

Independent Office of Audits And Investigations

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April 20, 2021

JEANIE WARD-WALLER
DEPUTY DIRECTOR
Planning and Modal Programs
California Department of Transportation

Dear Ms. Ward-Waller:

Final Audit Report – Kings County Association of Governments, ICAP Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), performed an Indirect Cost Allocation Plan (ICAP) audit of Kings County Association of Governments' (KCAG) ICAPs for fiscal years 2018-19 and 2019-20. The audit was performed to determine whether the ICAPs were prepared in compliance with Title 2 Code of Federal Regulations (CFR) Part 200 and the California Department of Transportation's Local Assistance Procedures Manual (LAPM). In addition, the audit was performed to recalculate 2018-19 and 2019-20 rates to determine if unallowable costs were identified. The final audit report, including KCAG's response, is enclosed.

The audit determined unallowable costs were included in the indirect costs pool. These costs should be excluded from future calculations of the ICAP submission to reduce the risk of overstating ICAP rates and overbilling indirect costs.

Caltrans is responsible for implementing corrective action on audit recommendations and for maintaining documentation to support actions taken. Your corrective action plan is due by June 30, 2021 and should address all recommendations in the enclosed report, including timelines.

If you have any questions, contact MarSue Morrill, Audit Chief, at (916) 202-7626 or marsue.morrill@dot.ca.gov or Nancy Shaul, Audit Manager, at (916) 323-7940 or nancy.shaul@dot.ca.gov.

Sincerely,

RHONDA L. CRAFT
Inspector General

Enclosure

c: Terri King, Executive Director, Kings County Association of Governments
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P1594-0104



Kings County Association of Governments

Indirect Cost Allocation Plan
Fiscal Years 2018-19 and 2019-20

Report No. 21-2660-041
March 2021

Team Members

Cheryl L. McCormick, CPA, Chief
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Final reports are available on our website at www.dof.ca.gov.

You can contact our office at:

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Gavin Newsom ■ Governor

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Transmitted via e-mail

March 11, 2021

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

Final Report—Kings County Association of Governments, Indirect Cost Allocation Plan Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Kings County Association of Governments' (KCAG) Indirect Cost Allocation Plan (ICAP) for fiscal years 2018-19 and 2019-20, California Department of Transportation (Caltrans) Audit Number P1594-0104.

The enclosed report is for your information and use. KCAG's response to the report finding is incorporated into this final report. KGAG agreed with our finding. We appreciate KCAG's assistance and cooperation during the engagement, and its 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,

Original signed by:

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

cc: Nancy Shaul, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Monty Laskosky, Auditor, 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) Division of Transportation Planning articulates a long-term vision for California's transportation system and implements statewide transportation policy through partnerships with state, regional, and local agencies. The Division provides quality planning products, services, and information to support and guide transportation investment decisions.¹

Kings County Association of Governments (KCAG) is a metropolitan planning organization (MPO) for the Kings County region. KCAG is a joint powers authority whose member agencies include the County of Kings and the cities of Avenal, Corcoran, Hanford, and Lemoore. As an MPO, KCAG serves as a pass-through agency for funding for local transportation projects.²

At the discretion of local governmental agencies (LGA), including MPOs, indirect costs may be recovered when seeking reimbursement for federal-aid transportation projects and state funded projects. To recover indirect costs, LGAs annually submit an Indirect Cost Allocation Plan (ICAP), 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).

SCOPE

At the request of IOAI, the California Department of Finance, Office of State Audits and Evaluations, audited KCAG's ICAP for fiscal years 2018-19 and 2019-20.

The audit objectives were to:

1. Determine whether the 2018-19 and 2019-20 ICAPs were in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the 2018-19 and 2019-20 ICAP rates if unallowable costs are identified.

The 2018-19 and 2019-20 ICAPs include transactions related to actual costs incurred and billed to Caltrans in 2016-17 and 2017-18.

¹ Excerpts obtained from Caltrans Division of Transportation Planning website <http://www.dot.ca.gov/transplanning/>.

