

# Memorandum

*Making Conservation  
a California Way of Life.*

To: RIHUI ZHANG  
Chief  
Division of Local Assistance

Date: February 6, 2019

File: P1594-0046

From: MARSUE MORRILL, CPA *Marsue*  
Chief  
Planning and Modal Office  
Independent Office of Audits and Investigations

Subject: **INDIRECT COST RATE PROPOSAL AUDIT - COUNTY OF NEVADA, DEPARTMENT OF PUBLIC WORKS, ENGINEERING DIVISION**

At the request of the Independent Office of Audits and Investigations, the State Controller's Office (SCO) performed an audit of the County of Nevada, Department of Public Works, Engineering Division's (County) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2014/15. The purpose of the audit was to determine whether the ICRP was presented in accordance with Title 2 Code of Federal Regulations Part 225 and Caltrans Local Assistance Procedures Manual Chapter 5.

Based on the audit, the SCO determined there were unallowable, under-allocated, and over-allocated indirect costs. The audited rate is as follows:

Applicable To	Fiscal Year	Proposed Rate	Audited Rate*
Engineering Division	2014/15	65.53%	64.02%

**\*Base: Direct Salaries and Wages Plus Fringe Benefits**

The County must reconcile their FY 2014/15 billings using the audited rate of 64.02 percent and reimburse Caltrans for any over payments. Please provide our office with a corrective action plan, including time lines, by April 5, 2019.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at [luisa.ruvalcaba@dot.ca.gov](mailto:luisa.ruvalcaba@dot.ca.gov).

c:

Trisha Tillotson, Director, Department of Public Works, County of Nevada  
Rodney Whitfield, Director, Financial Services, Federal Highway Administration  
Veneshia Smith, Finance Manager, Financial Services, Federal Highway Administration  
Eraina Ortega, Inspector General, Independent Office of Audits and Investigations, Caltrans  
William Lewis, Assistant Director, Independent Office of Audits and Investigations, Caltrans  
Amarjeet Benipal, Director, District 3, Caltrans  
Gary Cathey, Local Assistance Deputy District Director, District 3, Caltrans  
David Giongco, District Local Assistance Engineer, District 3, Caltrans  
Angel Pyle, Assistant Division Chief, Division of Rail and Mass Transportation, Caltrans  
Ezequiel Castro, Chief, Capital South Branch, Division of Rail and Mass Transportation,  
Caltrans  
James Ogbonna, Branch Chief, Rural Transit Programs and Intercity Rail, Division of Rail  
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Lisa Gore, Associated Accounting Analyst, Division of Accounting, Caltrans  
Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits  
and Investigations, Caltrans  
P1594-0046

**NEVADA COUNTY  
DEPARTMENT OF PUBLIC WORKS  
ENGINEERING DIVISION**

Reissued Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF  
CALTRANS CONTRACT NO. 77A0044  
(Audit Request No. P1594-0046)**

*July 1, 2014, through June 30, 2015*



**BETTY T. YEE**  
California State Controller

January 2019



**BETTY T. YEE**  
California State Controller

January 7, 2019

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 Nevada County's Department of Public Works, Engineering Division. The audit period was fiscal year (FY) 2014-15. 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 225 (2 CFR 225), and the Caltrans Local Assistance Procedures Manual, Chapter 5. The purpose of the audit also was to determine whether the county had procurement policies and procedures that were in compliance with Title 49, *Code of Federal Regulations*, Part 18.36 (49 CFR 18.36).

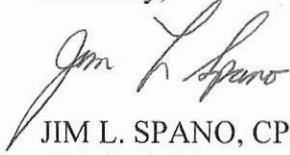
The county proposed a rate of 65.53% for FY 2014-15. However, our audit identified unallowable, under-allocated, and over-allocated indirect costs, as reported in the Findings and Recommendations section of this audit report. The adjustments to the proposed rate as a result of the findings result in a rate of 64.02%, a difference of 1.51%.

