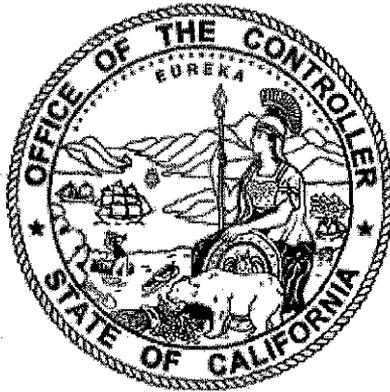


**SAN DIEGO COUNTY
DEPARTMENT OF PUBLIC WORKS
ROAD DIVISION**

Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF
CALTRANS CONTRACT NO. 77A0044
(Audit Request No. P1594-0047)**

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

December 2017



BETTY T. YEE
California State Controller

December 29, 2017

MarSue Morrill, Chief
External Audits-Local Governments
Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200, MS 2
Sacramento, CA 95814

Dear Ms. Morrill:

The State Controller's Office audited the indirect cost rate proposal (ICRP) of San Diego County's Department of Public Works Road Division. The ICRP audit period was for fiscal year 2015-16. The audit was performed at the request of the California Department of Transportation (Caltrans) Audits and Investigations.

The purpose of the audit was to determine whether the ICRP was presented in accordance with Title 2, *Code of Federal Regulations*, Part 200, and Chapter 5 of the Caltrans Local Assistance Procedures Manual.

We determined that the county's accounting system appeared adequate to properly capture costs and that the project costs were allowable, reasonable, and in compliance with applicable federal and state laws and regulations and the fiscal provisions stipulated in the contract. In addition, payments to the county were made in a timely manner, were in accordance with contract provisions, and were properly approved by Caltrans contract officers.

If you have any questions, please contact Andrew Finlayson, Bureau Chief, by telephone at (916) 324-6310.

Sincerely,

A handwritten signature in blue ink that reads "Jeffrey V. Brownfield, CPA". There are some initials "JVB" written below the signature.

JEFFREY V. BROWNFIELD, CPA

Chief, Division of Audits

JVB/ljs

cc: Tami Gill, Audit Manager
External Audits-Local Governments
Audits and Investigations (via email)
Richard Crompton, P.E., Director
San Diego County Department of Public Works

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	4
Follow-up on Prior Audit Findings	4
Views of Responsible Officials	4
Restricted Use	4
Schedule 1—Summary of Proposed and Audited Rate	5
Schedule 2—Schedule of Direct Costs, Indirect Costs, and Carry-Forward	6

Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposal (ICRP) of San Diego County's Department of Public Works (DPW) Road Division. The ICRP audit period was for fiscal year (FY) 2015-16.

The purpose of the audit was to determine whether the ICRP was presented in accordance with Title 2, *Code of Federal Regulations*, Part 200 (2 CFR 200), and Chapter 5 of the California Department of Transportation's (Caltrans) Local Assistance Procedure Manual (LAPM).

We determined that the county's accounting system appeared adequate to properly capture costs and that the direct and indirect costs were allowable, reasonable, and compliant, in compliance with applicable federal and state laws and regulations and the fiscal provisions stipulated in the contract. In addition, payments to the county were made in a timely manner, were in accordance with contract provisions, and were properly approved by Caltrans contract officers.

Background

The county was incorporated on February 18, 1850, and functions under a charter adopted in 1933, as subsequently amended. Elected to four-year terms, the five-member Board of Supervisors sets priorities for the county and oversees most of the county departments and programs, approves their budgets, and appoints the following officers: the Chief Administrative Officer (CAO), the County Counsel, the Probation Officer, and the Clerk of the Board of Supervisors. The CAO appoints the Chief Financial Officer, the Auditor and Controller, and all other appointive officers. Elected officials head the offices of the Assessor/Recorder/County Clerk, District Attorney, Sheriff, and Treasurer-Tax Collector.

The DPW consists of four divisions responsible for a variety of activities. These range from the construction and maintenance of roads and highways in the unincorporated areas of the county, to the management of the region's sanitation and flood control districts. It also includes construction, operation, and maintenance of regional general aviation airports. The Road Fund was established to provide for specialized engineering services, roadway construction, and maintenance of nearly 2,000 miles of roads.

The proposed indirect cost and fringe benefit rates are based on the department's approved \$111 million budgeted operation costs for the Road Fund function group that includes Transportation Services, Environmental Services, Construction Management, Capital Improvement, Flood Surveys, Land Development, and Management Services.

We performed the audit at the request of Caltrans (Audit Request No. P1594-0047). The authority to conduct this audit is given by Interagency Agreement No. 77A0044, dated June 1, 2014, between the SCO and Caltrans, which authorizes the SCO to perform audits of proposed ICRPs submitted to Caltrans from local government agencies to ensure compliance with 2 CFR 200 and Chapter 5 of the Caltrans LAPM.

