rates were 78.58 and 87.43 percent for FYs 2011/2012 and 2013/2014. Subsequent to the printing of the audit report, however, A&I found the audit adjustments incorrectly included \$18,215 and \$44,629 of non-labor direct cost adjustments for FYs 2011/2012 and 2013/2014. A&I, therefore, excluded these costs from the audit adjustment which lowered the final audited rates to 78.50 percent for FY 2011/2012 and 86.01 percent for FY 2013/2014.

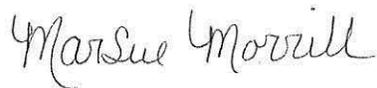
The final audited rates supersede the rates of 79.10 percent and 85.80 percent accepted by A&I for FYs 2011/2012 and 2013/2014 on July 31, 2013. Since the audited indirect cost rates are both lower and higher than the previously accepted rates for FYs 2011/2012 and 2013/2014, the County is required to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayment for FY 2011/2012 are to be repaid to Caltrans within 30 days or by the next billing cycle, whichever occurs first.

Mr. Juan C. Perez  
June 8, 2015  
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This report is intended solely for the information of the County of Riverside, Caltrans management, the California Transportation Commission, and the Federal Highway Administration (FHWA). This report is a matter of public record, however, and its distribution is not limited.

Please retain a copy of this letter with your ICRP. Copies of this letter were sent to Caltrans' District 8, Caltrans' Division of Accounting, and FHWA. If you have any questions, you may contact Alice Lee, Audit Manager, at (916) 323-7953.

Sincerely,



MARSUE MORRILL - Chief  
External Audits  
Local Governments  
Audits and Investigations

Enclosure

- 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
- Veneshia Smith, Transportation Financial Manager, Federal Highway Administration
- C. Edward Philpot, Jr., Chief, Office of Community Planning,  
Division of Transportation Planning, California Department of Transportation
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch,  
Division of Mass Transportation, California Department of Transportation
- Ezequiel Castro, Associate Transportation Planner, State Transit Grants,  
Division of Rail & Mass Transportation, California Department of Transportation
- Erin Thompson, Senior Transportation Planner, Regional and Interagency Planning,  
Division of Transportation Planning, California Department of Transportation
- Sean Yeung, Senior Transportation Engineer, District 8, Office of Local Assistance,  
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
- 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

P1590-0426

# RIVERSIDE COUNTY

Audit Report

## INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0034 (Audit Request No. P1590-0426)

*July 1, 2011, through June 30, 2012 and  
July 1, 2013, through June 30, 2014*



**BETTY T. YEE**  
California State Controller

April 2015



**BETTY T. YEE**  
California State Controller

April 6, 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 County proposed indirect cost rates of 79.10% and 85.80% for fiscal year (FY) 2011-12 and FY 2013-14, respectively. Our audit determined indirect cost rates of 78.58% and 87.43%, a difference of 0.52% and 1.63% for FY 2011-12 and FY 2013-14, respectively. The differences were due to the following conditions:

- The County overstated the professional services cost in FY 2011-12 by \$49,964 and in FY 2013-14 by \$80,970. The unallowable cost was for tree trimming services, which did not benefit the entire cost objective and were not allocable to federal projects. The expenses benefited only the Maintenance department.
- The County understated both direct and indirect Inter-fund Administrative Support costs in FY 2011-12 by \$81,719 (\$18,215 direct and \$63,504 indirect) and in FY 2013-14 by \$199,859 (\$44,629 direct and \$155,230 indirect). The Inter-fund cost was for administrative expenses incurred by the County's Transportation Land Management Agency and allocated to various county departments.
- The indirect cost rate proposal (ICRP) incorrectly included \$147,934 in Inter-fund expense-survey costs without providing adequate documentation to support the costs incurred in FY 2011-12.
- The ICRP incorrectly included \$48,638 in Improvements-building expenses that were disallowed during the prior State Controller's Office (SCO) audit in FY 2013-14. The county did not implement the SCO's audit recommendation that required Improvement Building costs to be capitalized.
- The County understated the carry-forward adjustment by \$269,808 due to the effects of the findings noted above, including the omission of \$199,557 of Central Services costs during FY 2013-14.

