



Memorandum

To: RIHUI ZHANG
CHIEF
DIVISION OF LOCAL ASSISTANCE

Date: September 20, 2019

File: P1594-0103

From: MARSUE MORRILL, CPA *Marsue*
CHIEF
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS
P.O. BOX 942874, MS-2
PHONE (916) 323-7111
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<https://ig.dot.ca.gov>

Subject: **INDIRECT COST RATE PROPOSAL AUDIT - COUNTY OF HUMBOLDT, DEPARTMENT OF PUBLIC WORKS**

At the request of the Independent Office of Audits and Investigations, the Department of Finance, Office of Audits and Investigations (Finance) completed an audit of the County of Humboldt (County) Indirect Cost Rate Proposal (ICRP) for fiscal year (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, and the California Department of Transportation's Local Assistance Procedures Manual.

Based on the audit, Finance determined the County's 2015/16 ICRP is not in compliance with CFR 200 and the LAPM. Additionally, weaknesses were identified in the County's fiscal controls and ability to adequately segregate allowable and allocable ICRP costs. The audited rates are as follows:

| Division | Accepted Rate (a) | Audited Rate (b) | Rate Difference (a) - (b) |
|-------------------------------|-------------------|------------------|---------------------------|
| Roads-Administration/Business | 9.03% | 9.03% | 0.0% |
| Roads-Engineering | 50.33% | 48.82% | (1.51%) |
| Roads-Real Property | 169.03% | 97.74% | (71.29%) |
| Roads-Maintenance | 9.45% | 9.45% | 0.00% |
| Roads-Natural Resource | 137.05% | 45.41% | (91.64%) |

***Base: Total Direct Salaries and Wages plus Fringe Benefits**

Please provide our office with a corrective action plan, including time lines, by November 20, 2019.

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

Attachment

c: Thomas Mattson, Director, Public Works, Humboldt 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
Bob Franzoi, District Director, District 1, California Department of Transportation
Brad Mettam, Deputy District Director, Planning & Local Assistance, District I ,
California Department of Transportation
Angel Pyle, Assistant Division Chief, Division of Rail and Mass Transportation,
California Department of Transportation
Ezequiel Castro, Chief, Capital South Branch, Division of Rail and Mass
Transportation, California Department of Transportation
Susie Beesley, Manager, Contract and Grant Compliance, Division of Rail and
Mass Transportation, California Department of Transportation
Erin Thompson, Chief, Office of Regional Planning, Division of Transportation
Planning, California Department of Transportation
Jacqueline Kahrs, Regional Coordination Branch Chief, Office of Regional Planning,
Division of Transportation Planning, California Department of Transportation
Kamal Sah, Chief, Office of Guidance and Oversight, Division of Local
Assistance, California Department of Transportation
Paula Bersola, Audit Coordinator, Division of Local Assistance, California Department
of Transportation
Lisa Gore, Associate Accounting Analyst, Division of Accounting, California
Department of 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



County of Humboldt

Department of Public Works

Indirect Cost Rate Proposal

Fiscal Year 2015-16

Report No. 19-2660-037
September 2019

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Humberto E. Cervantes, Manager
Jeremy Cameron Jackson, CPA, Supervisor
Jonathan Cox, Lead
Jeffrey Neller
Amanda Voie

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

You can contact our office at:

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Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
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DEPARTMENT OF
FINANCE

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Transmitted via e-mail

September 6, 2019

Ms. MarSue Morrill, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Ms. Morrill:

**Final Report—County of Humboldt, Department of Public Works Indirect Cost Rate
Proposal Audit**

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the County of Humboldt Department of Public Works (County) Indirect Cost Rate Proposal (ICRP), P1594-0103, for fiscal year 2015-16.

The enclosed report is for your information and use. The County's response to the report findings is incorporated into this final report. The County agreed with our findings. We appreciate their assistance and cooperation during the engagement, and their willingness to implement corrective actions. This report will be placed on our website.

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

Sincerely,

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

cc: Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of
Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The California Department of Transportation's (Caltrans) Local Assistance Program oversees more than \$1 billion dollars annually available to over 600 cities, counties, and regional agencies for the purpose of improving their transportation infrastructure or providing transportation services. This funding comes from various Federal and State programs specifically designed to assist the transportation needs of local agencies.¹

The County of Humboldt, Department of Public Works, Roads Division (County), provides for the construction, maintenance, environmental oversight, and administration of county roads.²

At the discretion of local governmental agencies (LGA), indirect costs may be recovered when seeking reimbursement for federal-aid transportation projects and state funded projects. To recover indirect costs, LGAs submit an Indirect Cost Rate Proposal (ICRP), which may also include a fringe benefit rate, to Caltrans' 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' Local Assistance Procedures Manual Chapter 5 (LAPM).

The County submitted an ICRP for each of the following units within the Roads Division: Administration/Business, Engineering, Real Property, Maintenance, and Natural Resources.