Objectives, Scope, and Methodology

We conducted the audit to determine whether:

- The county's ICRP is in compliance with the cost principles prescribed in 2 CFR 200;
- The county's ICRP is in compliance with the requirements for ICRP preparation and application identified in Chapter 5 of the Caltrans LAPM;
- The county has a sufficient financial management accounting system to properly manage federal- and state-funded projects; and
- The county has procurement policies and procedures that are in compliance with 2 CFR 200.

The ICRP audit period was July 1, 2015, through June 30, 2016, for the county's Road Division. The proposed rate was 87.84%. The rate type was a fixed-rate proposal.

To achieve our audit objectives, we:

- Reviewed the county's prior ICRP report issued by the SCO for FY 2009-10 for findings related to the objectives of the audit;
- Reviewed the single audit report and the Comprehensive Annual Financial Report issued by Vavrinek, Trine, Day & Company, LLP for FY 2013-14 for findings related to the objectives of the audit;
- Reviewed the county's written policies and procedures relating to accounting systems, procurement, and project/contract management;
- Interviewed employees, completed an internal control questionnaire, and performed a system walk-through in order to gain a limited understanding of the county's internal controls, accounting systems, timekeeping and payroll systems, and procurement and billing processes;
- Performed limited tests of controls on a judgmentally selected, non-statistical sample of direct costs and indirect costs to confirm and validate existing documented processes and procedures are functioning as designed:
 - Direct Salaries and Fringe Benefits
Sample: Three pay periods for 11 employees, totaling \$161,041;
Population: 352 employees, totaling \$31,170,590.
 - Indirect Salaries and Fringe Benefits
Sample: Three pay periods for 11 employees, totaling \$45,342;
Population: 352 employees, totaling \$12,263,768
 - Non-Salary Related Indirect Costs
24 sample transactions, totaling \$5,757,965 from a population of \$12,757,461.

- Tested the costs and financial accounting systems to ensure that systems can identify projects, activities related to projects, direct costs, and indirect costs, as indicated by the county's written policies and procedures and internal control interviews;
- Assessed the internal control system related to the ICRP for FY 2015-16, based on the results of the review of written procedures and policies, internal control interviews, and test of controls;
- Judgmentally selected a sample of direct and indirect salaries and fringe benefits reported in the ICRP to determine whether the amounts claimed are adequately supported in compliance with 2 CFR 200:
 - Direct Salaries and Fringe Benefits
Sample: Three pay periods for 11 employees, totaling \$161,041;
Population: 352 employees, totaling \$31,170,590.
 - Indirect Salaries and Fringe Benefits
Sample: Three pay periods for 11 employees, totaling \$45,342;
Population: 352 employees, totaling \$12,263,768.
- Judgmentally selected a sample of 24 non-salary related indirect costs transactions (totaling \$5,757,965 from a population of \$12,757,461) reported in the ICRP to determine the amounts claimed are adequately supported and in compliance with 2 CFR 200;
- Determined whether payments to contractors were made in a timely manner, and were billed to Caltrans subsequent to payment;
- Verified whether the actual indirect costs recovered by the county were of the Caltrans approved indirect cost rate; and
- Verified whether the county invoices to Caltrans for approved projects are in compliance with Chapter 5 of the Caltrans LAPM.

Errors found in the samples selected were not projected to the intended total population.

We conducted this performance audit in accordance with 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.

We did not audit San Diego County's financial statements. The scope of the audit was limited to select financial and compliance activities. In addition, our review of internal controls was limited to gaining and understanding of the transaction flow, the financial management accounting system, and applicable controls to determine the county's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

We determined that San Diego County's financial management accounting system appeared adequate to capture costs and that the project costs were allowable, reasonable, and in compliance with applicable federal and state laws and regulations and the fiscal provisions as stipulated by the contract. In addition, payments to contractors were made in a timely manner, were in accordance with contract provisions, and were properly approved by Caltrans contract officers.

**Follow-up on
Prior Audit
Findings**

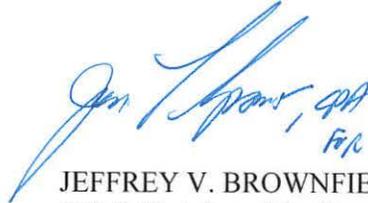
We last performed an audit of the county's proposed ICRP for FY 2009-10. Based on the work performed in the current audit, we noted that the county took appropriate corrective actions on all prior audit findings.