² Excerpts obtained from KCAG's website: <https://www.kingscog.org/>.

In performing our audit, we considered internal controls significant to the audit objectives. See Appendix A for a list of significant internal control components and underlying principles.

KCAG is responsible for preparing its ICAP 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 KCAG's operations, and identified relevant ICAP requirements by interviewing Caltrans and KCAG personnel, and reviewing 2 CFR 200, the LAPM, the Master Fund Transfer Agreement (MFTA), and applicable KCAG policies and procedures.

We conducted a risk assessment, including evaluating whether key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key controls evaluated focused on the separation of indirect and direct costs including labor and preparation of the ICAP. Our assessment included observing processes, reviewing records, and testing transactions related to accounts payable, time keeping/payroll, billing, and ICAP 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 KCAG's financial management system, E-Finance. 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. We determined the data were sufficiently reliable to address the audit objectives.

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 2018-19 and 2019-20 ICAPs are in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> • Selected 2016-17 and 2017-18 significant and high-risk cost categories to verify compliance with 2 CFR 200, MFTA, and the LAPM. Significant indirect costs pool categories were determined based on change analysis from the two prior year's actual costs and cost categories with ending balances that meet or exceed 1 percent of the current direct cost base. Further, direct and indirect salaries and fringe benefits were considered high-risk categories based on the impact to the rate. High-risk indirect costs pool categories were determined based on costs commonly identified for non-compliance with 2 CFR 200 and the LAPM. Costs were selected from direct and indirect salaries, fringe benefits, and the indirect costs pool categories. <ul style="list-style-type: none"> ○ Selection of direct and indirect salaries and fringe benefits were based on quantitative and qualitative factors such as total costs charged, percentage of time charged to direct and indirect activities, and employee job classification. ○ Selection of indirect costs pool costs were based on quantitative and qualitative factors such as costs with a potential impact to the ICAP rate by 1 percent or greater, and the type (i.e. description) of costs. ○ Determined if direct and indirect salaries and fringe benefits were allowable, supported, segregated, and allocated, by interviewing staff, tracing the amounts to accounting and payroll records, performing analytical procedures to verify the reasonableness of the total direct and indirect salaries, recalculating rates, and verifying fringe benefits were only included in indirect costs. ○ Determined if indirect costs pool costs were allowable, authorized, supported, and segregated by tracing the indirect costs amounts to accounting records, and comparing travel expense claims to California Department of Human Resources (CalHR) per diem and lodging rates. • Determined the carry forward calculations³ were supported by: <ul style="list-style-type: none"> ○ Verifying the 2016-17 and 2017-18 rates were supported by the approved ICAP submissions. ○ Verifying the 2016-17 and 2017-18 actual costs were supported by accounting records and reconciled to audited financial data. ○ Recalculating the 2016-17 and 2017-18 recovered indirect costs, carry forward, and the 2018-19 and 2019-20 adjusted indirect costs. ○ Verified the actual indirect costs recovered by KCAG were billed at the IOAI approved indirect cost rate by tracing the rate used on Caltrans' billings to the rate in Caltrans' Acceptance Letter and recalculated the indirect costs billed to Caltrans.

³KCAG uses a schedule of estimated direct and indirect costs to determine the annual indirect cost rate. These estimates are reconciled to actual costs. The difference between the actual costs and the estimated costs is carried forward and included in the calculation of a future ICAP rate. This is referred to as the carry forward calculation.

Audit Objective	Methods
Objective 2: Recalculate the 2018-19 and 2019-20 ICAP rates if unallowable costs are identified.	<ul style="list-style-type: none"> Recalculated the ICAP rates with carry forward adjustments based on 2016-17 and 2017-18 audited amounts.

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 the procedures performed and evidence gathered, we determined KCAG's 2018-19 and 2019-20 ICAPs are not in compliance with 2 CFR 200 and the LAPM. We identified weaknesses in KCAG's review process when preparing the ICAPs, as noted in Finding 1. Additionally, we recommend rate changes as identified in Table 1 below.