We found that the county included unallowable fixed asset as indirect costs. In addition, the documentation provided for five allocated indirect costs tested did not agree with the county's own allocation methodology.

This report is a reissuance of the April 11, 2018 final audit report; it corrects the reported procurement policies and procedures compliance criteria from 2 CFR 225 to 49 CFR 18.36. The correction has no impact on the results of the audit.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Jim L. Spano". The signature is written in a cursive style with a large initial "J".

JIM L. SPANO, CPA  
Chief, Division of Audits

JVB/ljs

cc: Tami Gill, Audit Manager (via email)  
External Audits – Local Governments  
Audits and Investigations

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# Reissued Audit Report

## Summary

The State Controller's Office (SCO) audited the indirect cost rate proposal (ICRP) of Nevada County's Department of Public Works, Engineering Division. The audit period was fiscal year (FY) 2014-15.

The purpose of the audit was to determine whether the ICRP was presented in accordance with Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), and the California Department of Transportation's (Caltrans) *Local Assistance Procedure Manual* (LAPM), Chapter 5. The purpose of the audit also was to determine whether the county had procurement policies and procedures that were in compliance with Title 49, *Code of Federal Regulations*, Part 18.36 (49 CFR 18.36).

The county proposed a rate of 65.53% for FY 2014-15. However, our audit identified unallowable, under-allocated, and over-allocated indirect costs, as reported in the Findings and Recommendations section of this audit report. The adjustments to the proposed rate as a result of the findings result in a rate of 64.02%, a difference of 1.51% (refer to the Schedule).

We found that the county included unallowable fixed asset as indirect costs. In addition, the documentation provided for five allocated indirect costs tested did not agree with the county's own allocation methodology.

## Background

Nevada County, located in the Sierra Nevada mountain range in North-Eastern California, has a population of approximately 98,800 and a total area of 974 square miles. Nevada City is the county's seat. The services provided by the county are overseen by seven departments, one of which is the Department of Public Works. The Department of Public Works, in turn, includes six divisions. One of the six divisions is the Engineering Division, which provides a variety of technical, support, and planning services, including project design, inspection, contract preparation, traffic analysis, special districts, encroachment permits, and reviews/inspections within the county.

We performed the audit at the request of Caltrans (Audit Request No. P1594-0046). 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 225, 49 CFR 18.36, 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 225;
- 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 the 49 CFR 18.36.

The ICRP audit period was July 1, 2014, through June 30, 2015, for the county's Engineering Division. The proposed rate was 65.53%. 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 2005-06 through FY 2007-08 for findings related to the objectives of the audit;
- Reviewed the single audit report issued by Gallina 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;
- Assessed the internal control system related to the ICRP for FY 2014-15, based on the results of the review of written procedures and policies, internal control interviews, and test of controls;
- Tested the costs and financial accounting systems to ensure the systems can identify projects, activities related to projects, direct costs, and indirect costs, as indicated by the county written policies and procedures and internal control interviews;
- Judgmentally selected a non-statistical sample of direct and indirect costs reported in the ICRP and performed limited test of controls to confirm and validate documented processes and procedures are function as designed. We tested the same sampled costs to determine whether the amounts claimed are adequately supported and in compliance with 2 CFR 225:
  - Salaries and Fringe Benefits –  
Sampled \$78,757 from a population of \$761,212.
  - Non-Salary Related Indirect Costs –  
Sampled \$329,875 from a population of \$379,184.

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

- 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's invoices to Caltrans for approved projects are in compliance with Chapter 5 of the Caltrans LAPM.

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 Nevada 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**

Based on the results of the procedures performed, we determined that:

- The ICRP included costs that did not comply with the cost principles prescribed in 2 CFR 225. The county proposed a rate of 65.53% for FY 2014-15. However, our audit identified unallowable, under-allocated, and over-allocated indirect costs. The adjustments to the proposed rate as a result of the findings result in a rate of 64.02%, a difference of 1.51%.

The county included unallowable fixed asset as indirect costs. In addition, the documentation provided for five allocated indirect costs tested did not agree with the county's own allocation methodology;

- The county's ICRP was prepared in compliance with 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 49 CFR 18.36.

