

Memorandum

*Making Conservation
a California Way of Life.*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: January 9, 2019

File: P1594-0049

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

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – SONOMA COUNTY, DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS, ROADS DIVISION**

At the request of the Independent Office of Audits and Investigations, the State Controller's Office (SCO) performed an audit of the Sonoma County, Department of Transportation and Department of Public Works, Roads Divisions' (City) Indirect Cost Rate Proposal (ICRP) for fiscal years (FY) 2014/15 and 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, and Caltrans Local Assistance Procedures Manual Chapter 5. The final audit report is attached.

Based on the audit, the SCO determined that the:

- 1) County's ICRP was compliant for FY2014/15.
- 2) County erroneously calculated labor costs in the indirect cost pool for FY2015/16.

The audited rates are as follows:

Applicable To	Fiscal Year	Proposed Rate	Audited Rate*
Roads Division	2014/15	52.10%	52.10%
Roads Division	2015/16	61.73%	59.92%

***Base: Total Direct Salaries and Wages plus benefits**

The County must reconcile their FY 2015/16 billings using the audited rate and reimburse Caltrans for any over payments. Please provide our office with a corrective action plan, including time lines, by March 11, 2019.

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

RIHUI ZHANG

January 9, 2017

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Attachment

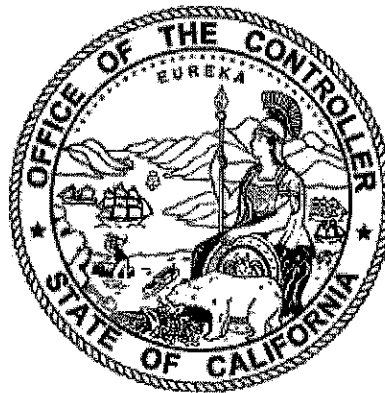
- c: Susan R. Klassen, Director, Sonoma County, Dept. of Transportation and Public Works
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
Eraina Ortega, Inspector General, Independent Office of Audits and Investigations, Caltrans
William E. Lewis, Assistant Director, Independent Office of Audits and Investigations,
Caltrans
Tony Tavaréz, District Director, District 4, Caltrans
Sylvia Fung, Supervising Transportation Engineer, Office of Local Assistance, Division of
Planning and Local Assistance, District 4, Caltrans
Chris Schmidt, Chief, Division of Transportation Planning, Caltrans
Kamal Sah, Chief, Office of Guidance and Oversight, Division of Local Assistance, Caltrans
Erin Thompson, Senior Transportation Planner, Regional and Interagency Planning, Division
of Transportation Planning, Caltrans
Lisa Gore, Associate Accounting Analyst, Division of Accounting, Caltrans
Paula Bersola, Associate Governmental Program Analyst, Office of Program Reviews and
Outreach, Division of Local Assistance, Caltrans
Office Chron
P1594-0049

**SONOMA COUNTY
DEPARTMENT OF TRANSPORTATION
AND PUBLIC WORKS
ROAD DIVISION**

Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF
CALTRANS CONTRACT NO. 77A0044
(Audit Request No. P1594-0049)**

July 1, 2014, through June 30, 2016



BETTY T. YEE
California State Controller

December 2018



BETTY T. YEE
California State Controller

December 28, 2018

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 proposals (ICRPs) of Sonoma County, Department of Transportation and Public Works, Road Division. The audit period included ICRPs for fiscal year (FY) 2014-15 and FY 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 ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 200 (2 CFR 200) and Part 225, and the Caltrans *Local Assistance Procedures Manual*, Chapter 5. Our audit was also performed to determine whether the county had a sufficient financial management system to properly manage federal- and state-funded projects, and whether the county had procurement policies and procedures that were in compliance with 2 CFR 200 and Title 49, *Code of Federal Regulations*, Part 18.36.

Our audit found that the county understated \$138,292 of direct salaries and fringe benefits, and overstated \$137,009 of indirect salaries and fringe benefits for FY 2015-16. The proposed rate was 61.73% and the audited rate was 59.92%, a difference of (1.81%) for FY 2015-16. The county was compliant for FY 2014-15.

