

Memorandum

*Making Conservation
a California Way of Life.*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: May 17, 2019

File: P1594-0039

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

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – COUNTY OF TULARE, DEPARTMENT OF PUBLIC WORKS, RESOURCE MANAGEMENT AGENCY**

At the request of the Independent Office of Audits and Investigations, the State Controller's Office (SCO) completed an audit of the County of Tulare, Department of Public Works, Resource Management Agency's (County) Indirect Cost Rate Proposal (ICRP) for fiscal year 2015/16. 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 (LAPM) Chapter 5. In addition, the audit was performed to determine whether the County has an adequate financial management system, which includes procurement, in accordance with 2 CFR 200 and LAPM Chapter 10. The complete audit report is attached.

Based on the audit, the SCO determined the ICRP was in compliance with 2 CFR 200, however, the County's procurement policies and procedures were not in compliance with 2 CFR 200 and Caltrans LAPM Chapter 10. The County failed to retain documentation to support that Consultant Selection Committee member met conflict-of-interest requirements.

Please provide our office with a corrective action plan, including time lines, by July 18, 2019.

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

Attachment

County of Tulare Audit

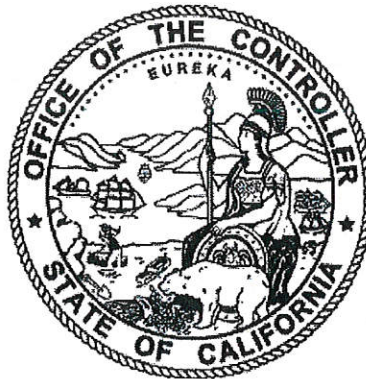
cc: Reed Schenke, Director, Resource Management Agency, Tulare County
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
William Lewis, Assistant Director, Independent Office of Audits and Investigations
Sharri Bender Ehlert, District Director, District 6, Caltrans
Gail Miller, Deputy District Director, Planning, District 6, 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
Susie Beesley, Manager, Contract and Grant Compliance, Division of Rail and Mass
Transportation, Caltrans
Erin Thompson, Chief, Office of Regional Planning, Division of Transportation Planning,
Caltrans
Jacqueline Kahrs, Regional Coordination Branch Chief, Office of Regional Planning,
Division of Transportation Planning, Caltrans
Kamal Sah, Chief, Office of Guidance and Oversight, Division of Local Assistance,
Caltrans
Paula Bersola, Audit Coordinator, Division of Local Assistance, Caltrans
Lisa Gore, Associate Accounting Analyst, Division of Accounting, Caltrans
Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of
Audits & Investigations
P1594-0039

**TULARE COUNTY
RESOURCE MANAGEMENT AGENCY
DEPARTMENT OF PUBLIC WORKS**

Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF
CALTRANS CONTRACT NO. 77A0044
(Audit Request No. P1594-0039)**

July 1, 2015, through June 30, 2016



BETTY T. YEE
California State Controller

April 2019



BETTY T. YEE
California State Controller

April 23, 2019

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

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 (SCO) audited the indirect cost rate proposal (ICRP) of Tulare County (county), Resource Management Agency, Department of Public Works (DPW). The audit period was fiscal year (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 ICRP was presented in accordance with Title 2, *Code of Federal Regulations*, Part 200 (2 CFR 200), and the Caltrans *Local Assistance Procedures Manual* (LAPM), Chapter 5. In addition, our audit was 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 are in compliance with 2 CFR 200.

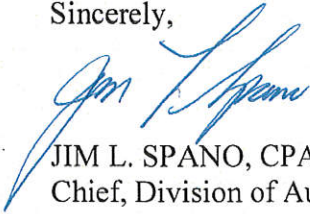
The county submitted an ICRP for the DPW rate of 41.82% for FY 2015-16.

Our audit found that the county's:

- ICRP is in compliance with the cost principles prescribed in 2 CFR 200;
- ICRP is in compliance with the requirements for ICRP preparation and application identified in the Caltrans LAPM, Chapter 5;
- Accounting controls are sufficient to properly manage federal- and state-funded projects; and
- Procurement policies and procedures are not in compliance with 2 CFR 200 because the county failed to maintain documentation required by the Caltrans LAPM, Chapter 10.

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 blue ink, appearing to read "Jim L. Spano".

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/hf

Attachment

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 Tulare County (county), Resource Management Agency, Department of Public Works (DPW). The audit period was 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 the California Department of Transportation's (Caltrans) *Local Assistance Procedure 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 are in compliance with 2 CFR 200.

The county submitted an ICRP for the DPW with rate of 41.82% for FY 2015-16.

Our audit found that the county's:

- ICRP is in compliance with the cost principles prescribed in 2 CFR 200;
- ICRP is in compliance with the requirements for ICRP preparation and application identified in the Caltrans LAPM, Chapter 5;
- Accounting controls are sufficient to properly manage federal- and state-funded projects; and
- Procurement policies and procedures are not in compliance with 2 CFR 200 because the county failed to maintain documentation required by the Caltrans LAPM, Chapter 10.

Background

The county's Resource Management Agency consists of three branches, one of which is the DPW. The DPW is responsible for a broad range of infrastructure projects within the county, including installing and maintaining signal lights, road signs, and road striping, and maintaining and improving nearly 3,000 miles of road.

The county receives funding from Caltrans to expend on specific projects that Caltrans approves. The county submitted a FY 2015-16 ICRP with a proposed rate of 41.82% to Caltrans, requesting approval to charge county costs that indirectly benefited projects approved and funded by Caltrans.

