



## Independent Office of Audits and Investigations

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February 18, 2022

Transmitted via email

Jeanie Ward-Waller, Deputy Director  
Planning and Modal Programs  
California Department of Transportation

### **Final Report – Transportation Agency for Monterey County, Indirect Cost Allocation Plan Audit**

The Department of Finance, Office of State Audits and Evaluations completed an Indirect Cost Allocation Plan (ICAP) audit of the Transportation Agency of Monterey County's ICAPs for 2020-21 and 2021-22. Enclosed is the final audit report.

The audit was performed to determine whether the ICAPs complied with Title 2 Code of Federal Regulations Part 200 (2 CFR 200) and the California Department of Transportation's Local Assistance Procedures Manual, Chapter 5 (LAPM). In addition, the audit included recalculating the ICAP rates, if unallowable costs were identified

The audit determined the ICAPs were in compliance with 2 CFR 200 and the LAPM.

If you have any questions, please contact Fabiola Torres, Audit Chief, at (916) 704-3628 or [Fabiola.Torres@dot.ca.gov](mailto:Fabiola.Torres@dot.ca.gov), or Luisa Ruvalcaba, Audit Manager, at (916) 764-6666 or [Luisa.Ruvalcaba@dot.ca.gov](mailto:Luisa.Ruvalcaba@dot.ca.gov).

Sincerely,

#### **ORIGINAL SIGNED BY:**

Diana C. Antony, CPA  
Chief Deputy Inspector General

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Diana C. Antony, CPA  
Chief Deputy Inspector General

c: Todd Muck, Executive Director, Transportation Agency for Monterey County  
Tim Gubbins, Director, District 5, California Department of Transportation  
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Rodney Whitfield, Director, Financial Services, Federal Highway Administration  
Grace Regidor, Transportation Finance Specialist, Federal Highway  
Administration

P1594-0108



## **Transportation Agency for Monterey County**

Indirect Cost Allocation Plan  
Fiscal Years 2020-21 and 2021-22

Report No. 22-2660-018  
January 2022

### **Team Members**

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Final reports are available on our website at <https://www.dof.ca.gov>.

You can contact our office at:

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January 26, 2022

Fabiola Torres, Chief, Planning and Modal Office  
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**Final Report—Transportation Agency for Monterey County, Indirect Cost Allocation Plan Audit**

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Transportation Agency for Monterey County's Indirect Cost Allocation Plan (ICAP) for fiscal years 2020-21 and 2021-22, California Department of Transportation Audit Number P1594-0108.

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

If you have any questions regarding this report, please contact Rick Cervantes, Manager, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick, CPA  
Chief, Office of State Audits and Evaluations

cc: Jonathan Cox, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation  
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# BACKGROUND, SCOPE, METHODOLOGY, AND RESULTS

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## BACKGROUND

The California Department of Transportation's (Caltrans) Division of Transportation Planning articulates a long-term vision for California's transportation system and implements statewide transportation policy through partnerships with state, regional, and local agencies. The Division provides quality planning products, services, and information to support and guide transportation investment decisions.<sup>1</sup>

The Transportation Agency for Monterey County (TAMC) serves as Monterey County's regional transportation planning agency, and is a state designated agency responsible for planning and financial programming of transportation projects. TAMC's mission is to develop and maintain a multimodal transportation system that enhances mobility, safety, access, environmental quality, and economic activities in Monterey County.<sup>2</sup>

At the discretion of local government agencies (LGA), indirect costs may be recovered when seeking reimbursement for federal-aid transportation projects and state funded projects. To recover indirect costs, LGAs annually submit an Indirect Cost Allocation Plan (ICAP), which may also include a fringe benefit rate, to Caltrans's Independent Office of Audits and Investigations (IOAI). IOAI reviews the documentation supporting the rate(s) and issues an acceptance letter allowing the LGAs to bill Caltrans and seek reimbursement of indirect costs, which IOAI may audit for compliance with Title 2 Code of Federal Regulations Part 200 (2 CFR 200), and Caltrans's Local Assistance Procedures Manual Chapter 5 (LAPM).

## SCOPE

At the request of IOAI, the California Department of Finance, Office of State Audits and Evaluations, audited TAMC's ICAP for fiscal years 2020-21 and 2021-22.

The audit objectives were to:

1. Determine whether the 2020-21 and 2021-22 ICAPs were in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the 2020-21 and 2021-22 ICAP rates if unallowable costs are identified.

The 2020-21 and 2021-22 ICAPs include transactions related to actual costs incurred and billed to Caltrans in 2018-19 and 2019-20.

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<sup>1</sup> Excerpts obtained from Caltrans's Division of Transportation Planning website <http://www.dot.ca.gov/transplanning/>.

<sup>2</sup> Excerpts obtained from TAMC's website <https://www.tamcmonterey.org/about-us>.