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

Sincerely,

A handwritten signature in black ink that reads "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

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

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of Sonoma County, Department of Transportation and Public Works, Road Division. The audit period included ICRPs for fiscal year (FY) 2014-15 and FY 2015-16.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 200 (2 CFR 200) and Part 225 (2 CFR 225), and the California Department of Transportation's (Caltrans) *Local Assistance Procedure Manual* (LAPM), Chapter 5.

Our audit found that the county understated \$138,292 of direct salaries and fringe benefits, and overstated \$137,009 of indirect salaries and fringe benefits for FY 2015-16. The proposed rate was 61.73% and the audited rate was 59.92%, a difference of (1.81%) for FY 2015-16. The county was compliant for FY 2014-15.

Background

The county's Road Division proposed the indirect cost rates. The Road Division's responsibilities consist of pavement preservation, road maintenance, bridge retrofits, and traffic engineering. Sonoma County's website describes the Road Division's responsibilities as follows:

Pavement Preservation

The county's Pavement Preservation Program is an ongoing effort to improve the quality of county roads by administering large-scale pavement treatment projects. TPW uses a long-term, network-level management approach designed to utilize limited funding as efficiently as possible.

Road Maintenance

The county's Road Maintenance crews work every day to keep roads safe and passable. Maintenance of the county road system entails a vast array of work, including repair of damaged pavement, cleaning and repair of road signs, removal of roadside vegetation, repair of slip outs and landslides, as well as responding to public requests.

Bridge Retrofits

The Roads Division of the Department of Transportation & Public Works administers the engineering, construction, and maintenance of bridges on County roads.

Traffic Engineering

The engineering, construction, and maintenance of street lights, signs, traffic signals, pavement markings, and other devices used to regulate traffic and reduce danger on the road.

We performed the audit at the request of Caltrans (Audit Request No. P1594-0049). 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, Title 49, *Code of Federal Regulations*, Part 18.36 (49 CFR 18.36), and Caltrans LAPM, Chapter 5.

Objectives, Scope, and Methodology

We conducted the audit to determine whether:

- The county's ICRPs are in compliance with the cost principles prescribed in 2 CFR 200 and 2 CFR 225;
- The county's ICRPs are in compliance with the requirements for ICRP preparation and application identified in the Caltrans LAPM, Chapter 5;
- 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 and 49 CFR 18.36.

The audit period is July 1, 2014, through June 30, 2016.

To achieve our audit objectives, we:

- Reviewed the county's prior ICRP report issued by the SCO for FY 2009-10 through FY 2010-11 for findings related to the objectives of the audit;
- Reviewed the single audit report issued by Vavrinek, Trine, Day & Co., LLP for FY 2014-15 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 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 that documented processes and procedures are functioning as designed:
 - Salaries and Fringe Benefits
 - Sample: nine transactions, totaling \$70,750 for FY 2014-15;
 - Population: 859 transactions, totaling \$14,865,433 for FY 2014-15;
 - Sample: eight transactions, totaling \$143,613 for FY 2015-16; and
 - Population: 1,730 transactions, totaling \$15,664,945 for FY 2015-16.

- Non-Salary Related Indirect Costs
 - Sample: 20 transactions, totaling \$1,078,151 for FY 2014-15;
 - Population: 4,822 transactions, totaling \$3,993,252 for FY 2014-15;
 - Sample: 12 transactions, totaling \$1,121,161 for FY 2015-16; and
 - Population: 7,465 transactions, totaling \$4,000,457 for FY 2015-16.
- Tested the costs and financial accounting system to ensure that the system 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 ICRPs for FY 2014-15 and FY 2015-16, based on the results of the review of written procedures and policies, and internal control interviews;
- Based on our internal control assessment, designed a non-statistical sampling plan for direct and indirect costs reports in the ICRP;
- Judgmentally selected a non-statistical sample of direct and indirect salaries and fringe benefits reported in the ICRPs to determine whether the amounts claimed are adequately supported in compliance with 2 CFR 200 and 2 CFR 225:
 - Salaries and Fringe Benefits
 - Sample: nine transactions, totaling \$70,750 for FY 2014-15;
 - Population: 859 transactions, totaling \$14,865,433 for FY 2014-15;
 - Sample: eight transactions, totaling \$143,613 for FY 2015-16; and
 - Population: 1,730 transactions, totaling \$15,664,945 for FY 2015-16.

