

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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*Serious drought
 Help save water!*

June 25, 2015

Mr. Juan C. Perez
 Director of Transportation
 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 Surveyor's (County) indirect cost rate proposal's (ICRP) for fiscal years (FY) 2011/2012 and 2013/2014 to determine whether the ICRPs are presented in accordance with Title 2 Code of Federal Regulations Part 225 (2 CFR 225).

Based on audit work performed by the SCO, we determined the County's ICRPs are presented in accordance with 2 CFR 225. 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	68.15%	All Programs
Fixed	FY 2013/2014	66.89%	All Programs

* Base: Total Direct Salaries plus Fringe Benefits

SCO found that the County understated total indirect costs by \$104,499 for both FYs 2011/2012 and 2013/2014. Subsequent to the printing of the audit report, however, A&I found the audit adjustment of \$104,499 was incorrectly included twice for FY 2013/2014. A&I, therefore, excluded this cost from the audit adjustment which lowered the final audited rate for FY 2013/2014 from 71.09 percent to 66.89 percent.

The final audited rates supersede the rates of 63.95 percent and 62.69 percent accepted by A&I for FYs 2011/2012 and 2013/2014 on August 23, 2013. Since the audited indirect cost rates are higher than the previously accepted rates, the County should reconcile all prior reimbursement claims using the audited rates and submit to Caltrans Division of Accounting for reimbursement.

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 and its distribution is not limited.

Mr. Juan C. Perez

June 25, 2015

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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,



for MARSUE MORRILL, CPA
Chief, External Audits-Local Governments
Enclosure

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

P1590-0451 and P1590-0452



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, for the Surveyor Department, proposed indirect cost rates of 63.95% and 62.69% for FY 2011-12 and FY 2013-14, respectively. Our audit determined indirect cost rates of 68.15% and 71.09%, a difference of 4.20% and 8.40% for FY 2011-12 and FY 2013-14, respectively. The differences were primarily due to the County using estimated costs instead of actual costs incurred to allocate the administrative support expenses to the Surveyor and other county departments. Consequently, the County understated the cost of both direct and indirect Inter-fund Administrative Support expenses reported in the ICRP by \$104,499 in FY 2011-12 and by the same amount, \$104,499, in FY 2013-14.

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 cursive script that reads "Jeffrey V. Brownfield".

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's Surveyor Department. 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 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 indirect cost rates were adjusted as shown on Schedule 1 because The County used estimated costs instead of actual costs incurred to allocate the administrative support expenses to the Surveyor and other county departments. Consequently, the County understated the cost of both direct and indirect Inter-fund Administrative Support expenses reported in the ICRP by \$104,499 in FY 2011-12 and by the same amount, \$104,499, in FY 2013-14.

Background

The County Surveyor's Department (SD) is responsible for all land surveying functions within the Transportation Department and offers its services to other County Departments and local agencies.

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 and FY 2013-14. 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 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 Riverside 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

The County proposed indirect cost rates of 63.95% and 62.69% for FY 2011-12 and FY 2013-14, respectively. Our audit determined indirect cost rates of 68.15% and 71.09%, a difference of 4.20% and 8.40% 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; 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.

A handwritten signature in black ink, appearing to read "Jeffrey V. Brownfield". The signature is written in a cursive, flowing style.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

April 6, 2015

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

<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
2011-12	63.95%	68.15%	4.20%	Schedule 1A
2013-14	62.69%	71.09%	8.40%	Schedule 1B

