


Memorandum

*Making Conservation
a California Way of Life.*

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

Date: September 29, 2017

File: P1594-0005/0006
0007/0008/0009

From: RIHUI ZHANG 
Chief
Division of Local Assistance

Subject: **DIVISION CORRECTIVE ACTION PLAN–INDIRECT COST RATE PROPOSAL
AUDIT–CITY OF WEST SACRAMENTO, PUBLIC WORKS, FIRE AND POLICE
DEPARTMENTS**

This memorandum serves as the California Department of Transportation's (Caltrans) Division of Local Assistance (DLA) Corrective Action Plan for findings described in Audits and Investigations' (A&I) audit of the City of West Sacramento, Public Works, Fire and Police Departments (City) dated June 19, 2017. We thank you and your staff for your efforts in completing this audit and for helping the City improve their financial management system.

The DLA concurs with the audit findings:

Finding 1–Unallowable Costs Included in the Indirect Cost Rate Proposal

Direct and Indirect Salaries and Fringe Benefits: The City's Department of Public Works (DPW) did not present the salary and wage expenses in the Indirect Cost Rate Proposal (ICRP) in accordance with Title 2 Code of Federal Regulations (CFR) Part 225. The audit found that the City reported salaries and wages of billable positions as direct costs and wages and salaries of non-billable positions as indirect costs, instead of using a distribution based on actual time spent performing direct or indirect cost objectives.

Communications Expenses: Communications expenses submitted to the City's Police Department during fiscal year (FY) 2012-13 should have been allocated and paid for by several City Departments, including DPW. As a result, DPW's communications expenses were understated by \$11,681.

Training Expenses: Training expenses reported in the City's ICRP included expenses for airfare, lodging, and per diem for the purpose of unallowable lobbying activities. The costs of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans are unallowable, pursuant to 2 CFR 225 Appendix B, Section 24(a).

General Support Allocation Expense: The City overstated the number of administrative employees for the purpose of allocating general services expenses. This resulted in an overstatement of general support allocation expenses in the amounts of \$59,498, \$56,907, and \$60,239 during FY 2010-11, FY 2011-12, and FY 2012-13, respectively.

A&I Recommendation

The City should adhere to all applicable provisions of 2 CFR 225. In addition, the City should revise and resubmit the ICRP for the affected fiscal years.

Finding 2–Failure to Include an Allowable Cost by the Fire Department

Communications expenses submitted to the City’s Police Department during FY 2012-13 should have been allocated and paid for by several City Departments, including the Fire Department. As a result, the Fire Department’s communications expenses were understated by \$257,376 in FY 2013-14.

A&I Recommendation

The City’s Fire Department should adhere to all applicable provisions of 2 CFR 225, which includes provisions that address the proper allocation of costs. In addition, the City should revise and resubmit the ICRP for the affected fiscal year.

Finding 3–Failure to Allocate an Allowable Cost by the Police Department

Communications expenses submitted to the City’s Police Department during FY 2012-13 should have been allocated and paid for by several City Departments, including the Police Department. As a result, the Police Department’s communications expenses were overstated by \$331,197 in FY 2013-14.

A&I Recommendation

The City’s Police Department should adhere to all provisions of 2 CFR 225, which includes provisions that address the proper allocation of costs. In addition, the City should revise and resubmit the ICRP for the affected fiscal year.

Finding 4–Unapproved Overhead Rate Used

The DPW used reimbursement rates, referred to as the “book of fees,” to bill Caltrans for project-related direct labor instead of using actual labor cost rates that are based on actual salaries and/or wages, fringe benefits, and approved overhead rates.

A&I Recommendation

The DPW should adhere to all provisions of Caltrans’ Local Assistance Procedures Manual (LAPM), Chapter 5 – Invoicing. The City should contact Caltrans’ DLA or District Local Assistance Engineer for further instructions.

Summary of Corrective Actions:

- District 3 will work with the City to reconcile all reimbursements using the audited rates for FY 2010-11 through FY 2013-14. Any resulting overpayments are to be repaid to Caltrans by March 15, 2018.
- District 3 will ensure that the City trains its staff accordingly on the proper billing method as per the provisions of the LAPM, Chapter 5 – Invoicing, and all applicable provisions of 2 CFR 225, including provisions that address the proper allocation of costs, by December 31, 2017.
- The City is to ensure that it obtains an approved indirect cost rate prior to billing Caltrans.

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

- c: Rodney Whitfield, Director of Financial Services, Federal Highway Administration
- Tashia Clemons, Director, Program Development, Federal Highway Administration
- Kara Magdaleno, Administrative Program Assistant, Planning and Finance, Federal Highway Administration
- Veneshia Smith, Financial Program Manager, Federal Highway Administration
- Roberto Rodrigues, F.I.R.E. & Program Review Coordinator, Federal Highway Administration
- Erwin Gojuangco, Acting Chief, Office of Guidance and Oversight, Division of Local Assistance, Caltrans
- Mario Solis, Branch Manager, Program Reviews & Outreach, Office of Guidance and Oversight, Division of Local Assistance, Caltrans
- Martin Villanueva, District Local Assistance Engineer, District 3, Division of Local Assistance, Caltrans
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Rail and Mass Transportation, Caltrans
- Nick Hernandez, Transportation Planner, Rail Capital Projects, Division of Rail and Mass Transportation, Caltrans
- Ezequiel Castro, Senior Transportation Planner, State Transit Grant Program, Division of Rail and Mass Transportation, Caltrans
- C. Edward Philpot, Jr., Branch Chief, Transportation Equity, Office of Regional Planning, Caltrans
- Erin Thompson, Senior Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning, Caltrans
- Lisa Gore, Associate Accounting Analyst, Division of Accounting, Caltrans
- Tami Gill, Audit Manager, External Audits—Local Governments, Independent Office of Audits & Investigations, Caltrans
- Carmen Wills, Audits Analyst, Program Reviews & Outreach, Office of Guidance and Oversight, Division of Local Assistance, Caltrans