Errors found in the samples selected were not projected to the intended (total) population;

- Judgmentally selected a non-statistical sample of non-salary-related indirect costs reported in the ICRPs to determine whether the amounts claimed are adequately supported and in compliance with 2 CFR 200 and 2 CFR 225:
 - Non-Salary-Related Indirect Costs
 - Sample: 20 transactions, totaling \$1,078,151 for FY 2014-15;
 - Population: 4,822 transactions, totaling \$3,993,252 for FY 2014-15;
 - Sample: 12 transactions, totaling \$1,121,161 for FY 2015-16; and
 - Population: 7,465 transactions, totaling \$4,000,457 for FY 2015-16.

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 at the Caltrans-approved indirect cost rate; and
- Verified whether the county's invoices to Caltrans for approved projects are in compliance with the Caltrans LAPM, Chapter 5.

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 an understanding of the transaction flow, the financial management accounting system, and limited test of control regarding 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 not in compliance with the cost principles prescribed in 2 CFR 200 for FY 2015-16, but was in compliance with 2 CFR 225 for FY 2014-15. The county erroneously understated direct salaries and fringe benefits in the amount of \$138,292, and overstated indirect salaries and fringe benefits by \$137,009 for FY 2015-16. The proposed rate was 61.73% and the audited rate was 59.92%, a difference of (1.81%);
- The county's ICRP was prepared in compliance with the Caltrans LAPM, Chapter 5;
- The county has a sufficient financial management accounting system to properly manage federal- and state-funded projects; and
- The county's procurement policies and procedures are in compliance with 2 CFR 200 and 49 CFR 18.36.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted with Dawn Flowers, Accountant II; and Monique Chapman, Administrative Services Officer II. They agreed with the audit results. Ms. Flowers 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 Sonoma 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.

A handwritten signature in black ink that reads "Jeffrey V. Brownfield". The signature is written in a cursive, flowing style.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 28, 2018

**Schedule 1—
Summary of Proposed and Audited Rates
July 1, 2014, 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	2014-15	52.10%	52.10%	0.00%	Schedule 2
Road	2015-16	61.73%	59.92%	-1.81%	Schedule 3

**Schedule 2—
Summary of Direct Costs and Indirect Costs
Fiscal Year 2014-15**

	Proposed Amount*	Audited Amount*
Direct costs:		
Direct salaries	\$ 7,807,702	\$ 7,807,702
Direct fringe benefits	4,591,510	4,591,510
Total direct costs	\$ 12,399,212	\$ 12,399,212
Indirect costs:		
Indirect salaries	\$ 1,577,737	\$ 1,577,737
Indirect fringe benefits	896,203	896,203
Add reconciling salaries and fringe benefits variance	(7,719)	(7,719)
Communications	-	-
Waste disposal	16,089	16,089
Janitorial service	12,823	12,823
Liability insurance	866,398	866,398
Maintenance-equipment	41,243	41,243
Maintenance-buildings or IMP	57,386	57,386
Landscape services	-	-
Maintenance-infrastructure	1,946	1,946
Advertising	13,115	13,115
Client services	246,129	246,129
Legal services	158,633	158,633
Agency extra help	23,335	23,335
Lab services	3,096	3,096
Training services	14,012	14,012
Consulting	155,581	155,581
Hazardous waste disposal	12,384	12,384
Security service	2,333	2,333
Construction services	-	-
Permit, license, fees	5,822	5,822
Pre-employment screen	5,161	5,161
Other professional service	52,218	52,218
Publication-notices	7,182	7,182
Rents-leases equipment	57,151	57,151
Rents-heavy equipment ISF	156,326	156,326
Rents-leases building and land	1,132	1,132
Training-conference expense	18,367	18,367
Business-travel and mileage	8,509	8,509
Private car expense	10,820	10,820
Other services	-	-
Other contract services	5,619	5,619
Telephone-data lines	57,704	57,704
Telephone-usage	56,223	56,223
Telephone-installation	686	686
ISD-baseline	287,714	287,714
ISD -S&P projects	22,878	22,878
ISD tech service project	23,730	23,730
ISD device mod program	5,186	5,186
Cell phone services	25,299	25,299
Courier services	2,566	2,566