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

	Proposed Amount For FY 2011-12	Audited Amount For FY 2011-12	Variance	Reference
Direct costs:				
Salaries	1,741,930	1,741,930	—	
Benefits	745,548	745,548	—	
Total direct costs	2,487,478	2,487,478	—	
Indirect costs:				
Salaries	639,740	639,740	—	
Benefits	273,809	273,809	—	
Subtotal indirect costs	913,549	913,549	—	
Services, supplies, and other:				
Protective gear	252	252	—	
Uniforms/replacement clothing	4,978	4,978	—	
Cellular phones	10,447	10,447	—	
Computer lines	24,405	24,405	—	
Telephone services	9,718	9,718	—	
Cleaning supplies	800	800	—	
Janitorial services	14,189	14,189	—	
Liability insurance	12,504	12,504	—	
Insurance property	2,217	2,217	—	
Maintenance-communications equipment	2,394	2,394	—	
Maintenance-software	25,560	25,560	—	
Maintenance/building and improvements	15,442	15,442	—	
Bank charges	1,376	1,376	—	
Computer equip (non-fixed assets)	23,796	23,796	—	
Computer supplies	9,359	9,359	—	
Office equip (non-fixed assets)	166	166	—	
Office supplies	8,873	8,873	—	
Postage/mailing	1,113	1,113	—	
Printing/binding	132	132	—	
Computer equipment-software	4,310	4,310	—	
Consultants	17,561	17,561	—	
Medical exams	150	150	—	
Temp assist pool services	1,368	1,368	—	
Pre-employment services	130	130	—	
Oasis processing financials	9,009	9,009	—	
Oasis processing	7,406	7,406	—	
Rmap services	6,441	6,441	—	
Professional services	3,744	3,744	—	

Schedule 1A (continued)

	Proposed Amount For FY 2011-12	Audited Amount For FY 2011-12	Variance	Reference
Field equipment non-asseted	1,909	1,909	—	
Maintenance tools	6,924	6,924	—	
Small tools/instruments	5,042	5,042	—	
Training-education/tuition	15,306	15,306	—	
Contracts	8,931	8,931	—	
Conference/registration fees	1,275	1,275	—	
Lodging	1,978	1,978	—	
Meals	832	832	—	
Miscellaneous travel expenses	10	10	—	
Interfund expenses – admin support direct	29,217	38,831	9,614	Finding 1
Interfund expenses – admin support indirect	287,728	382,613	94,885	Finding 1
Interfund expenses – audit & accounting	3,980	3,980	—	
Interfund expenses – equipment rent	2,039	2,039	—	
Interfund expenses – legal services	143	143	—	
Interfund expenses – micrographics	1,010	1,010	—	
Interfund expenses – miscellaneous	35,128	35,128	—	
Interfund expenses – utilities	5,983	5,983	—	
Interfund expenses- GIS	28,853	28,853	—	
Subtotal indirect services, supplies, and other:	654,129	758,628	104,499	
Total Department costs	1,567,678	1,672,177	104,499	
OMB A-87 Cost Allocation Plan	23,093	23,093	—	
Carry forward adjustment	—	—	—	
Total indirect costs	1,590,771	1,695,270	104,499	
Total direct salaries and benefits	2,487,478	2,487,478	—	
Indirect cost rate	63.95%	68.15%	4.20%	

**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 Amount For FY 2013-14	Audited Amount For FY 2013-14	Variance	Reference
Direct costs:				
Salaries	1,741,930	1,741,930	—	
Benefits	745,548	745,548	—	
Total direct costs	<u>2,487,478</u>	<u>2,487,478</u>	---	
Indirect costs:				
Salaries	639,740	639,740	—	
Benefits	273,809	273,809	—	
Subtotal indirect costs	<u>913,549</u>	<u>913,549</u>	—	
Services, supplies, and other:				
Protective gear	252	252	—	
Uniforms/replacement clothing	4,978	4,978	—	
Cellular phones	10,447	10,447	—	
Computer lines	24,405	24,405	—	
Telephone services	9,718	9,718	—	
Cleaning supplies	800	800	—	
Janitorial services	14,189	14,189	—	
Liability insurance	12,504	12,504	—	
Insurance-property	2,217	2,217	—	
Maintenance-communications equipment	2,394	2,394	—	
Maintenance-software	25,560	25,560	—	
Maintenance/building and improvements	15,442	15,442	—	
Bank charges	1,376	1,376	—	
Computer equip (non-fixed assets)	23,796	23,796	—	
Computer supplies	9,359	9,359	—	
Office equip (non-fixed assets)	166	166	—	
Office supplies	8,873	8,873	—	
Postage/mailing	1,113	1,113	—	
Printing/binding	132	132	—	
Computer equipment – software	4,310	4,310	—	
Consultants	17,561	17,561	—	
Medical exams	150	150	—	
Temp assist pool services	1,368	1,368	—	
Pre-employment services	130	130	—	
Oasis processing financials	9,009	9,009	—	
Oasis processing	7,406	7,406	—	
Rmap services	6,441	6,441	—	
Professional services	3,744	3,744	—	