Zilan Chen, Chief

-2-

April 6, 2015

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 that reads "Jeffrey V. Brownfield". The signature is written in black ink and is positioned above the printed name.

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/sk

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of Riverside County, Department of Transportation. The audit period included ICRPs for fiscal year (FY) 2011-12 and FY 2013-14.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with in accordance with Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix A-F, and the California Department of Transportation's (Caltrans) Local Program Procedures (LPP) 04-10. The County's management is responsible for fair presentation of the ICRPs.

The County proposed indirect cost rates of 79.10% and 85.80% for FY 2011-12 and FY 2013-14, respectively. Our audit determined indirect cost rates of 78.58% and 87.43%, a difference of 0.52% and 1.63% for FY 2011-12 and FY 2013-14, respectively. The differences were due to the following conditions:

- The County overstated the professional services cost in FY 2011-12 by \$49,964 and in FY 2013-14 by \$80,970. The unallowable cost was for tree trimming services, which did not benefit the entire cost objective and were not allocable to federal projects. The expenses benefited only the Maintenance department.
- The County understated both direct and indirect Inter-fund Administrative Support costs in FY 2011-12 by \$81,719 (\$18,215 direct and \$63,504 indirect) and in FY 2013-14 by \$199,859 (\$44,629 direct and \$155,230 indirect). The Inter-fund cost was for administrative expenses incurred by the County's Transportation Land Management Agency and allocated to various county departments.
- The ICRP incorrectly included \$147,934 in Inter-fund expense-survey costs without providing adequate documentation to support the costs incurred in FY 2011-12.
- The ICRP incorrectly included \$48,638 in Improvements-building expenses that were disallowed during the prior SCO audit in FY 2013-14. The county did not implement the SCO's audit recommendation that required Improvement Building costs to be capitalized.
- The County understated the carry-forward adjustment by \$269,808 due to the effects of the findings noted above, including the omission of \$199,557 of Central Services costs during FY 2013-14.

## Background

The County of Riverside, Department of Transportation (DOT) is subdivided into major cost centers for Operations, Construction, Garage, and Surveyor. The operations budget unit provides management, administration and specialized accounting services for DOT projects and programs. It also is responsible for transportation planning, highway and traffic engineering, and maintenance operations of the county-maintained road system. The construction budget funds the major capital projects identified in the Transportation Improvement Program. The garage operation maintains heavy equipment used for road maintenance and construction. The DOT also provides crossing-guard services near local elementary schools; this function is fully funded by local school districts.

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 2011-12. Changes to the financial management system subsequent to FY 2013-14 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; (3) and accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit Riverside 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 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**

The County proposed indirect cost rates of 79.10% and 85.80% for FY 2011-12 and FY 2013-14, respectively. Our audit determined indirect cost rates of 78.58% and 87.43%, a difference of 0.52% and 1.63% for FY 2011-12 and FY 2013-14, respectively.

**Views of  
Responsible  
Officials**

We discussed our audit results with the County's representatives during an exit conference conducted on October 1, 2014. Rebecca Carr, Administrative Services Manager II; Ying Zhang, Principal Accountant; and Ed Cooper, Deputy Director agreed with the audit results. Ms. Carr 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 Riverside 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

April 6, 2015

**Schedule 1—  
Summary of Proposed and Audited Indirect Cost Rate  
For FY 2011-12 and FY 2013-14**

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<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
2011-12	79.10%	78.58%	(0.52)%	Schedule 1A
2013-14	85.80%	87.43%	1.63%	Schedule 1B

**Schedule 1A—  
Summary of Proposed and Audited  
Direct Costs, Indirect Costs, and Indirect Cost Rate  
FY 2009-10 Actual Costs  
For use in FY 2011-12**