Caltrans approved the ICRP and requested that the SCO audit the county's FY 2015-16 ICRP with the specific objectives outlined in the Objectives, Scope, and Methodology section of this report.

We performed the audit at the request of Caltrans (Audit Request No. P1594-0039). The authority to conduct this audit is given by

Interagency Agreement No. 77A0044, dated June 1, 2014, between the SCO and Caltrans, which authorizes SCO to perform audits of proposed ICRPs submitted to Caltrans by 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.

The audit period was July 1, 2015, through June 30, 2016. The proposed rate was 41.82%. The rate type was a fixed-rate proposal.

To achieve our audit objectives, we:

- Reviewed the Road Fund Audit Report issued by the SCO for FY 2012-13 through FY 2014-15 for findings related to the objectives of the audit;
- Reviewed the single audit report issued by Brown Armstrong, Certified Public Accountant 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 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 controls related to the FY 2015-16 ICRP, based on the results of 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 systems to ensure that the 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

interview. 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: \$19,874
 - Population: \$8,698,190.
- Non-Salary Related Indirect Costs
 - Sample: \$572,279
 - Population: \$2,108,269.

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 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 were 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 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 is 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 manage federal- and state-funded projects; and
- The county's procurement policies and procedures are not in

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

compliance with 2 CFR 200. As reported in the Finding and Recommendation section of this report, the county failed to maintain completed conflict-of-interest forms for the Consultant Selection Committee, as required by the Caltrans LAPM, Chapter 10.

**Follow-up on
Prior Audit
Findings**

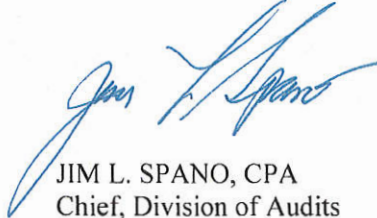
This was the first ICRP submitted by the county. There were no prior ICRP audits and, consequently, no prior audit findings.

**Views of
Responsible
Officials**

We issued a draft report on December 19, 2018. Sherman Dix, Assistant Resource Management Agency Director, responded by email on February 14, 2019, agreeing with the audit report.

Restricted Use

This report is solely for the information and use of the Tulare County, Caltrans, and 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

April 23, 2019

Schedule—
Summary of Direct Costs and Indirect Costs
July 1, 2015, through June 30, 2016

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries	\$ 4,972,161	\$ 4,972,161
Direct fringe benefits	2,647,885	2,647,885
Total direct costs:	<u>\$ 7,620,046</u>	<u>\$ 7,620,046</u>
Indirect costs:		
Indirect salaries	730,526	730,526
Indirect benefits	347,618	347,618
7005 Communications	3,792	3,792
7021 Maintenance - Equip	135	135
7027 Memberships	5,589	5,589
7036 Office Supplies	81,332	81,332
7043 Prof & Special	27,269	27,269
7059 Publications & Legal Notices	2,645	2,645
7065 Small Tools & Insurance	244	244
7066 Special Dept Expense	1,612	1,612
7073 Training	15,829	15,829
7074 Transportation & Travel	4,250	4,250
7075 Tuition Reimbursement	496	496
9307 Data Processing	269,888	269,888
9310 ADP PR/HR	31,865	31,865
9311 Bldg Maint Services	19,967	19,967
9312 Utilities Services	35,007	35,007
9313 Custodial Services	19,407	19,407
9314 Grounds Services	5,942	5,942
9316 Serv from Other Dept	7,967	7,967
9321 Print	1,221	1,221
9322 Mail	2,514	2,514
9323 Copier	1,670	1,670
9328 Phone Bill	21,535	21,535
9329 Charges from RMA Admin	1,389,432	1,389,432
9333 Serv from Other Dept	28,601	28,601
9334 Cowcap	79,811	79,811
9335 GIS	44,467	44,467
9336 Courier	4,147	4,147
9337 Property Mgmt	1,610	1,610
9342 Sheriff Engraving	25	25
Total indirect costs:	<u>\$ 3,186,414¹</u>	<u>\$ 3,186,414¹</u>
Total indirect costs	\$ 3,186,414 ¹	\$ 3,186,414 ¹
Total direct costs	7,620,046	7,620,046
Indirect cost rate ²	<u>41.82%</u>	<u>41.82%</u>

¹ Variance due to rounding.

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

Finding and Recommendation

**FINDING—
Procurement policies
and procedures not in
compliance with
2 CFR 200 and
Caltrans LAPM**

The county's procurement policies and procedures failed to ensure that all documentation required by Caltrans LAPM, Chapter 10 was retained. We reviewed documentation supporting the procurement process for one of the 29 projects within the engagement period. We noted that the county failed to retain documentation to support that Consultant Selection Committee members met the conflict-of-interest requirements contained in the Caltrans LAPM, Chapter 10.

2 CFR 200.333 states, in part:

Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.

Caltrans LAPM, Chapter 10, section 10.5 states, in part:

Local agency Contract Administrator ensures that all committee members meet the conflict of interest requirements (23 CFR 172) by completing and signing a conflict of interest statement prior to selection process initiation.

Recommendation

We recommend that the county implement procurement policies and procedures for federal-funded projects in accordance with 2 CFR 200 and the Caltrans LAPM Chapter 10 by ensuring that all Consultant Selection Committee members sign a conflict-of-interest form prior to initiating the selection process, and that supporting documentation is retained for the period of time required by 2 CFR 200.