SCOPE

At the request of IOAI, the California Department of Finance, Office of State Audits and Evaluations, audited the County's ICRPs for fiscal year 2015-16.

The audit objectives were to:

1. Determine if the 2015-16 ICRPs, including fringe benefit rates, were in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the proposed ICRP rate if unallowable costs are identified.

The 2015-16 ICRPs and fringe benefit rates include transactions related to actual costs incurred and billed to Caltrans in 2015-16.

The County has accepted fringe benefit rates for 2015-16. However, the County did not use the accepted fringe benefit rates to bill Caltrans. Accordingly, we did not audit the accepted fringe benefit rates. Instead, we audited the actual fringe benefits costs included in the indirect costs pool and direct cost base used by the County to determine the accepted ICRP rates.

¹ Caltrans, Division of Local Assistance website <http://www.dot.ca.gov/localassistance/index.html>.

² Excerpts obtained from the County of Humboldt, Department of Public Works fiscal year 2017-18 budget: <https://humboldtqgov.org/DocumentCenter/View/62125/Section-G---Public-Works>.

The County is responsible for preparing its ICRP 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 the County's operations, and identified relevant ICRP requirements by reviewing 2 CFR 200, the LAPM, and applicable County policies and procedures, and interviewing IOAI and County personnel.

We conducted a risk assessment, including evaluating whether key internal controls relevant to our audit objectives, such as reviews and approvals, reconciliations, knowledge of tasks, and separation of indirect and direct costs, were properly designed, implemented, and operating effectively. Our assessment included observing processes and testing transactions related to accounts payable, time keeping/payroll, billing, and ICRP preparation for effectiveness of existing documented processes and procedures. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of data from the County's project tracking system, Cost Accounting Management System (CAMS), and the County's financial management system, ONESolution. 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 and analyzing project codes. We determined the CAMS's labor costs data to be of undetermined reliability. While this determination may affect the precision of the labor costs, we were able to rely on the labor hours and project codes recorded in CAMS. This information, in conjunction with the total labor costs from ONESolution, will provide sufficient evidence to support our findings, conclusions, and recommendations.

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>Objective 1: Determine whether the 2015-16 ICRPs are in compliance with 2 CFR 200 and the LAPM.</p> | <ul style="list-style-type: none"> • Selected significant and high-risk cost categories to verify compliance with 2 CFR 200 and the LAPM. Specifically, costs were selected from direct and indirect salaries and wages, fringe benefits, and the indirect costs pool. <ul style="list-style-type: none"> ○ Selected items for direct and indirect salaries and wages was based on quantitative factors such as total hours charged; and qualitative factors such as the type (i.e., description) of costs. ○ The most quantitatively significant fringe benefits were selected for testing. ○ Selected items for indirect costs pool were based on quantitative factors, such as costs with a potential impact to the ICRP rate by 1 percent or greater; and qualitative factors such as the timing and type (i.e. description) of costs. • Determined if direct and indirect salaries and wages were allowable, supported, segregated, and allocated, by tracing amounts to accounting records, tracing hours to the CAMS project tracking system, recalculating rates, reviewing timesheets and payroll records, interviewing staff, and reviewing project and activity code descriptions in the CAMS project tracking system. • Determined if fringe benefits costs were allowable, supported, segregated, and allocated, by interviewing staff, tracing amounts to accounting records and payroll records, recalculating rates, and verifying fringe benefits were included in employee billable rates and not billed as a separate fringe benefit rate. • Determined if indirect costs pool were allowable, authorized, supported, segregated, and allocated, by interviewing staff, and reviewing invoices, agreements and contracts, allocation methodologies, budgets, general ledgers, journal postings, and other accounting records. • Verified the actual indirect costs recovered by the County were billed at the IOAI approved indirect cost rate by reviewing invoices, verifying support for direct labor hours, and recalculating the indirect cost billed to Caltrans. |
| <p>Objective 2: Recalculate the proposed ICRP rate if unallowable costs are identified.</p> | <ul style="list-style-type: none"> • Recalculated a proposed ICRP rate as a result of indirect costs pool audit adjustments greater than 1 percent. <ul style="list-style-type: none"> ○ Adjusted salary and wages, and fringe benefits costs for ineligible indirect costs and reclassified as direct costs. ○ Removed ineligible indirect costs from the indirect costs pool. |

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.

CONCLUSION

Based on procedures performed and evidence gathered, we determined the County's 2015-16 ICRP is not in compliance with 2 CFR 200 and the LAPM. We identified weaknesses in the County's ability to adequately segregate allowable and allocable ICRP costs resulting in unallowable costs impacting the 2015-16 ICRP rates as described in Finding 1. Additionally, we identified weaknesses in the County's fiscal controls, as noted in Finding 2. We recommend rate changes as identified in Table 1 below.