	Proposed costs FY 2011-12	Audited costs FY 2011-12	Variance	Reference
Direct costs:				
Salaries	15,481,651	15,481,651	—	
Benefits	6,842,352	6,842,352	—	
Total direct costs	22,324,003	22,324,003	—	
Indirect costs:				
Salaries	4,038,842	4,038,842	—	
Benefits	1,785,028	1,785,028	—	
Subtotal indirect costs	5,823,870	5,823,870	—	
Services, supplies, and other:				
Protective gear	37,679	37,679	—	
Uniforms/replacement clothing	64,786	64,786	—	
Communications (regular phones)	13,217	13,217	—	
County radio systems	4,591	4,591	—	
Cellular phones	80,535	80,535	—	
Communications equip install	4,676	4,676	—	
Computer lines	348,054	348,054	—	
Microwave	389	389	—	
Telephone services	33,832	33,832	—	
Cleaning supplies	123,780	123,780	—	
Janitorial services	11,993	11,993	—	
Liability insurance	2,097,144	2,097,144	—	
Insurance-property	42,602	42,602	—	
Maint – computer equipment	9,384	9,384	—	
Maint – field equipment	17,461	17,461	—	
Maint – motor vehicles	951	951	—	
Maint – office equipment	(1,233)	(1,233)	—	
Maint – radio elec equip	410	410	—	
Maintenance – service contracts	78,180	78,180	—	
Maintenance-software	75,317	75,317	—	
Maintenance/bldg and improvements	89,672	89,672	—	
Allocated direct cost	77,887	77,887	—	
Misc exp	156,179	156,179	—	
Bank charges	2,917	2,917	—	
Moving expenses	4,905	4,905	—	
Computer equip (non-fixed assets)	93,347	93,347	—	
Computer supplies	32,829	32,829	—	
Office equip (non-fixed assets)	8,160	8,160	—	

## Schedule 1A (continued)

	Proposed costs FY 2011-12	Audited costs FY 2011-12	Variance	Reference
Office supplies	80,419	80,419	—	
Photocopying/duplicating	25,291	25,291	—	
Postage/mailing	22,624	22,624	—	
Printing/binding	44,662	44,662	—	
Computer equipment-software	43,397	43,397	—	
Consultants	53,357	53,357	—	
Engineering services	48	48	—	
Fire protection services	3,685	3,685	—	
Medical exams	6,705	6,705	—	
Temp assist pool services	29,668	29,668	—	
Personnel service	110,279	110,279	—	
Pre-employment services	33	33	—	
Oasis processing financials	333,680	333,680	—	
Oasis processing hrms	76,424	76,424	—	
Professional services	226,882	176,918	(49,964)	Finding 1
Legally required notices	47,591	47,591	—	
Rent/lease equipment	31,229	31,229	—	
Rent lease bldgs	29,950	29,950	—	
Field equipment non-asseted	1,197	1,197	—	
Maintenance tools	6,594	6,594	—	
Small tools/instruments	70,893	70,893	—	
Operational supplies	16,862	16,862	—	
Special program expense	11,670	11,670	—	
Training-education/tuition	8,118	8,118	—	
Labor (garage staff - trans projects)	45,093	45,093	—	
Conference/registration fees	2,880	2,880	—	
Field supplies	2,232	2,232	—	
Air transportation	990	990	—	
Carpool expense	2,287	2,287	—	
Lodging	12,800	12,800	—	
Meals	5,442	5,442	—	
Misc travel expenses	384	384	—	
Private mileage reimbursement	12,005	12,005	—	
Electricity	505,020	505,020	—	
Sewer system	11,355	11,355	—	
Utilities	16,727	16,727	—	
Water	176,934	176,934	—	
Interfund expenses – agency direct	891,940	910,155	18,215	Finding 1
Interfund expenses – agency indirect	3,110,388	3,173,892	63,504	Finding 1
Interfund expenses – audit and accounting	34,486	34,486	—	
Interfund expenses – custodial	204,938	204,938	—	
Interfund expenses – dist (survey)	396,597	248,663	(147,934)	Finding 1
Interfund expenses – leases	226,869	226,869	—	
Interfund expenses – legal services	263,769	263,769	—	
Interfund expenses – maintenance	138,304	138,304	—	
Interfund exp-micrographics	151	151	—	

