

Memorandum

*Making Conservation
a California Way of Life.*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: June 10, 2019

File: P1594-0086

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

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – COUNTY OF SAN JOAQUIN, DEPARTMENT OF PUBLIC WORKS**

At the request of the Independent Office of Audits and Investigations, the State Controller's Office completed an audit of the County of San Joaquin, Department of Public Works' (County) Indirect Cost Rate Proposal (ICRP) for fiscal year 2016/17. The purpose of the audit was to determine whether the ICRP was presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 200 and Caltrans Local Assistance Procedures Manual Chapter 5. In addition, the audit was performed to determine whether the County had adequate accounting controls to properly manage federal- and state-funded projects, and whether the county's procurement policies and procedures were in compliance with 2 CFR 200. The complete audit report is attached.

The audit did not disclose any findings. No further action is required.

If you have any questions, contact Luisa Ruvalcaba, Audit Manager, at luisa.ruvalcaba@dot.ca.gov

Attachment

County of San Joaquin Audit

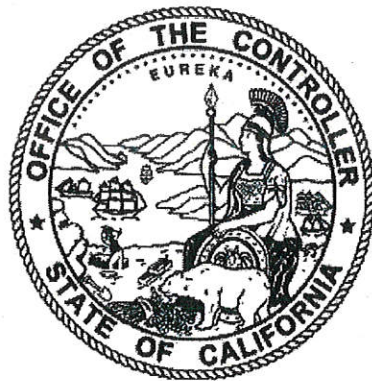
cc: Kris Balaji, Director, Public Works, San Joaquin County
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
William Lewis, Assistant Director, Independent Office of Audits and Investigations
Dennis Agar, District Director, District 10, California Department of Transportation
Ken Baxter, Deputy District Director, Planning and Local Assistance and Environment,
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Angel Pyle, Assistant Division Chief, Division of Rail and Mass Transportation, California
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Transportation
Jacqueline Manohar, Audits Coordinator, Division of Rail and Mass Transportation, California
Department of Transportation
Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of
Audits & Investigations
P1594-0086

**SAN JOAQUIN COUNTY
DEPARTMENT OF PUBLIC WORKS**

Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF
CALTRANS CONTRACT NO. 77A0044
(Audit Request No. P1594-0086)**

July 1, 2016, through June 30, 2017



BETTY T. YEE
California State Controller

May 2019



BETTY T. YEE
California State Controller

May 28, 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 San Joaquin County, Department of Public Works. The audit period included an ICRP for fiscal year (FY) 2016-17. 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, U.S. *Code of Federal Regulations* (CFR), Part 200, and the Caltrans *Local Assistance Procedures Manual*, Chapter 5. Our audit was also performed to determine whether the county has sufficient accounting controls to properly manage federal- and state-funded projects and whether the county's procurement policies and procedures were in compliance with 2 CFR 200.

The county submitted an ICRP for the Department of Public Works with a rate of 65.57% for FY 2016-17. Our audit found that the county's ICRP was in compliance with the cost principles prescribed in 2 CFR 200.

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

Sincerely,



JIM L. SPANO, CPA
Chief, Division of Audits

JLS/hf

cc: Luisa Ruvalcaba, Audit Manager (via email)
External Audits – Local Governments
Audits and Investigations
California Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposal (ICRP) of San Joaquin County, Department of Public Works. The audit period included an ICRP for fiscal year (FY) 2016-17.

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

Our audit was also performed to determine whether the county's accounting controls properly manage federal- and state-funded projects and whether the county's procurement policies and procedures were in compliance with 2 CFR 200.

The county submitted an ICRP for the Department of Public Works with a rate of 65.57% for FY 2016-17. Our audit found that the county's ICRP was in compliance with the cost principles prescribed in 2 CFR 200.

Background

The San Joaquin County, Department of Public Works plans, designs, constructs, operates, and maintains the public roads, bridges, water, wastewater systems, flood control, and solid waste systems of the county. The San Joaquin County, Department of Public Works is located in Stockton, California.

We performed the audit at the request of Caltrans (Audit Request No. P1594-0086). 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 the Caltrans LAPM, Chapter 5.

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 the Caltrans LAPM, Chapter 5;
- The county's accounting controls properly manage federal- and state-funded projects; and
- The county's procurement policies and procedures are in compliance with 2 CFR 200.

For the audit period of July 1, 2016, through June 30, 2017, the Department of Public Works submitted an ICRP with the proposed fixed rate of 65.57%.

To achieve our audit objectives, we:

- Reviewed the county's FY 2012-13 ICRP report, issued by the SCO, for findings related to the objectives of the audit;
- Reviewed the FY 2014-15 single audit report issued by Brown Armstrong, CPA, 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 related to timekeeping and payroll; procurement and billing processes; accounts payable; and accounts receivable;
- Assessed the internal control system related to the FY 2016-17 ICRP based on the review of written procedures and policies, internal control interviews, and walk-throughs;
- Based on our internal control assessment, designed a non-statistical sampling plan for direct and indirect costs reported in the ICRP;
- Judgmentally selected a non-statistical sample of direct and indirect costs reported in the ICRP, and performed a limited test of controls to confirm and validate that documented processes and procedures were functioning as designed. Tested the cost and financial accounting system to ensure that it 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. We also tested the same sampled costs to determine whether the amounts claimed were adequately supported and in compliance with 2 CFR 200:
 - Salaries and Fringe Benefits
 - Sample: \$202,154 for FY 2014-15
 - Population: \$6,251,202 for FY 2014-15
 - Non-Salary-Related Indirect Costs
 - Sample: \$42,378 for FY 2014-15
 - Population: \$364,186 for FY 2014-15