Table 1 – Summary of Accepted and Audited ICRP Rates for 2015-16³

| Division | Accepted Rate (a) | Audited Rate (b) | Rate Difference (a) – (b) |
|-------------------------------|-------------------|------------------|---------------------------|
| Roads-Administration/Business | 9.03% | 9.03% | 0.00% |
| Roads-Engineering | 50.33% | 48.82% | (1.51%) |
| Roads-Real Property | 169.03% | 97.74% | (71.29%) |
| Roads-Maintenance | 9.45% | 9.45% | 0.00% |
| Roads-Natural Resources | 137.05% | 45.41% | (91.64%) |

See Appendices A through E for the Summary of Accepted and Audited Costs and Rates for the ICRP.

FINDINGS AND RECOMMENDATIONS

Finding 1: Unallowable Costs Included in the Indirect Costs Pool

The County included unallowable costs totaling \$270,093 in the Engineering, Real Property, and Natural Resources divisions' indirect costs pools as illustrated in Table 2 below. As a result, the accepted rates are overstated and should be reduced as illustrated in Table 1.

Table 2 – Unallowable Indirect Costs Included in the Indirect Costs Pool

| Division | Salaries and Wages | Fringe Benefits | Labor Other Funds | Other | Total |
|-------------------------|--------------------|------------------|-------------------|-----------------|-------------------|
| Roads-Engineering | \$ 4,013 | \$ 1,836 | \$ 3,568 | \$ 0 | \$ 9,417 |
| Roads-Real Property | 55,078 | 26,908 | 58,405 | 0 | 140,391 |
| Roads-Natural Resources | 43,676 | 20,515 | 47,971 | 8,123 | 120,285 |
| Total | \$ 102,767 | \$ 49,259 | \$ 109,944 | \$ 8,123 | \$ 270,093 |

The County reviews labor costs, invoices, and journal postings, and classifies any transaction associated with a project code as a direct cost, and all remaining costs are included in the indirect costs pool. However, the County does not perform a comprehensive review to verify that costs are correctly classified as direct and indirect costs. The following unallowable costs were identified:

³ The ICRPs and Fringe Benefit Rates submitted by the County were accepted by IOAI on July 11, 2017.

- Direct costs of \$152,026, consisting of salaries and wages plus direct fringe benefits totaling \$102,767 and \$49,259 respectively, were incorrectly included in the indirect costs pools of the Engineering, Real Property, and Natural Resources divisions. These costs should have been included in the direct cost bases of the ICRP rate calculation. The County tracks its labor hours in the CAMS project management system and classifies activities with an assigned project code as direct labor. Activities that do not have a project code are classified as indirect labor. However, based on our review of indirect labor costs, the County incorrectly or inconsistently classified activity codes as indirect labor. See Table 3 for the questioned activity codes. These activities are identifiable to a specific cost objective and should have been classified as direct labor. Additionally, the County inconsistently classified similar activities as direct and indirect labor.

Table 3 – Questioned Indirect Activity Codes

| Division | Activity Code |
|--------------------------|---|
| Roads-Engineering | 0015-000210, 0015-000220, and 0015-000283 |
| Roads-Real Property | 0004-000410, 0004-000420, 0004-000425 0004-000430, 0004-000431, 0004-000510 0004-000600, 0004-000610, 0004-000612 0004-000614, 0004-000615, 0004-000617 0004-000619, 0004-000620, 0004-000625 0004-000630, and 0004-000640 |
| Roads- Natural Resources | 0009-000910 and 0009-000912 |

- Interagency labor costs totaling \$109,944 were incorrectly included in the indirect costs pool for the Engineering, Real Property, and Natural Resources divisions. These expenditures are classified as Labor Other Funds in the ICRP and are costs charged by one division to another division. Based on our review of the activity and project codes in CAMS, supporting reports, and interviews with staff, the labor expenditures should have been classified as direct costs, as the activities are identifiable to specific costs objectives. Additionally, the staff inconsistently recorded time as direct or indirect.
- Professional services totaling \$8,000 and special departmental costs totaling \$123 were incorrectly included in the Natural Resources' indirect costs pool. The \$8,000 was incurred as the County's cost share portion for a grant that was awarded by the California Department of Water Resources. The \$123 is an ongoing fee under an agreement with California Department of Fish and Wildlife for maintenance of a geographical site. These activities are identifiable to a specific cost objective and should have been classified as direct costs.

2 CFR 200.413 (a) states direct costs are costs that can be identified specifically with a particular final cost objective or, be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.

Recommendations:

- A. Adjust the 2015-16 actual indirect costs pools by \$270,093 for the unallowable costs and ensure these costs are not included in future indirect costs pools. (See Appendices B, C, and E for the specific adjustments for each division).
- B. Adjust the 2015-16 actual direct cost bases by \$152,026 and ensure these costs are included in future direct cost bases (See Appendices B, C, and E for the specific adjustments for each division).
- C. Review all indirect accounts to ensure costs are in compliance with 2 CFR 200 and properly segregated between direct, indirect, and unallowable costs.
- D. Reconcile the 2015-16 billings using the audited rates in Table 1 and reimburse Caltrans for any overpayments.