TAMC is responsible for preparing its ICAP in accordance with state and federal requirements, which includes implementing internal controls and maintaining an adequate financial management system to accumulate and segregate reasonable, allowable, and allocable costs.

## **METHODOLOGY**

In planning the audit, we gained an understanding of TAMC's operations, and identified relevant ICAP requirements by interviewing Caltrans and TAMC personnel and reviewing 2 CFR 200, the LAPM, and applicable TAMC policies and procedures.

We conducted a risk assessment, including evaluating whether key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key controls evaluated focused on the separation of indirect and direct costs including labor, and preparation of the ICAP. Our assessment included interviewing staff about processes and testing transactions related to timekeeping/payroll, accounts payable, and ICAP preparation for effectiveness of existing processes and procedures. During our audit, we did not identify deficiencies in internal controls significant within the context of our audit objectives or that warranted the attention of those charged with governance.

Additionally, we assessed the reliability of data from TAMC's financial management system, QuickBooks. Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, and determining if costs were separately categorized by tracing to the accounting records. We determined the data were sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies.

## Table of Methodologies

Audit Objective	Methods
<p><b>Objective 1:</b> Determine whether the 2020-21 and 2021-22 ICAPs are in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> <li>• Selected 2018-19 and 2019-20 significant and high-risk cost categories to verify compliance with 2 CFR 200 and the LAPM as follows: (1) significant indirect costs pool categories were determined based on change analysis from the two prior year's actual costs and cost categories with ending balances that meet or exceed 1 percent of the current direct cost base; (2) direct and indirect salaries and fringe benefits were considered high-risk categories based on the impact to the rate and (3) high-risk indirect costs pool categories were determined based on costs commonly identified for non-compliance with 2 CFR 200 and the LAPM. Specifically, costs were selected from direct and indirect salaries, fringe benefits, and the indirect costs pool.               <ul style="list-style-type: none"> <li>○ Selection of direct and indirect salaries and fringe benefits were based on quantitative and qualitative factors such as total costs charged, percentage of time charged to direct and indirect activities, and employee job classification.</li> <li>○ Selection of indirect costs pool costs were based on quantitative and qualitative factors such as dollar amount of transactions and the type (i.e. description) of costs.</li> <li>○ Determined if direct and indirect salaries and fringe benefits were allowable, supported, segregated, and equitably allocated, by reconciling payroll reports to the ICAP, interviewing TAMC staff, tracing the amounts to accounting and payroll records, ensuring pension liability payments were accurately amortized, and verifying fringe benefits costs for vacation and holidays were in compliance with TAMC policies.</li> <li>○ Determined if indirect costs pool costs were allowable, supported, and properly segregated as indirect costs by, tracing the indirect costs to accounting records, invoices, and interviewing TAMC staff.</li> </ul> </li> <li>• Determined the carry forward calculations<sup>3</sup> were supported by:               <ul style="list-style-type: none"> <li>○ Verifying the 2018-19 and 2019-20 rates were supported by the approved ICAP submissions.</li> <li>○ Verifying the 2018-19 and 2019-20 actual costs were supported by accounting records and reconciled to audited financial data.</li> <li>○ Recalculating the 2018-19 and 2019-20 recovered indirect costs, carry forward, and the 2020-21 and 2021-22 adjusted indirect costs.</li> </ul> </li> <li>• Verified the actual indirect costs recovered by TAMC were billed at the IOAI approved indirect cost rate by tracing the rate used on Caltrans billings to the rate in Caltrans's Acceptance Letter and recalculated the indirect costs billed to Caltrans.</li> </ul>

<sup>3</sup> TAMC uses a schedule of estimated direct and indirect costs to determine the annual indirect costs rate. These estimates are reconciled to actual costs. The difference between the actual costs and the estimated costs is carried forward and is included in the calculation of a future ICAP rate. This is referred to as the carry forward calculation.



Audit Objective	Methods
<b>Objective 2:</b> Recalculate the 2020-21 and 2021-22 ICAP rates if unallowable costs are identified.	<ul style="list-style-type: none"> <li>Unallowable costs were not identified and the ICAP recalculation was not performed.</li> </ul>

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.

**RESULTS**

Based on procedures performed and evidence gathered, we determined TAMC's 2020-21 and 2021-22 ICAPs are in compliance with 2 CFR 200 and the LAPM.

**Table 1: Accepted and Audited 2020-21 and 2021-22 ICAP Rates<sup>4</sup>**

Fiscal Year	Accepted Rate (a)	Audited Rate (b)	Difference (a)-(b)
2020-21	64.29%	64.29%	0.00%
2021-22	64.49%	64.49%	0.00%

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<sup>4</sup> The ICAPs Rates submitted by TAMC were accepted by IOAI on October 1, 2020 and October 5, 2021, respectively.