Fixed Rate for ICRP was based FY 2014-15 actuals

Errors found in the samples selected were not projected to the intended population¹;

- Determined whether payments to contractors were made in a timely manner and were billed to Caltrans subsequent to payment;
- Verified that the actual indirect costs recovered by the county were at the Caltrans approved indirect cost rate; and
- Verified that the county's invoices to Caltrans for approved projects are in compliance with the Caltrans LAPM, Chapter 5.

¹As these samples were not statistical, we made no assumption that errors would also be found in the transactions not sampled.

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 the 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 and accounting controls to determine the county's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

Our audit found that:

- The county's ICRP was in compliance with the cost principles prescribed in 2 CFR 200;
- The county's ICRP was prepared in compliance with the Caltrans LAPM, Chapter 5;
- The county's accounting controls properly managed federal- and state-funded projects; and
- The county's procurement policies and procedures were in compliance with 2 CFR 200.

Follow-up on Prior Audit Findings

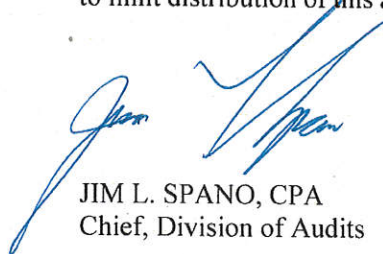
The last ICRP audit for FY 2016-17 included an audit finding. Based on the work performed in the current audit, we noted that the county has taken appropriate corrective actions in response to the audit finding.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted by telephone on April 16, 2019. Dionna Pancoast, Accounting Manager, and Adrienne Wang, Accountant III, agreed with the audit results. Ms. Pancoast 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 Joaquin 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 audit report, which is a matter of public record.



JIM L. SPANO, CPA
Chief, Division of Audits

May 28, 2019

**Schedule 1—
Summary of Proposed and Audited Rates
July 1, 2016, through June 30, 2017**

<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
2016-17	65.57%	65.57%	0.00%	Schedule 2

**Schedule 2—
Schedule of Direct Costs, Indirect Costs,
and Carry-Forward,
Fiscal Year 2016-17**

	Proposed Amount	Audited Amount
Direct costs:		
Salaries and wages	\$ 3,949,334	\$ 3,949,334
Fringe benefits	2,299,680	2,299,680
Total direct costs	\$ 6,249,014	\$ 6,249,014
Indirect costs:		
Indirect salaries and wages	\$ 592,937	\$ 592,937
Indirect fringe benefits	345,265	345,265
Office expense – general	382	382
Office supplies – purchasing ISF	7,972	7,972
Printing	3,313	3,313
General office supplies	566	566
Office expense – postage	3,816	3,816
Office expense – subscriptions & periodicals	4,529	4,529
Books – electronic media	6,403	6,403
Communications	47,280	47,280
Communication services – cell phones	6,000	6,000
Memberships	250	250
Membership – traffic	747	747
Maintenance – equipment	7,750	7,750
Maintenance – software	59,300	59,300
Rents & leases – equipment	-	-
Rents & leases – copying machine	8,472	8,472
Transportation & travel – general	2,000	2,000
Transportation & travel – training	14,618	14,618
Transportation & travel – motorpool	164,384	164,384
Professional services county	51	51
Professional & special services – engineering	-	-
Professional services – design engineering	5,422	5,422
Professional services – field engineering	-	-
Professional services – traffic engineering	144,969	144,969
Professional services – bridge engineering	-	-
Professional services – transportation planning	-	-
Publications and legal notices	244	244
Special departmental expenses	1,200	1,200
Licenses and permits	16,428	16,428
Engineering supplies	7,000	7,000
Employee training	2,735	2,735
Survey monuments	-	-
Software and related licenses	42,100	42,100
Miscellaneous expenses	484	484
Clothing and personal supplies	-	-
Household expenses	1,109	1,109
Bottled water – internal service fund	-	-
Utilities	1,250	1,250
Small tools and instruments	10,000	10,000
Small purchases – furnitures	-	-
Radio maintenance – internal service fund	-	-
Rent/leases – auto equipment ISF	-	-
Insurance – workers' compensation	19,983	19,983
Insurance – casualty	33,955	33,955
Equipment	-	-
Automation equipment	-	-
Cost reimbursements	-	-
Applied charges – equipment usage	(94,484)	(94,484)
Materials from Roads Maintenance Unit	6,161	6,161
Administration allocation	1,611,621	1,611,621
A-87 costs	244,864	244,864
Subtotal of indirect costs	\$ 3,331,075	\$ 3,331,075
Carry-forward amount from FY 2014-15	766,530	766,530
Total indirect costs with carry-forward amount	\$ 4,097,605	\$ 4,097,605
Total indirect costs	\$ 4,097,605	\$ 4,097,605
Total direct costs	\$ 6,249,014	\$ 6,249,014
Indirect cost rate	65.57%	65.57%

¹ Difference due to rounding