Finding 2: Strengthen Fiscal Controls Over Labor Expenditures

The County should strengthen its fiscal controls related to labor expenditures billed to Caltrans as noted below. Although the issues listed below were not significant to the 2015-16 ICRP rates, these control deficiencies increase the risk of over or under stating the ICRP rates and over or under billing direct labor in the future.

- The County does not reconcile labor costs (direct salaries and wages plus fringe benefits) between the County's financial management system, ONESolution, and their project tracking system, CAMS. As a result, the County could not explain the variances in total labor costs between ONESolution and CAMS. See Table 4 for the variances identified. These variances increase the risk that inaccurate direct and indirect labor costs are used to calculate the County's ICRP rate. ONESolution does not segregate direct and indirect costs; therefore, the County relies on CAMS labor costs with assigned project codes to determine direct labor costs. The direct labor costs per CAMS are deducted from total labor costs in ONESolution to determine indirect labor costs. The calculated direct and indirect labor costs are used to determine the ICRP rates. Reconciliations of total labor costs between ONESolution and CAMS would improve the accuracy of the direct and indirect labor costs used to calculate the ICRP rates.

Table 4 – Unexplained Labor Cost Variances between ONESolution and CAMS

| Division | Total Labor Costs in ONESolution (a) | Total Labor Costs in CAMS (b) | Difference (a) – (b) |
|-------------------------------|--------------------------------------|-------------------------------|----------------------|
| Roads-Administration/Business | \$ 892,155 | \$ 853,775 | \$ 38,380 |
| Roads-Engineering | 1,112,291 | 1,050,613 | 61,678 |
| Roads-Real Property | 587,134 | 582,515 | 4,619 |
| Roads- Natural Resources | 268,117 | 248,904 | 19,213 |
| Total | \$ 2,859,697 | \$ 2,735,807 | \$ 123,890 |

- The labor billing rates in CAMS for the Roads-Administration/Business Division were erroneous between July 2015 and mid-April 2016. Specifically, the labor billing rates in CAMS did not agree to the supporting costs in ONESolution. The unexplained variances ranged from 70 cents to \$2.69 per hour. Without a proper reconciliation process to identify errors, labor billing rates could be miscalculated and result in the

County inaccurately billing Caltrans or other funding sources for direct labor and indirect costs. The County was unable to provide an explanation for the billing rate calculation error or how the error was corrected.

- There were 50 unexplained variances between the employee physical timesheets and CAMS, as noted below:
 - Timesheets included project codes that were not included in CAMS.
 - CAMS included project codes that were not included in the timesheets.
 - Activity codes listed on timesheets did not agree to activity codes in CAMS.

Employees record their time on physical timesheets and the Roads-Administration/Business Division staff input the timesheet information into CAMS. However, the County does not have written policies and procedures to identify, document, and resolve variances between the timesheets and CAMS. Additionally, the County lacked written policies outlining practices to record timesheet hours charged to project and activity codes.

- The County's uses estimates of fringe benefits costs to calculate labor billing rates; however, a reconciliation is not performed to ensure the difference between actual and estimated costs is recovered in a subsequent period. Auditors identified overestimated fringe benefit rates compared to actual costs, ranging from 7 to 11 percent for the Roads-Maintenance, Road-Engineering, and Roads-Real Property divisions.

2 CFR 200.62 states the County must maintain internal control processes to provide reasonable assurance transactions are properly accounted for, in order to demonstrate compliance with Federal requirements, and terms and conditions of awards from Caltrans. Additionally, 2 CFR 200.430 (a) (3) states compensation for fringe benefits is allowable if it is supported. Budget estimates alone do not qualify as support, but may be used for interim purposes provided that the entity has a system of internal controls which include processes to review after-the-fact interim charges. All necessary adjustments must be made such that the final amount charged is accurate, allowable, and properly allocated.

Recommendations:

- A. Implement a reconciliation process to identify and resolve variances between the labor costs in ONESolution and CAMS.
- B. Develop and document procedures to identify and resolve variances between CAMS and timesheet project and activity codes. Additionally, document policies outlining practices to record timesheet hours charged to project and activity codes.
- C. Implement a reconciliation process to calculate the difference between the estimated fringe benefits and actual fringe benefits costs. The difference between the actual and the estimated costs should be included in the calculation of subsequent fringe benefit rates.