Schedule 2 (continued)

	Proposed Amount*	Audited Amount*
Indirect costs (continued):		
Mail services	2,531	2,531
Records services	141	141
ISD business services	14,936	14,936
HRMS costs	75,062	75,062
EFS costs	38,522	38,522
Risk management benefit administration	31,044	31,044
County car expense	86,422	86,422
Unclaimable county car	-	-
A87 costs	782,284	782,284
Unclaimable HRMS	-	-
Clothing	23,114	23,114
Food	308	308
Fuel, gas, oil	9,584	9,584
Materials and supplies	177	177
Lab supplies	(2,222)	(2,222)
Memberships and certifications	6,472	6,472
Other supplies	42,700	42,700
Office supplies	89,278	89,278
Office, furniture, and fixture	13,452	13,452
Books and subscriptions	2,461	2,461
Mail and postages supply	1,997	1,997
Small tools	47,589	47,589
Computer equipment	3,653	3,653
Software license	64,238	64,238
Special department-RSI	137,255	137,255
Personnel costs	-	-
Road materials	6,888	6,888
Utilities expense	58,797	58,797
Interest expense	5	5
Contributions	-	-
Mobile equipment	711	711
CIP infrastructure	-	-
CIP infra land	-	-
CIP infra labor	-	-
CIP infra consultants	-	-
WIP-intangibles	-	-
Transfers-btw government funds	-	-
Transfers-all others	-	-
Reimbursements-general	-	-
Reimbursements-administration	-	-
Reimbursements-maintenance	-	-
Field equipment	4,494	4,494
Laboratory equipment	2,135	2,135
Intangible assets	14,425	14,425
Total indirect costs	<u>\$ 6,459,470</u>	<u>\$ 6,459,470</u>
Total indirect costs	\$ 6,459,470	\$ 6,459,470
Total direct costs	<u>\$ 12,399,212</u>	<u>\$ 12,399,212</u>
Indirect cost rate ¹	<u>52.10%</u>	<u>52.10%</u>

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

* Difference due to rounding.

Schedule 3— Summary of Direct Costs and Indirect Costs Fiscal Year 2015-16

	Proposed Amount*	Audited Amount*	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries	\$ 7,647,064	\$ 7,734,036	\$ 86,972	Finding
Direct fringe benefits	4,512,321	4,563,641	51,320	Finding
Total direct costs:	\$ 12,159,384	\$ 12,297,676	\$ 138,292	
Indirect costs:				
Indirect salaries	\$ 2,183,181	\$ 2,097,855	\$ (85,326)	Finding
Indirect fringe benefits	1,255,421	1,206,355	(49,066)	Finding
Add reconciling salaries and fringe benefits variance	66,959	64,342	(2,617)	Finding
Waste disposal	32,089	32,089	-	
Janitorial service	17,094	17,094	-	
Liability insurance	590,924	590,924	-	
Maintenance-equipment	40,396	40,396	-	
Maintenance-building	13,424	13,424	-	
Landscape services	-	-	-	
Maintenance-infrastructure	5,285	5,285	-	
Advertising	16,021	16,021	-	
Client services	306,557	306,557	-	
Legal services	86,737	86,737	-	
Engineer services	22,062	22,062	-	
Agency extra help	10,199	10,199	-	
Lab services	3,000	3,000	-	
Consulting	190,791	190,791	-	
Hazardous waste disposal	-	-	-	
Security service	3,390	3,390	-	
Construction services	-	-	-	
Outside printing and binding	251	251	-	
Permit license fees	12,123	12,123	-	
Pre-employment screen	1,709	1,709	-	
Other professional service	2,409	2,409	-	
Publication-notices	389	389	-	
Rents-leases equipment	29,806	29,806	-	
Rents-heavy equipment	123,043	123,043	-	
Training-conference expense	79,397	79,397	-	
Business travel mileage	3,633	3,633	-	
Private car expense	7,499	7,499	-	
Other services	-	-	-	
Other contract services	7,792	7,792	-	
Telephone-data lines	46,079	46,079	-	
Telephone-usage	120,527	120,527	-	
Telecommunication installation	2,267	2,267	-	
ISD-baseline	360,771	360,771	-	
ISD-S&P projects	33,152	33,152	-	
ISD- tech service projects	13,122	13,122	-	
ISD device mod program	111,273	111,273	-	
Cell phone services	28,659	28,659	-	
Courier services	2,652	2,652	-	
Mail services	1,947	1,947	-	
Records services	55	55	-	
ISD business services	10,590	10,590	-	
HRMS costs	91,742	91,742	-	
EFS costs	216,010	216,010	-	
Risk management benefit administration	33,002	33,002	-	
County car expense	37,236	37,236	-	
Unclaimable county car	-	-	-	