Schedule 1B (continued)

	Proposed Amount For FY 2013-14	Audited Amount For FY 2013-14	Variance	Reference
Field equipment, non-asseted	1,909	1,909	—	
Maintenance tools	6,924	6,924	—	
Small tools/instruments	5,042	5,042	—	
Training – education/tuition	15,306	15,306	—	
Contracts	8,931	8,931	—	
Conference/registration fees	1,275	1,275	—	
Lodging	1,978	1,978	—	
Meals	832	832	—	
Miscellaneous travel expenses	10	10	—	
Interfund expenses – admin support direct	29,217	38,831	9,614	Finding 1
Interfund expenses – admin support indirect	287,728	382,613	94,885	Finding 1
Interfund expenses – audit & accounting	3,980	3,980	—	
Interfund expenses – equipment rent	2,039	2,039	—	
Interfund expenses – legal services	143	143	—	
Interfund expenses – micrographics	1,010	1,010	—	
Interfund expenses – miscellaneous	35,128	35,128	—	
Interfund expenses – utilities	5,983	5,983	—	
Interfund expenses – gis	28,853	28,853	—	
Subtotal indirect services, supplies, and other:	654,129	758,628	104,499	
Total Department costs	1,567,678	1,672,177	104,499	
OMB A-87 Cost Allocation Plan	(8,386)	(8,386)	—	
Carry forward adjustment	—	104,528	104,528	
Total indirect costs	1,559,292	1,768,319	209,027	
Total direct salaries and benefits	2,487,478	2,487,478	—	
Indirect cost rate	62.69%	71.09%	8.40%	

Finding and Recommendation

**FINDING—
Understated indirect
cost in the indirect
cost proposal**

The Riverside County, Surveyor Department proposed a final indirect cost rate of 63.95% and a fixed rate of 62.69% for fiscal year (FY) 2011-12 and FY 2013-14. Our audit determined indirect cost rates of 68.15% and 71.09%, a difference of 4.20% and 8.40%, respectively. The differences primarily were due to the County using estimated costs instead of actual costs incurred to allocate the administrative support expenses to the Surveyor and other county departments. Consequently, the County understated the cost of both direct and indirect Inter-fund Administrative Support expenses reported in the ICRP by \$104,499 in FY 2011-12 and by the same amount, \$104,499, in FY 2013-14.

Because the County did not include actual allowable costs, the carry-forward amount for FY 2013-14 was miscalculated by \$104,499.

Title 2, *Code of Federal Regulations*, Part 225, Appendix E, Section B states, in part, that "final rate" means an indirect cost applicable to a specific past period; the final rate is based on actual allowable costs of the period.

The understatement of the proposed rates for FY 2011-12 and FY 2013-14 affected the carry-forward amount.

The understatement occurred because the County used estimated cost instead of actual cost to allocate administrative support expenses to the Surveyor Department and other county departments.

Recommendation

We recommend that Caltrans request that the county to revise and resubmit the ICRP for this fiscal year. The county also should implement policies and procedures to ensure that only actual costs are used to calculate final indirect cost rates.

State Controller's Office
Division of Audits
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