


Memorandum

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a California Way of Life.*

To: MARSUE MORRILL, CPA
Chief
External Audits–Local Governments
Audits & Investigations

Date: July 21, 2017

File: P1590-0547 –
P1590-0551

From: JOHN HOOLE 
Acting Chief
Division of Local Assistance

Subject: **DIVISION CORRECTIVE ACTION PLAN–CITY OF REDDING, DEPARTMENT OF PUBLIC WORKS–INDIRECT COST RATE PROPOSAL**

This memorandum serves as the California Department of Transportation's (Caltrans) Division of Local Assistance (DLA) Corrective Action Plan for findings described in the State Controller's Office audit of the City of Redding, Department of Public Works (City) dated June 2017. We thank you and your staff for the efforts in completing this audit, and for helping the City improve their financial management system.

The DLA concurs with the Audit findings:

Finding 1–Misclassification of Direct Labor Costs

The City misclassified the direct salaries and associated fringe benefits as indirect costs when these costs should have been classified as direct costs.

Finding 2–Eligible Costs Excluded From The Indirect Cost Rate Calculation

The audit found that the City's employees from the Street Division worked for the Engineering Division on a temporary basis, and were excluding time worked from the indirect cost rate calculation.

Finding 3–Incorrect Distribution of Eligible Costs

The audit found that the cost of services and supplies used in calculating the indirect cost rate was derived by an incorrect methodology. The reported costs were applied based on a ratio of direct cost to indirect cost of between 49% and 51%, whereas 100% of the cost should have been applied in the calculation.

Finding 4–Allowable Depreciation Expense Excluded

The City did not use the allowable depreciation expenses on eligible equipment in calculating the indirect cost rates.

Finding 5–Allowable Central Services Costs Excluded

The City did not use the allowable central services costs (A-87) in calculating the indirect cost rates.

A&I Recommendation

For all findings, the City should adhere to all applicable provisions of 2 CFR 225 when preparing future ICRPs.

It is further recommended that the City should reconcile all reimbursements using the audited rates for the fiscal years. Any resulting overpayments are to be repaid to Caltrans.

Corrective Action

The DLA will work with the City to reconcile all fiscal year reimbursements using the audited rates for all findings. Any resulting overpayments are to be repaid to Caltrans by October 1, 2017.

If you have any questions, please contact Carmen Wills, Division of Local Assistance, at (916) 653-3990 or by email sent to carmen.wills@dot.ca.gov.

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