**Summary of Accepted and Audited Costs and Rates
Indirect Cost Rate Proposal
County of Humboldt, Department of Public Works
Roads-Administration/Business
2015-2016**

| Description | Accepted Amounts ⁴ | Audit Adjustments | Audited Amounts | Finding No. |
|--|-------------------------------|-------------------|---------------------|-------------|
| Direct Costs | | | | |
| Salaries and Wages | \$ 209,996 | \$ 0 | \$ 209,996 | |
| Fringe Benefits | 103,947 | 0 | 103,947 | |
| Other Direct Labor Costs ⁵ | 8,817,314 | 0 | 8,817,314 | |
| Total Direct Salaries and Wages plus Fringe Benefits | \$ 9,131,257 | \$ 0 | \$ 9,131,257 | |
| Indirect Costs Pool | | | | |
| Salaries and Wages | \$ 386,765 | \$ 0 | \$ 386,765 | |
| Fringe Benefits | 191,447 | 0 | 191,447 | |
| Communications | 12,461 | 0 | 12,461 | |
| Household Expense | 2,366 | 0 | 2,366 | |
| Insurance | 11,599 | 0 | 11,599 | |
| Maintenance-Equipment | 14,513 | 0 | 14,513 | |
| Maintenance-Structure | 160 | 0 | 160 | |
| Memberships | 4,568 | 0 | 4,568 | |
| Postage | 1,695 | 0 | 1,695 | |
| Office Supplies | 7,357 | 0 | 7,357 | |
| Publications and Legal Notices | 55 | 0 | 55 | |
| Rent & Lease-Equipment | 11,411 | 0 | 11,411 | |
| Special Departmental Expense | 1,012 | 0 | 1,012 | |
| Transportation & Travel | 7,785 | 0 | 7,785 | |
| Utilities | 8,736 | 0 | 8,736 | |
| Computer Software | 315 | 0 | 315 | |
| Transportation Out of Co. | 10,589 | 0 | 10,589 | |
| Safety Expense | 164 | 0 | 164 | |
| Training | 2,055 | 0 | 2,055 | |
| Information Services | 81,180 | 0 | 81,180 | |
| County A-87 Overhead | 63,702 | 0 | 63,702 | |
| Communications/Utility Charges | 2,065 | 0 | 2,065 | |
| Labor Other Funds | 1,114 | 0 | 1,114 | |
| Central Service Charges | 1,363 | 0 | 1,363 | |
| Total Indirect Costs Pool | \$ 824,477 | \$ 0 | \$ 824,477 | |
| Indirect Cost Rate* | 9.03% | 0.0% | 9.03% | |
| * Indirect Cost Rate is the quotient of Total Indirect Costs divided by Total Direct Salaries and Wages plus Fringe Benefits | | | | |

⁴ The ICRP and Fringe Benefit Rate submitted by the County was accepted by IOAI on July 11, 2017.

⁵ Other Direct Labor Costs are the Direct Salaries and Wages plus Fringe Benefits for the rest of the County of Humboldt, Department of Public Works.

APPENDIX B

Summary of Accepted and Audited Costs and Rates Indirect Cost Rate Proposal County of Humboldt, Department of Public Works Roads-Engineering 2015-2016

| Description | Accepted Amounts ⁶ | Audit Adjustments | Audited Amounts | Finding No. |
|--|-------------------------------|-------------------|-------------------|-------------|
| Direct Costs | | | | |
| Salaries and Wages | \$ 557,809 | \$ 4,013 | \$ 561,822 | 1 |
| Fringe Benefits | 255,217 | 1,836 | 257,053 | 1 |
| Total Direct Salaries and Wages plus Fringe Benefits | \$ 813,026 | \$ 5,849 | \$ 818,875 | 1 |
| Indirect Costs Pool | | | | |
| Salaries and Wages | \$ 205,322 | \$ (4,013) | \$ 201,309 | 1 |
| Fringe Benefits | 93,942 | \$ (1,836) | 92,106 | 1 |
| Communications | 3,527 | 0 | 3,527 | |
| Household Expense | 1,101 | 0 | 1,101 | |
| Insurance | 13,812 | 0 | 13,812 | |
| Maintenance-Equipment | 1,370 | 0 | 1,370 | |
| Maintenance-Structure | 286 | 0 | 286 | |
| Memberships | 510 | 0 | 510 | |
| Postage | 59 | 0 | 59 | |
| Office Supplies | 2,585 | 0 | 2,585 | |
| Professional Services | 3,916 | 0 | 3,916 | |
| Publications and Legal Notices | 2,655 | 0 | 2,655 | |
| Rent & Lease-Equipment | 1,454 | 0 | 1,454 | |
| Special Departmental Expense | 9,139 | 0 | 9,139 | |
| Transportation & Travel | 9,776 | 0 | 9,776 | |
| Utilities | 4,565 | 0 | 4,565 | |
| Computer Software | 19,098 | 0 | 19,098 | |
| Transportation Out of Co. | 135 | 0 | 135 | |
| Safety Expense | 28 | 0 | 28 | |
| Training | 1,250 | 0 | 1,250 | |
| Employee Physicals | 453 | 0 | 453 | |
| County A-87 Overhead | 29,605 | 0 | 29,605 | |
| Communications/Utility Charges | 75 | 0 | 75 | |
| Labor Other Funds | 3,568 | (3,568) | 0 | 1 |
| Central Service Charges | 946 | 0 | 946 | |
| Total Indirect Costs Pool | \$ 409,177 | \$ (9,417) | \$ 399,760 | 1 |
| Indirect Cost Rate* | 50.33% | (1.51%) | 48.82% | |
| * Indirect Cost Rate is the quotient of Total Indirect Costs divided by Total Direct Salaries and Wages plus Fringe Benefits | | | | |

⁶ The ICRP and Fringe Benefit Rate submitted by the County was accepted by IOAI on July 11, 2017.

