

# Corrective Action Plan

City of Los Angeles, Department of Public Works (DPW), Bureau of Street Services (BSS), Bureau of Street Lighting (BSL), P1594-0041 – 0044

Indirect Cost Rate Proposal Audit

Issued: December 28, 2017

CAP Due: March 16, 2018

| Finding   | Recommendation  | Responsible Program(s)/Division(s) | Proposed Corrective Action (Include Time Lines) |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
|---|---|------------------------------------|---|--|------------------|---------------|--------------|------------|--------|--------|------------|---------|--------|-------------|--|--|--------------------|---------------|--------------|------------|---------|---------|------------|---------|---------|-------------------------------------|---|
| <p><b>FINDING 1 – Unallowable Costs Included in the Indirect Cost Pool</b></p> <p>Four Bureau of Street Services (BSS) divisions included unallowable costs and misallocated costs in the indirect cost pool. BSS Divisions included unallowable costs in the indirect cost pool totaling \$1,520,114 between two fiscal years (FY). The costs were classified as an indirect cost in the City’s Indirect Cost Rate Proposal (ICRP). These costs should be direct costs or compensated time off (CTO) and should not be included in the indirect cost pool.</p> | <p>We recommend BSS update and implement policies and procedures to adhere to 2 CFR 200 and ensure:</p> <ul style="list-style-type: none"> <li>• Costs are properly classified,</li> <li>• Only allowable costs are included in the future ICRP,</li> <li>• The audit rates for the Resurfacing Division are reflected in the future ICRP.</li> </ul> <table border="1" data-bbox="827 760 1548 881"> <thead> <tr> <th colspan="3">Resurfacing Division</th> </tr> <tr> <th>Effective Period</th> <th>Proposed Rate</th> <th>Audited Rate</th> </tr> </thead> <tbody> <tr> <td>FY 2013/14</td> <td>13.29%</td> <td>-3.82%</td> </tr> <tr> <td>FY 2014/15</td> <td>119.06%</td> <td>99.76%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>• All Resurfacing Division invoices billed to Caltrans since the March 25, 2016 Caltrans Audits and Investigations (A&amp;I) acceptance date for BSS’s FY 2013/14 and FY 2014/15 proposed rates, and reimburse Caltrans for any overpayment between the accepted and audited rate.</li> <li>• Street Tree, Special Project, and Engineering Divisions’ FY 2013/14 and FY 2014/15 audited rates are shown to keep track of the negative carry forward amount when preparing future ICRP.</li> </ul> <table border="1" data-bbox="827 1230 1548 1352"> <thead> <tr> <th colspan="3">Street Tree</th> </tr> <tr> <th>Effectuated Period</th> <th>Proposed Rate</th> <th>Audited Rate</th> </tr> </thead> <tbody> <tr> <td>FY 2013/14</td> <td>-51.61%</td> <td>-52.22%</td> </tr> <tr> <td>FY 2014/15</td> <td>215.64%</td> <td>214.42%</td> </tr> </tbody> </table> | Resurfacing Division               |   |  | Effective Period | Proposed Rate | Audited Rate | FY 2013/14 | 13.29% | -3.82% | FY 2014/15 | 119.06% | 99.76% | Street Tree |  |  | Effectuated Period | Proposed Rate | Audited Rate | FY 2013/14 | -51.61% | -52.22% | FY 2014/15 | 215.64% | 214.42% | <p>Division of Local Assistance</p> | <p>DLA concurs with this audit finding.</p> <p>Corrective Actions:</p> <ul style="list-style-type: none"> <li>• DLA will work with the City to reconcile all reimbursements for the Resurfacing and Reconstruction Division using the audited rates for the following periods: <ul style="list-style-type: none"> <li>○ FY 2013/14 – Since the audited rate went into a negative rate of -3.82 percent, the City is only required to reimburse for every reduced rate greater than zero percent. Thus, the agency is to reconcile all invoices during this period and reimburse Caltrans the amount billed at 13.29 percent proposed rate by <b>June 15, 2018</b>.</li> <li>○ FY 2014/15 – The City is to reconcile all invoices during this period using the audited rate. Any resulting overpayments are to be repaid to Caltrans by <b>June 15, 2018</b>.</li> </ul> </li> <li>• The City should re-examine its ICRP policies and procedures to ensure compliance with 2 CFR 200, including proper classification of costs and allowable costs to be included in future ICRPs. In addition, the City should train staff accordingly on policies and procedures updates.</li> </ul> |
| Resurfacing Division  |   |                                    |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| Effective Period  | Proposed Rate   | Audited Rate                       |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| FY 2013/14  | 13.29%  | -3.82%                             |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| FY 2014/15  | 119.06%   | 99.76%                             |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| Street Tree   |   |                                    |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| Effectuated Period  | Proposed Rate   | Audited Rate                       |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| FY 2013/14  | -51.61%   | -52.22%                            |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |
| FY 2014/15  | 215.64%   | 214.42%                            |   |  |                  |               |              |            |        |        |            |         |        |             |  |  |                    |               |              |            |         |         |            |         |         |                                     |   |