**Views of
Responsible
Officials**

We discussed our audit results with the county's representatives during a telephone exit conference. Kathleen Flannery, Deputy Director; Amparo Suter, DPW Unit Manager; Dana Hua, Principal Accountant; Fatima Barredo, Principal Administrative Analyst; Errol Olivar, Senior Accountant; Persida Ramos, Senior Accountant; and Tamara Murphy, Administrative Analyst III, agreed with the audit results. Ms. Flannery 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 San Diego County, Caltrans, 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

December 29, 2017

**Schedule 1—
Summary of Proposed and Audited Rate
July 1, 2015, through June 30, 2016**

<u>Division</u>	<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
Road	2015-16	87.84%	87.84%	-	Schedule 2

Schedule 2— Schedule of Direct Costs, Indirect Costs, and Carry-Forward Fiscal Year 2015-16

	Proposed Amount	Audited Amount	Audit Adjustment
Direct costs:			
Direct salaries	\$ 18,688,547	\$ 18,688,547	\$ -
Direct fringe benefits	12,482,043	12,482,043	-
Total direct costs	\$ 31,170,590	\$ 31,170,590	\$ -
Indirect costs:			
Indirect salaries	\$ 7,378,127	\$ 7,378,127	\$ -
Indirect benefits	4,885,641	4,885,641	-
Indirect expenses:			
Uniform allowance	83,600	83,600	-
Safety clothing	99,168	99,168	-
Other clothing and personal supplies	10,400	10,400	-
Communications	1,000	1,000	-
Radio	119,044	119,044	-
Other communications	1,500	1,500	-
Cell phone expense	76,635	76,635	-
Household expenses	25,000	25,000	-
Housekeeping supplies	17,900	17,900	-
Public liability insurance premium	4,174,136	4,174,136	-
Maintenance of equipment	50,782	50,782	-
Office equipment maintenance	23,400	23,400	-
Fire extinguishers	7,000	7,000	-
Medicines, drugs, and pharmaceuticals	5,300	5,300	-
Laboratory supplies	3,000	3,000	-
Memberships	28,162	28,162	-
Software purchase	9,000	9,000	-
Annual software license	211,476	211,476	-
Transit (bus) saver pass	5,940	5,940	-
Miscellaneous expense	500	500	-
Office expenses	110,000	110,000	-
Postage	1,900	1,900	-
Printing	6,100	6,100	-
Books office	6,323	6,323	-
Drafting and engineering supplies	47,750	47,750	-
Supplies – information technology	1,500	1,500	-
Computer reproduction cost	16,500	16,500	-
Printing – document services	204	204	-
Mail/postage	53,679	53,679	-
Professional and specialized services	99,150	99,150	-
Inter-departmental costs	2,908,196	2,908,196	-
Publications and legal notices	1,900	1,900	-
Copy equipment rental	111,000	111,000	-
Miscellaneous inter-fund rental	490,916	490,916	-
Rents and leases of structures	67,100	67,100	-
Small tools and instruments	4,300	4,300	-
Special departmental expense	45,101	45,101	-
Books and publications	1,500	1,500	-
Road materials	200	200	-
Minor equipment	56,996	56,996	-

Schedule 2 (continued)

	Proposed Amount	Audited Amount	Audit Adjustment
Indirect expenses (continued):			
Transportation and travel	600	600	-
County travel and transportation – lodging	14,500	14,500	-
Non-travel and in-county travel	73,520	73,520	-
Employee auto	14,852	14,852	-
Tuition refunds	2,500	2,500	-
Training and registration out of county	11,200	11,200	-
Utilities charges	380,915	380,915	-
Gas and electric	200	200	-
Utilities	123,700	123,700	-
Document services	16,000	16,000	-
Facilities management	493,417	493,417	-
Facilities management real property	47,536	47,536	-
Network services	509,727	509,727	-
Data center services	231,190	231,190	-
Cross-functional services	218,112	218,112	-
Application services ISF	806,998	806,998	-
Desktop computing/PCs	436,949	436,949	-
Help desk ISF	53,806	53,806	-
Catalog/non-catalog items	322,981	322,981	-
Other services/work orders	15,500	15,500	-
Subtotal indirect costs before carry-forward adjustment	\$ 25,021,229	\$ 25,021,229	\$ -
Carry-forward from FY 2013-14	2,358,797	2,358,797	-
Total indirect costs after carry-forward adjustment	\$ 27,380,026	\$ 27,380,026	\$ -
Total indirect costs	\$ 27,380,026	\$ 27,380,026	\$ -
Total direct costs	\$ 31,170,590	\$ 31,170,590	\$ -
Indirect cost rate ¹	87.84%	87.84%	-

¹The indirect cost rate is calculated by dividing the total indirect costs by direct costs.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>