APPENDIX C

Summary of Accepted and Audited Costs and Rates Indirect Cost Rate Proposal County of Humboldt, Department of Public Works Roads-Real Property 2015-2016

| Description | Accepted Amounts ⁷ | Audit Adjustments | Audited Amounts | Finding No. |
|--|-------------------------------|---------------------|-------------------|-------------|
| Direct Costs | | | | |
| Salaries and Wages | \$ 207,833 | \$ 55,078 | \$ 262,911 | 1 |
| Fringe Benefits | 101,540 | 26,908 | 128,448 | 1 |
| Total Direct Salaries and Wages plus Fringe Benefits | \$ 309,373 | \$ 81,986 | \$ 391,359 | 1 |
| Indirect Costs Pool | | | | |
| Salaries and Wages | \$ 186,597 | \$ (55,078) | \$ 131,519 | 1 |
| Fringe Benefits | 91,164 | (26,908) | 64,256 | 1 |
| Clothing | 407 | 0 | 407 | |
| Communications | 949 | 0 | 949 | |
| Household Expense | 232 | 0 | 232 | |
| Insurance | 7,296 | 0 | 7,296 | |
| Maintenance-Equipment | 694 | 0 | 694 | |
| Maintenance-Structure | 233 | 0 | 233 | |
| Memberships | 199 | 0 | 199 | |
| Postage | 993 | 0 | 993 | |
| Office Supplies | 4,042 | 0 | 4,042 | |
| Professional Services | 299 | 0 | 299 | |
| Publications and Legal Notices | 3,045 | 0 | 3,045 | |
| Rent & Lease-Equipment | 2,417 | 0 | 2,417 | |
| Small Tools | 53 | 0 | 53 | |
| Special Departmental Expense | 2,566 | 0 | 2,566 | |
| Transportation & Travel | 8,079 | 0 | 8,079 | |
| Computer Software | 2,299 | 0 | 2,299 | |
| Transportation Out of Co. | 1,246 | 0 | 1,246 | |
| Training | 604 | 0 | 604 | |
| Employee Physicals | 738 | 0 | 738 | |
| County A-87 Overhead | 9,154 | 0 | 9,154 | |
| Labor Other Funds | 199,140 | (58,405) | 140,735 | 1 |
| Central Service Charges | 473 | 0 | 473 | |
| Total Indirect Costs Pool | \$ 522,919 | \$ (140,391) | \$ 382,528 | 1 |
| Indirect Cost Rate* | 169.03% | (71.29%) | 97.74% | |
| * Indirect Cost Rate is the quotient of Total Indirect Costs divided by Total Direct Salaries and Wages plus Fringe Benefits | | | | |

⁷ The ICRP and Fringe Benefit Rate submitted by the County was accepted by IOAI on July 11, 2017.

APPENDIX D

Summary of Accepted and Audited Costs and Rates Indirect Cost Rate Proposal County of Humboldt, Department of Public Works Roads-Maintenance 2015-2016

| Description | Accepted Amounts ⁸ | Audit Adjustments | Audited Amounts | Finding No. |
|--|----------------------------------|----------------------|---------------------|----------------|
| Direct Costs | | | | |
| Salaries and Wages | \$ 3,004,871 | \$ 0 | \$ 3,004,871 | |
| Fringe Benefits | 1,644,190 | 0 | 1,644,190 | |
| Total Direct Salaries and Wages plus Fringe Benefits | \$ 4,649,061 | \$ 0 | \$ 4,649,061 | |
| Indirect Costs Pool | | | | |
| Insurance | \$ 345,440 | \$ 0 | \$ 345,440 | |
| County A-87 Overhead | 67,743 | 0 | 67,743 | |
| Communications/Utility Charges | 23,909 | 0 | 23,909 | |
| Central Service Charges | 2,441 | 0 | 2,441 | |
| Total Indirect Costs Pool | \$ 439,533 | \$ 0 | \$ 439,533 | |
| Indirect Cost Rate* | 9.45% | 0.0% | 9.45% | |
| * Indirect Cost Rate is the quotient of Total Indirect Costs divided by Total Direct Salaries and Wages plus Fringe Benefits | | | | |

⁸ The ICRP and Fringe Benefit Rate submitted by the County was accepted by IOAI on July 11, 2017.