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|---|---|-------------------------------------|---|--------------|------------|---------|---------|------------|--------|--------|-----------------|---------------|--------------|------------|----------|----------|------------|--------|--------|--|--|
|   | <p style="text-align: center;"><b>Special Project</b></p> <table border="1" data-bbox="817 526 1542 623"> <thead> <tr> <th>Effected Period</th> <th>Proposed Rate</th> <th>Audited Rate</th> </tr> </thead> <tbody> <tr> <td>FY 2013/14</td> <td>-55.78%</td> <td>-55.99%</td> </tr> <tr> <td>FY 2014/15</td> <td>27.64%</td> <td>27.52%</td> </tr> </tbody> </table> <p style="text-align: center;"><b>Engineering</b></p> <table border="1" data-bbox="817 685 1542 782"> <thead> <tr> <th>Effected Period</th> <th>Proposed Rate</th> <th>Audited Rate</th> </tr> </thead> <tbody> <tr> <td>FY 2013/14</td> <td>-108.08%</td> <td>-108.88%</td> </tr> <tr> <td>FY 2014/15</td> <td>33.40%</td> <td>32.26%</td> </tr> </tbody> </table> | Effected Period                     | Proposed Rate   | Audited Rate | FY 2013/14 | -55.78% | -55.99% | FY 2014/15 | 27.64% | 27.52% | Effected Period | Proposed Rate | Audited Rate | FY 2013/14 | -108.08% | -108.88% | FY 2014/15 | 33.40% | 32.26% |  |  |
| Effected Period   | Proposed Rate   | Audited Rate                        |   |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |
| FY 2013/14  | -55.78%   | -55.99%                             |   |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |
| FY 2014/15  | 27.64%  | 27.52%                              |   |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |
| Effected Period   | Proposed Rate   | Audited Rate                        |   |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |
| FY 2013/14  | -108.08%  | -108.88%                            |   |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |
| FY 2014/15  | 33.40%  | 32.26%                              |   |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |
| <p><b>FINDING 2 – Billed Central Services Activity Were Not In Compliance with Federal Requirements</b></p> <p>BSS included equipment charges as direct project costs in their invoices to Caltrans. These equipment charges are considered billed central services. Central Service Costs are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis and require an internal service fund to properly reflect its revenue and expense. BSS did not establish an internal service fund to report these activities, as required by federal regulations.</p> | <p>We recommend if BSS continues to include equipment charges in its invoices to Caltrans, they must adhere to the requirements in 2 CFR 200 Appendix V (which supersedes 2 CFR 225 Appendix C) and establish an internal service fund to account for all revenues and expenses for billed central service activities.</p> <p>The City of Los Angeles may alternatively invoice Caltrans using their Central Service Indirect Cost Rate approved by their cognizant agency, U.S. Department of Housing and Urban Development (HUD).</p>   | <p>Division of Local Assistance</p> | <p>DLA concurs with this audit finding.</p> <p>Corrective Action:</p> <ul style="list-style-type: none"> <li>For future billings of central service activities to Caltrans, the City’s BSS must select the appropriate equipment charge cost recovery method to use by either billing the equipment charges to Caltrans using an internal service fund as required by 2 CFR 200, Appendix V, or invoice Caltrans using its Central Service ICR approved by HUD, its cognizant agency. The City must notify Caltrans DLA of its decision by <b>June 15, 2018</b>.</li> </ul> |              |            |         |         |            |        |        |                 |               |              |            |          |          |            |        |        |  |  |

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| <p><b>FINDING 3 – Actual Cost Not Used to Calculate Department Administration and Support Rate</b></p> <p>Bureau of Street Lighting (BSL) did not use the prior fiscal years (FY 2011/12 and FY 2012/13) actual costs for the carry-forward calculation of the Department (Dept.) Administration and Support Rates for FY 2013/14 and FY 2014/15 respectively. We found that the CTO costs included in both the base costs and indirect cost pools of the carry-forward calculations were not the actual costs of FY 2011/12 and FY 2012/13. These costs were based on calculations from the prior FY 2010/11 and FY 2011/12 rates.</p> | <p>We recommend BSL adhere to 2 CFR 200 Appendix V G(3) (which supersedes 2 CFR 225 Appendix C) and use the same year actual CTO cost and actual base labor cost when including the CTO costs in the department administration salaries when preparing the Department Administration and Support Rate.</p>   | <p>Division of Local Assistance</p> | <p>DLA concurs with this audit finding.</p> <p>Corrective Action:</p> <ul style="list-style-type: none"> <li>The City’s BSL must provide Caltrans’ DLA documentation showing the use of actual CTO cost and actual base labor cost for the carry-forward calculation of the Department Administration and Support Rate, as per 2 CFR 200, Appendix V G(3), by <b>June 15, 2018</b>.</li> </ul>   |
| <p><b>FINDING 4 - Incorrect Compensated Time Off (CTO) and Fringe Benefit (FB) Rates Used for Billing Direct Labor Costs</b></p> <p>BSS and BSL billed Caltrans using incorrect CTO and FB rates. The CTO cost is included in gross salaries, and the FB is added to gross salaries to calculate the direct labor cost. BSS and BSL billed Caltrans and was reimbursed for project related direct labor costs that included incorrect CTO and FB costs due to the incorrect FY rates being used.</p>  | <p>We recommend BSS and BSL:</p> <ul style="list-style-type: none"> <li>Adhere to the provisions of the Caltrans LAPM, Chapter 5 – Accounting/invoices,</li> <li>Obtain ICRP approval from their cognizant agency and Caltrans A&amp;I prior to invoicing the department for reimbursement,</li> <li>Calculate invoices using the correct FY rates.</li> </ul> | <p>Division of Local Assistance</p> | <p>DLA concurs with this audit finding.</p> <p>Corrective Action:</p> <ul style="list-style-type: none"> <li>The City’s BSS and BSL must obtain an approved ICRP from their cognizant agency, HUD, and Caltrans A&amp;I prior to billing Caltrans for reimbursement in accordance with the LAPM, Chapter 5 – Accounting/Invoices. If approval is delayed from the cognizant agency, the City must communicate with HUD and emphasize the requirement for a timely approval.</li> </ul> |