## **Follow-up on Prior Audit Findings**

We last performed an audit of the county's proposed ICRPs for FY 2005-06, FY 2006-07, and FY 2007-08. 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 an exit conference conducted by telephone on February 22, 2018. Daniel Chatigny, Chief Financial Accounting Officer; Trisha Tillotson, Public Works Director; and Brian Rhodes, Senior Administrative Analyst, agreed with the audit results. Mr. Chatigny declined a draft audit report and agreed that we could issue the audit report as final.

We communicated with Brian Rhodes regarding this reissued report on August 27, 2018.

**Reason for  
Reissuance**

This report is a reissuance of the April 11, 2018 final audit report; it corrects the reported procurement policies and procedures compliance criteria from 2 CFR 225 to 49 CFR 18.36. This correction was made to the Summary; Background; Objectives, Scope, and Methodology; and Conclusion sections of the audit report. The correction has no impact on the results of the audit.

**Restricted Use**

This report is solely for the information and use of Nevada 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.



JIM L. SPANO, CPA  
Chief, Division of Audits

January 7, 2019

**Schedule—  
Schedule of Direct Costs, Indirect Costs,  
and Carry-Forward  
July 1, 2014, through June 30, 2015**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference <sup>1</sup>
<b>Direct costs:</b>				
Direct salaries	\$ 412,724	\$ 412,724	\$ -	
Direct fringe benefits	276,212	276,212	-	
<b>Total direct costs:</b>	<b>\$ 688,936</b>	<b>\$ 688,936</b>	<b>\$ -</b>	
<b>Indirect costs:</b>				
Indirect salaries	\$ 43,299	\$ 43,299	\$ -	
Indirect fringe benefits	28,977	28,977	-	
520200 Clothing & personal	187	187	-	
520310 Telephone service	3,360	3,360	-	
520690 Household expense-other	17	17	-	
520700 Insurance	14,130	12,915	(1,215)	Finding 1
520900 Maintenance-equipment	1,125	1,125	-	
521200 Memberships	280	280	-	
521410 Office expense-other	5,219	5,219	-	
521470 Computer software/licenses	4,930	4,930	-	
521475 Software maintenance	7,120	8,086	966	Finding 2
521480 Computers/computer-related equipment	305	305	-	
521490 Central services-postage	1,844	1,844	-	
521492 Central services-copiers	4,757	4,757	-	
521520 Professional	15,250	15,250	-	
521551 Interfund allocation-CDA admin	73,629	74,442	813	Finding 3
521551 Interfund allocation-CDA PW fiscal	60,509	60,509	-	
521553 PW Admin director	55,903	55,469	(434)	Finding 4
521553 PW Admin clerical	56,691	53,830	(2,861)	Finding 5
521553 PW Admin engineering membership	1,300	1,300	-	
521564 Interfund services-telephone/VM	2,939	2,939	-	
521565 Interfund services-IS	9,786	9,786	-	
521567 Interfund services-programmer	754	754	-	
521900 Small tools & instruments	69	69	-	
522271 Job proficiency training	586	586	-	
531160 Depreciation expense	-	426	426	Finding 6
538500 Cost plan services A-87 JRLS	50,381	50,381	-	
540420 Fixed assets-equipment purchase	8,113	-	(8,113)	Finding 6
<b>Subtotal indirect costs before carry-forward adjustment:</b>	<b>\$ 451,460</b>	<b>\$ 441,042</b>	<b>\$ (10,418)</b>	
Carry-forward from fiscal year 2012-13	-	-	-	
<b>Total indirect costs after carry-forward adjustment:</b>	<b>451,460</b>	<b>441,042</b>	<b>(10,418)</b>	
<b>Total indirect costs</b>	<b>451,460</b>	<b>441,042</b>		
<b>Total direct costs</b>	<b>\$ 688,936</b>	<b>\$ 688,936</b>		
<b>Indirect cost rate<sup>2</sup></b>	<b>65.53%</b>	<b>64.02%</b>	<b>-1.51%</b>	

<sup>1</sup> See Findings and Recommendations section.