Schedule 3 (continued)

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Indirect costs (continued):				
A87 costs-cost plan	791,453	791,453	-	
Unclaimable HRMS	-	-	-	
Unclaimable EFS	-	-	-	
Clothing	24,714	24,714	-	
Food	329	329	-	
Safety supplies or equipment	(2)	(2)	-	
Fuel, gas and oil	11,164	11,164	-	
Materials-supplies	6,360	6,360	-	
Lab supplies	(7,436)	(7,436)	-	
Memberships-certifications	9,303	9,303	-	
Other supplies	99,271	99,271	-	
Office supplies	45,723	45,723	-	
Office-furniture fixture	12,097	12,097	-	
Books-subscriptions	4,679	4,679	-	
Mail-postage supply	1,166	1,166	-	
Small tools	121,692	121,692	-	
Computer equipment	706	706	-	
Software license	67,188	67,188	-	
Special department-RSI	24,719	24,719	-	
Personnel costs	-	-	-	
Road materials	884	884	-	
Utilities expense	49,234	49,234	-	
Contributions	-	-	-	
Other charges-personal	-	-	-	
Machinery and equipment	123	123	-	
Mobile equipment	2,132	2,132	-	
CIP infrastructure	-	-	-	
CIP infra land	-	-	-	
CIP infra labor	-	-	-	
CIP infra consultants	-	-	-	
WIP-intangibles	-	-	-	
Intangible non-amortizable	-	-	-	
Transfers-btw government funds	-	-	-	
Transfers-all others	-	-	-	
Reimbursements-general	-	-	-	
Reimbursements-admin	-	-	-	
Reimbursements- Maintenance	-	-	-	
Field equipment	3,296	3,296	-	
Laboratory equipment	2,135	2,135	-	
Intangible assets	14,425	14,425	-	
Total indirect costs:	<u>\$ 7,506,019</u>	<u>\$ 7,369,009</u>	<u>\$ (137,009)</u>	
Total indirect costs	\$ 7,506,019	\$ 7,369,009	\$ (137,009)	
Total direct costs	<u>\$ 12,159,384</u>	<u>\$ 12,297,676</u>	<u>\$ 138,292</u>	
Indirect cost rate ²	<u>61.73%</u>	<u>59.92%</u>	<u>-1.81%</u>	

¹ See the Finding and Recommendation section.

² The indirect cost rate is calculated by dividing the total indirect costs by direct costs.

* Difference due to rounding.

Finding and Recommendation

**FINDING—
Direct salaries and
fringe benefits
erroneously
categorized as
indirect salaries and
fringe benefits**

For FY 2015-16, the county erroneously categorized \$138,292 of direct salaries and fringe benefits as \$137,009 of indirect salaries and fringe benefits. The difference is due to the variance calculation created by the county's accounting system. The erroneous charges were related to U31 activities. These activities are tasks described in the county's financial records as Traffic Section Administration, Traffic Volume File, and Highway Operations Services. These charges were included in "T" projects, which are investigation activities that should be direct charges. The county did not appropriately identify these charges as direct, and included them in indirect salaries. The error resulted in overstated indirect salaries and fringe benefits and understated direct salaries and fringe benefits.

2 CFR 200.403(d) states that costs must:

Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

The proposed rate was 61.73% and the audited rate was 59.92%, a difference of 1.81%.

Recommendation

We recommend that the county:

- Review the details of indirect salaries in its ICRP prior to submitting it to Caltrans; and
- Resubmit the ICRP to Caltrans for the affected fiscal year.

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

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