APPENDIX E

Summary of Accepted and Audited Costs and Rates Indirect Cost Rate Proposal County of Humboldt, Department of Public Works Roads-Natural Resources 2015-2016

| Description | Accepted Amounts ⁹ | Audit Adjustments | Audited Amounts | Finding No. |
|--|-------------------------------|---------------------|-------------------|-------------|
| Direct Costs | | | | |
| Salaries and Wages | \$ 110,945 | \$ 43,676 | \$ 154,621 | 1 |
| Fringe Benefits | 52,111 | 20,515 | 72,626 | 1 |
| Total Direct Salaries and Wages plus Fringe Benefits | \$ 163,056 | \$ 64,191 | \$ 227,247 | 1 |
| Indirect Costs Pool | | | | |
| Salaries and Wages | \$ 71,484 | \$ (43,676) | \$ 27,808 | 1 |
| Fringe Benefits | 33,577 | (20,515) | 13,062 | 1 |
| Communications | 572 | 0 | 572 | |
| Insurance | 3,164 | 0 | 3,164 | |
| Postage | 38 | 0 | 38 | |
| Office Supplies | 393 | 0 | 393 | |
| Professional Services | 1,620 | (123) | 1,497 | 1 |
| Publications and Legal Notices | 29 | 0 | 29 | |
| Rent & Lease-Structure | 6,156 | 0 | 6,156 | |
| Special Departmental Expense | 13,258 | (8,000) | 5,258 | 1 |
| Transportation & Travel | 2,222 | 0 | 2,222 | |
| Computer Software | 418 | 0 | 418 | |
| Transportation Out of Co. | 300 | 0 | 300 | |
| Safety Expense | 160 | 0 | 160 | |
| County A-87 Overhead | 41,976 | 0 | 41,976 | |
| Labor Other Funds | 47,971 | (47,971) | 0 | 1 |
| Central Service Charges | 132 | 0 | 132 | |
| Total Indirect Costs Pool | \$ 223,470 | \$ (120,285) | \$ 103,185 | 1 |
| Indirect Cost Rate* | .137.05% | (91.64%) | 45.41% | |
| * Indirect Cost Rate is the quotient of Total Indirect Costs divided by Total Direct Salaries and Wages plus Fringe Benefits | | | | |

⁹ The ICRP and Fringe Benefit Rate submitted by the County was accepted by IOAI on July 11, 2017.

RESPONSE



DEPARTMENT OF PUBLIC WORKS
COUNTY OF HUMBOLDT
MAILING ADDRESS: 1106 SECOND STREET, EUREKA, CA 95501-0579
AREA CODE 707

On-line
Web: humboldt.gov.org

| | | | |
|---------------------|----------|---------------------------|----------|
| Administration | 445-7491 | Natural Resources | 445-7741 |
| Business | 445-7652 | Natural Resource Planning | 267-9542 |
| Engineering | 445-7377 | Parks | 445-7651 |
| Facility Management | 445-7621 | Roads | 445-7421 |

Clark Complex
Harris & H St., Eureka
Fax 445-7388
Land Use 445-7205

August 27, 2019

Jeremy Jackson, CPA
California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

Subject: Response to County of Humboldt Audit Recommendation

Dear Mr. Jackson,

On May 29, 2019, the California Department of Finance conducted a phone exit conference to discuss the County of Humboldt's Indirect Cost Rate Proposal (ICRP) Audit draft report, findings and recommendations.

Attached is the County's response to Indirect Rate Proposal Audit findings. The attached document provides responses to the following findings identified in the audit report:

1. Unallowable Costs Included in the Indirect Costs Pool
2. Strengthen Fiscal Controls over Labor Expenditures

Thank you, for your time and attention on this Audit

Sincerely,

Thomas K. Mattson
Public Works Director

SEAN MEEHAN
DEPUTY DIRECTOR
ON BEHALF OF THOMAS MATTSON

Attachment: County of Humboldt Responses to the Indirect Cost Rate Proposal Audit Findings.

**County of Humboldt Responses to the Indirect
Cost Rate Proposal Audit Findings**

FINDING 1 – Unallowable Costs Included in the Indirect Costs Pool

The County included unallowable costs totaling \$270,093 in the Engineering, Real Property, and Natural Resources divisions' indirect costs pools.

The County reviews labor costs, invoices, and journal postings, and classifies any transaction associated with a project code as a direct cost, and all remaining costs are included in the indirect costs pool. However, the County does not perform a comprehensive review to verify that costs are correctly classified as direct and indirect costs.