<sup>2</sup> The indirect cost rate is calculated by dividing the total indirect costs by direct costs.

# Findings and Recommendations

## **FINDING 1— Over-allocated Insurance expenses**

The county over-allocated Insurance expenses by \$1,215 because its controls failed to ensure that the county followed its own allocation methodology. The county indicated that its methodology for allocating Insurance expenses to departments was based on each department's employee salaries, in addition to other weighting factors and losses over the past five years. The amount allocated to the Engineering and Road Maintenance Divisions was \$75,966.

The county indicated that its methodology for allocating the \$75,966 between the two divisions was based on each of the division's adopted budgets. The adopted budgets were \$1,240,670 and \$6,056,562 (totaling \$7,297,232), respectively, for the Engineering and Road Maintenance Divisions. Therefore, the Engineering Division's adopted budget represented 17% of the total. However, the county allocated \$14,130, or 18.6%, to the Engineering Division of the \$75,966 allocated to the two divisions. The amount of Insurance expense over-allocated to the Engineering Division equals \$1,215.

2 CFR 225, Appendix E, section D.1.a. states:

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

2 CFR 225, Appendix A, section C.1. states, in part:

To be allowable under Federal awards, costs must meet the following general criteria....

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit....
- j. Be adequately documented.

### Recommendation

We recommend that the county:

- Comply with 2 CFR 225 by ensuring that it follows its own allocation methodology and maintains adequate documentation to support the costs allocated and reported in the ICRP; and
- Revise and resubmit the ICRP for the affected year.

## **FINDING 2— Under-allocated Software Maintenance expense**

The county under-allocated Software Maintenance expenses in the ICRP by \$966 because its controls failed to ensure that the county followed its own allocation methodology. The county indicated that its methodology for allocating Software Maintenance expenses was to allocate one-third, or 33%, to each of the following three divisions: the Roads Maintenance Division; the Engineering Division; and the Fleet Division.

The total amount of Software Maintenance expense allocated to the three divisions amounted to \$24,505. One-third of the \$24,505 equals approximately \$8,168. The county allocated only \$7,120 to the Engineering Division. Therefore, the county under-allocated Software Maintenance expenses to the Engineering Division by \$966.

2 CFR 225, Appendix E, section D.1.a. states:

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

2 CFR 225, Appendix A, section C.1. states, in part:

To be allowable under Federal awards, costs must meet the following general criteria....

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit....
- j. Be adequately documented.

#### Recommendation

We recommend that the county:

- Comply with 2 CFR 225 by ensuring that it follows its own allocation methodology and maintains adequate documentation to support the costs allocated and reported in the ICRP; and
- Revise and resubmit the ICRP for the affected year.

#### **FINDING 3— Under-allocated Interfund Allocation – CDA Admin expense**

The county under-allocated Interfund Allocation – CDA Admin expense by \$813 because its controls failed to ensure that the county followed its own allocation methodology. The county indicated that its methodology for allocating Interfund Allocation – CDA Admin expenses to departments was based on hours the Community Development Agency Administration worked on activities related to each department. The amount allocated to the Roads Department (consisting of the Engineering and Road Maintenance Divisions) was \$335,105.

The county indicated that its methodology for allocating the \$335,105 between the two divisions was based on each of the division's adopted budgets. The adopted budgets were \$1,240,670 and \$6,056,562 (totaling \$7,297,232), respectively, for the Engineering and Road Maintenance Divisions. Therefore, the Engineering Division's adopted budget represented 17% of the total. However, the county allocated \$56,154, or 16.76%, to the Engineering Division of the \$335,105 allocated to the two divisions. The amount of Interfund Allocation – CDA Admin expense under-allocated to the Engineering Division equals \$813.

2 CFR 225, Appendix E, section D.1.a. states:

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

2 CFR 225, Appendix A, section C.1. states, in part:

To be allowable under Federal awards, costs must meet the following general criteria....