### Schedule 1A (continued)

	Proposed costs FY 2011-12	Audited costs FY 2011-12	Variance	Reference
Interfund expenses – misc	23,987	23,987	—	
Interfund expenses – prof & special services	266,752	266,752	—	
Interfund expenses – labor	130	130	—	
Interfund expenses – utilities	103,280	103,280	—	
Interfund expenses – gis	110,230	110,230	—	
Interfund expenses – misc project expenses	155,065	155,065	—	
OMB A-87 cost allocation plan	322,107	322,107	—	
Subtotal indirect services, supplies, and other:	<u>11,834,044</u>	<u>11,717,865</u>	<u>(116,179)</u>	
Total indirect cost	17,657,914	17,541,735	(116,179)	
Total direct salaries and benefits	22,324,003	22,324,003	—	
Rate	<u>79.10%</u>	<u>78.58%</u>	<u>(0.52)%</u>	

**Schedule 1B—  
Summary of Proposed and Audited  
Direct Costs, Indirect Costs, and Indirect Cost Rate  
FY 2011-12 Actual Costs  
For use in FY 2013-14**

	Proposed costs FY 2013-14	Audited costs FY 2013-14	Variance	Reference
Direct costs:				
Salaries	14,243,517	14,243,517	—	
Benefits	6,612,553	6,612,553	—	
Total direct costs	20,856,070	20,856,070	—	
Indirect costs:				
Salaries	4,248,288	4,248,288	—	
Benefits	1,972,268	1,972,268	—	
Subtotal indirect costs	6,220,556	6,220,556	—	
Services, supplies, and other:				
Protective gear	44,416	44,416	—	
Uniforms/replacement clothing	56,310	56,310	—	
Communications (regular phones)	12,401	12,401	—	
County radio systems	5,439	5,439	—	
Cellular phones	61,686	61,686	—	
Communications equip install	2,295	2,295	—	
Computer lines	206,563	206,563	—	
Microwave	35,574	35,574	—	
Telephone services	97,341	97,341	—	
Cleaning supplies	6,074	6,074	—	
Janitorial services	183,809	183,809	—	
Liability insurance	2,587,384	2,587,384	—	
Insurance—property	62,926	62,926	—	
Maintenance – computer equipment	2,156	2,156	—	
Maintenance – field equipment	16,164	16,164	—	
Maintenance – motor vehicles	1,501	1,501	—	
Maintenance – office equipment	1,919	1,919	—	
Maintenance – radio electrical equipment	706	706	—	
Maintenance-service contracts	68,663	68,663	—	
Maintenance-software	76,472	76,472	—	
Maintenance telephone	17	17	—	
Maintenance/bldg and improvements	222,937	222,937	—	
Misc expenses	41,109	41,109	—	
Bank charges	5,365	5,365	—	
Computer equip (non-fixed assets)	72,477	72,477	—	
Computer supplies	27,929	27,929	—	
Office equipment (non-fixed assets)	24,188	24,188	—	
Office supplies	84,746	84,746	—	

## Schedule 1B (continued)

	Proposed costs FY 2013-14	Audited costs FY 2013-14	Variance	Reference
Photocopying/duplicating	14,657	14,657	—	
Postage/mailing	24,519	24,519	—	
Printing/binding	31,220	31,220	—	
Computer equipment-software	4,603	4,603	—	
Consultants	25,852	25,852	—	
Engineering services	1,015	1,015	—	
Fire protection services	4,500	4,500	—	
Medical exams	12,541	12,541	—	
Temp assist pool services	8,832	8,832	—	
Personnel service	110,279	110,279	—	
Pre-employment services	615	615	—	
Oasis processing financials	270,305	270,305	—	
Oasis processing hrms	68,881	68,881	—	
Rmap services	23,647	23,647	—	
Professional services	271,824	190,854	(80,970)	Finding 1
Legally required notices	21,782	21,782	—	
Rent/lease equipment	3,677	3,677	—	
Rent lease buildings	89,930	89,930	—	
Maintenance tools	5,387	5,387	—	
Small tools/instruments	125,535	125,535	—	
Operational supplies	1,993	1,993	—	
Special program expense	2,483	2,483	—	
Training-education/tuition	24,912	24,912	—	
Contracts	15,206	15,206	—	
Materials	—	—	—	
Labor (garage staff - trans projects)	17,682	17,682	—	
Conference/registration fees	3,471	3,471	—	
Field supplies	57,166	57,166	—	
Air transportation	372	372	—	
Carpool expense	3,329	3,329	—	
Lodging	12,732	12,732	—	
Meals	4,685	4,685	—	
Misc travel expenses	246	246	—	
Private mileage reimbursement	11,287	11,287	—	
Electricity	395,113	395,113	—	
Sewer system	417	417	—	
Utilities	3,577	3,577	—	
Water	144,722	144,722	—	
Interfund expenses – agency direct	826,329	870,958	44,629	Finding 1
Interfund expenses – agency indirect	2,874,871	3,030,101	155,230	Finding 1
Interfund expenses – audit & acctg	37,006	37,006	—	
Interfund expenses – leases	171,670	171,670	—	
Interfund expenses – legal services	330,172	330,172	—	
Interfund expenses – maintenance	800	800	—	
Interfund expenses – micrographics	410	410	—	
Interfund expenses – misc	19,257	19,257	—	