Recommendations:

- A. Adjust the 2015-16 actual indirect costs pools by \$270,093 for the unallowable costs and ensure these costs are not included in future indirect costs pools. (See Appendices B, C, and E for the specific adjustments for each division).
- B. Adjust the 2015-16 actual direct cost bases by \$152,026 and ensure these costs are included in future direct cost bases (See Appendices B, C, and E for the specific adjustments for each division).
- C. Review all indirect accounts to ensure costs are in compliance with 2 CFR 200 and properly segregated between direct, indirect, and unallowable costs.
- D. Reconcile the 2015-16 billings using the audited rates in Table 1 and reimburse Caltrans for any overpayments.

AUDITEE'S RESPONSE

We agree with the finding and will adjust the 2015-16 actual indirect and direct costs based on the recommendations. The County is in the process of making changes to make sure that the unallowable costs are not included in future indirect cost pools by reprogramming the activity codes to make sure they are correctly coded as direct or indirect and training staff on the correct activity code to use.

The County will review all Caltrans billings and adjust the difference between the accepted rate and the audited rate and will adjust future invoices to account for the amount due back to Caltrans

Finding 2: Strengthen Fiscal Controls Over Labor Expenditures

The County should strengthen its fiscal controls related to labor expenditures billed to Caltrans as noted below. Although the issues listed below were not significant to the 2015-16 ICRP rates, these control deficiencies increase the risk of over or under stating the ICRP rates and over or under billing direct labor in the future.

- A. The County does not reconcile labor costs (direct salaries and wages plus fringe benefits) between the County's financial management system, ONESolution, and their project tracking system, CAMS. As a result, the County could not explain the variances in total labor costs between ONESolution and CAMS. These variances increase the risk that inaccurate direct and indirect labor costs are used to calculate the County's ICRP rate. ONESolution does not segregate direct and indirect costs; therefore, the County relies on CAMS labor costs with assigned project codes to determine direct labor costs. The direct labor costs per CAMS are deducted from total labor costs in ONESolution to determine indirect labor costs. The calculated direct and indirect labor costs are used to determine the ICRP rates. Reconciliations of total labor costs between ONESolution and CAMS would improve the accuracy of the direct and indirect labor costs used to calculate the ICRP rates.
- B. The labor billing rates in CAMS for the Roads-Administration/Business Division were erroneous between July 2015 and mid-April 2016. Specifically, the labor billing rates in CAMS did not agree to the supporting costs in ONESolution. The unexplained variances ranged from 70 cents to \$2.69 per hour. Without a proper reconciliation process to identify errors, labor billing rates could be miscalculated and result in the County inaccurately billing Caltrans or other funding sources for direct labor and indirect costs. The County was unable to provide an explanation for the billing rate calculation error or how the error was corrected.
- C. There were 50 unexplained variances between the employee physical timesheets and CAMS, as noted below:
 - Timesheets included project codes that were not included in CAMS.
 - CAMS included project codes that were not included in the timesheets.
 - Activity codes listed on timesheets did not agree to activity codes in CAMS.

Employees record their time on physical timesheets and the Roads-Administration/Business Division staff input the timesheet information into CAMS. However, the County does not have written policies and procedures to identify, document, and resolve variances between the timesheets and CAMS. Additionally, the County lacked written policies outlining practices to record timesheet hours charged to project and activity codes.

- D. The County's uses estimates of fringe benefits costs to calculate labor billing rates; however, a reconciliation is not performed to ensure the difference between actual and estimated costs is recovered in a subsequent period. Auditors identified overestimated fringe benefit rates compared to actual costs, ranging from 7 to 11 percent for the Roads-Maintenance, Road-Engineering, and Roads-Real Property divisions.

2 CFR 200.62 states the County must maintain internal control processes to provide reasonable assurance transactions are properly accounted for, in order to demonstrate compliance with Federal requirements, and terms and conditions of awards from Caltrans. Additionally, 2 CFR 200.430 (a) (3) states compensation for fringe benefits is allowable if it is supported. Budget estimates alone do not qualify as support, but may be used for interim purposes provided that the entity has a system of internal controls which include processes to review after-the-fact interim charges. All necessary adjustments must be made such that the final amount charged is accurate, allowable, and properly allocated.

Recommendations:

- A. Implement a reconciliation process to identify and resolve variances between the labor costs in ONESolution and CAMS.
- B. Develop and document procedures to identify and resolve variances between CAMS and timesheet project and activity codes. Additionally, document policies outlining practices to record timesheet hours charged to project and activity codes.
- C. Implement a reconciliation process to calculate the difference between the estimated fringe benefits and actual fringe benefits costs. The difference between the actual and the estimated costs should be included in the calculation of subsequent fringe benefit rates.

AUDITEE'S RESPONSE

The County is in the process of implementing a reconciliation process reconciling CAMS and ONESolution labor costs.

The County is working on written policies and procedure to resolve variances between the timesheets project and activity codes.

The County has already made changes using actual fringe benefits costs to calculate labor billing rates starting in Fiscal Year 2018-19. We will implement procedures to include any differences between that might come up with changes in Memorandum of Understandings.