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit....

j. Be adequately documented.

Recommendation

We recommend that the county:

- Comply with 2 CFR 225 by ensuring that it follows its own allocation methodology and maintains adequate documentation to support the costs allocated and reported in the ICRP; and
- Revise and resubmit the ICRP for the affected year.

**FINDING 4—  
Over-allocated PW  
Admin Director  
expenses**

The county over-allocated PW Admin Director expenses by \$434 because its controls failed to ensure that the county followed its own allocation methodology. The county indicated that its methodology for allocating PW Admin Director expenses was based on hours the Director worked on activities related to each department. The amount allocated to the Roads Department (consisting of the Engineering and Road Maintenance Divisions) was \$110,938.

The county indicated that its methodology for allocating the \$110,938 charged to the Roads Department was to divide the total evenly between the two divisions, resulting in \$55,469 to each division. However, the county allocated \$55,903, or 50.39%, to the Engineering Division. The amount of PW Admin Director expense over-allocated to the Engineering Division equals \$434.

2 CFR 225, Appendix E, section D.1.a. states:

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

2 CFR 225, Appendix A, section C.1. states, in part:

To be allowable under Federal awards, costs must meet the following general criteria....

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit....
- j. Be adequately documented.

Recommendation

We recommend that the county:

- Comply with 2 CFR 225 by ensuring it follows its own allocation methodology and maintains adequate documentation to support the costs allocated and reported in the ICRP; and
- Revise and resubmit the ICRP for the affected year.

**FINDING 5—  
Over-allocated PW  
Admin Clerical  
expense**

The county over-allocated PW Admin Clerical expenses by \$2,861 because its controls failed to ensure that the county followed its own allocation methodology. The county indicated that its methodology for allocating PW Admin Clerical expenses was based on the hours two clerical staff members spent performing activities that supported the Engineering Division multiplied by the staff members' regular labor rate. Based on the documentation provided, the two clerical staff members reported a combined 1,470 hours to the Engineering Division, with a combined regular labor charge of \$53,829. However, the county allocated \$56,690 to the Engineering Division. The amount of PW Admin Clerical expense over-allocated to the Engineering Division equals \$2,861.

2 CFR 225, Appendix E, section D.1.a. states:

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

2 CFR 225, Appendix A, section C.1. states, in part:

To be allowable under Federal awards, costs must meet the following general criteria....

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit....
- j. Be adequately documented.

Recommendation

We recommend that the county:

- Comply with 2 CFR 225 by ensuring that it follows its own allocation methodology and maintains adequate documentation to support the costs allocated and reported in the ICRP; and
- Revise and resubmit the ICRP for the affected year.



**FINDING 6—  
Unallowable Fixed  
Assets – equipment  
purchase expense.**

The county reported the entire cost of a depreciable asset as an indirect cost in the ICRP because it misinterpreted the specific requirements set forth in 2 CFR 225 regarding the inclusion of equipment purchases as indirect costs. The county reported \$8,113 for the purchase of a printer as an indirect cost instead of reporting the depreciable amount of the asset. We determined that the allowable amount of depreciation, for the purchase of the printer for the ICRP, was \$426. As a result, the Fixed Assets – equipment purchase account was overstated by \$8,113, and the Depreciation expense account was understated by \$426.

2 CFR 225, Appendix B, section 15.b.(5) states:

Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of the appendix, Depreciation and use allowance, for rules on the allowability of use allowances of depreciation on buildings, capital improvements, and equipment. Also, see section 37 of this appendix, Rental costs, concerning the allowability of rental costs for land, buildings, and equipment.

2 CFR 225, Appendix B, section 11 h. states:

Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.

Recommendation

We recommend that the county:

- Comply with 2 CFR 225 by ensuring that it follows the appropriate methodology of reporting depreciable assets as indirect costs; and
- Revise and resubmit the ICRP for the affected year.



**State Controller's Office  
Division of Audits  
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S17-CAP-0003R