### Schedule 1B (continued)

	Proposed costs FY 2013-14	Audited costs FY 2013-14	Variance	Reference
Interfund expense – prof and special services	299,703	299,703	—	
Interfund expenses – utilities	324,425	324,425	—	
Interfund expenses – gis	113,114	113,114	—	
Interfund expenses – misc project exp	1,249	1,249	—	
Improvements-building	48,638	—	(48,638)	Finding 1
OMB A-87 cost allocation plan	199,557	199,557	—	
Carry-forward adjustment from FY 2009-10	598,607	868,415	269,808	Finding 1
Subtotal indirect services, supplies, and other:	<u>11,673,366</u>	<u>12,013,425</u>	<u>340,059</u>	
Total indirect cost	17,893,922	18,233,981	340,059	
Total direct salaries and benefits	20,856,070	20,856,070	—	
Indirect cost rate	<u>85.80%</u>	<u>87.43%</u>	<u>1.63%</u>	

## Finding and Recommendation

**FINDING—  
Unallowable costs  
included in the  
indirect cost proposal**

The County proposed indirect cost rates of 79.10% and 85.80% for FY 2011-12 and FY 2013-14, respectively. Our audit determined indirect cost rates of 78.22% and 87.43%, a difference of 0.88% and 1.63% for FY 2011-12 and FY 2013-14, respectively. The differences were due to the following conditions:

- The County overstated the professional services cost in FY 2011-12 by \$49,964 and in FY 2013-14 by \$80,970. The unallowable cost was for tree trimming services, which did not benefit the entire cost objective and were not allocable to federal projects. The expenses benefited only the Maintenance department.
- The County understated both direct and indirect Inter-fund Administrative Support costs in FY 2011-12 by \$81,719 (\$18,215 direct and \$63,504 indirect) and in FY 2013-14 by \$199,859 (\$44,629 direct and \$155,230 indirect). The inter-fund cost was for administrative expenses incurred by the County's Transportation Land Management Agency and allocated to various county departments.
- The indirect cost rate proposal (ICRP) incorrectly included \$147,934 in Inter-fund expense-survey costs without providing adequate documentation to support the costs incurred in FY 2011-12.
- The ICRP incorrectly included \$48,638 in Improvements-building expenses that were disallowed during the prior State Controller's Office (SCO) audit in FY 2013-14. The county did not implement the SCO's audit recommendation that required Improvement Building costs to be capitalized.
- The County understated the carry-forward adjustment by \$269,808 due to the effects of the findings noted above including the omission of \$199,557 of Central Services costs during FY 2013-14.

Title 2 of *Code of Federal Regulations*, Part 225, (2 CFR 225) Appendix A, Section F (1) states, in part, that indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The net overstatement of the proposed costs for FY 2011-12 and FY 2013-14 affected the carry-forward amount.

The unallowable costs were included in the proposal because the County misinterpreted certain provisions of 2 CFR 225 regarding certain indirect cost categories.

Recommendation

We recommend that the county implement policies and procedures to ensure that only allowable costs are included in the ICRP.

- For FY 2011-12 the audit determined an immaterial adjustment to the proposed rate. No changes to the proposed rate are necessary.
- For FY 2013-14, the audit determined a variance of 1.53%. We recommend that Caltrans request the county to revise and resubmit the ICRP for this fiscal year.