Table 1 - Accepted and Audited 2018-19 and 2019-20 ICAP Rates⁴

Fiscal Year	Rate Type	Accepted Rate (a)	Audited Rate (b)	Rate Difference (a)-(b)
2018-19	ICAP	269.26%	267.63%	1.63%
2019-20	ICAP	249.31%	247.56%	1.75%

See Appendix B and Appendix C for the Summary of Accepted and Audited Costs and Rates for the 2018-19 and 2019-20 ICAPs.

FINDING AND RECOMMENDATIONS

Finding 1: Unallowable Costs in the Indirect Costs Pool

KCAG included \$8,543 of unallowable costs within the Office Expense, Travel and Expense, and Fixed Asset Depreciation categories. Specifically, the unallowable costs were related to food purchases, travel costs for hotels and meals in excess of per diem rates allowed by CalHR, and depreciation expenses for a vehicle purchased with grant funds. Additionally, KCAG recorded a duplicate travel expenditure in its accounting records, which was also included in its indirect costs pool.

These unallowable costs result in changes to the accepted ICAP rates as illustrated in Table 1. These costs should be excluded from future calculations of the ICAP submission to reduce the risk of overstating ICAP rates and overbilling indirect costs. For details of the disallowed costs, see Table 2.

Table 2 - Unallowable Indirect Costs Pool Costs

Fiscal Year ⁵	Cost Categories	Unallowable Costs
2016-17	Office Expense	\$ 67
	Travel and Expense	486
	Fixed Asset Depreciation	3,426
2017-18	Office Expense	262
	Travel and Expense	243
	Fixed Asset Depreciation	4,059
Total Unallowable Costs		\$ 8,543

⁴ The ICAPs submitted by KCAG were accepted by IOAI on October 9, 2018 and October 11, 2019, respectively.

⁵ The respective fiscal year actual costs incurred were used to calculate the 2018-19 and 2019-20 ICAP rates, respectively.

Specifically, cost categories included the following:

- Office Expense - included food purchases for personal use because the costs were coded to the incorrect sub-account.
- Travel and Expense -included travel costs for hotels and meals in excess of per diem rates allowed by CalHR because federal per diem rates were used in the cost pool.
- Fixed Asset Depreciation - included direct costs for a vehicle purchase partially reimbursed by grant funds from the San Joaquin Valley Air Pollution Control District. Specifically, the vehicle purchase price of \$28,413 was reimbursed for \$20,000 with grant funds. KCAG was unaware it could only include depreciation costs in excess of the grant funds, \$8,413 (\$28,413 - \$20,000) within the Fixed Asset Depreciation cost pool.

KCAG does not have written policies and procedures for preparing and reviewing the ICAP and does not routinely review 2 CFR 200 for compliance.

2 CFR 200.445 (a) states that goods or services for personal use are unallowable. Additionally, Article II, section 2, A, of the MFTA, effective January 1, 2015, states that payments for travel expenses are not to exceed rates under current CalHR policies. Lastly, 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.

Recommendations:

- A. Reconcile the 2018-19 and 2019-20 billings using the audited rates in Table 1 and reimburse Caltrans for any over payments.
- B. Review all ICAP indirect costs pool accounts to ensure costs are in compliance with 2 CFR 200 and applicable CalHR policies.
- C. Develop and document ICAP policies and procedures to comply with 2 CFR 200 and applicable CalHR policies.

We considered the following internal control components and underlying principles significant to the audit objectives:

Internal Control Component	Internal Control Principle
Control Activities	<ul style="list-style-type: none"> • Management designs control activities to achieve objectives and respond to risks. • Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none"> • Management uses quality information to achieve the entity's objectives.

**Summary of Accepted and Audited Costs and Rates
Indirect Cost Allocation Plan
Kings County Association of Governments
2018-19**

Table B.1 – 2016-17 Actual Costs (Carry Forward Year)				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding Number
Direct Costs				
Salaries	\$ 179,231	\$ 0	\$ 179,231	
Total Indirect Cost Base⁶	\$ 179,231	\$ 0	\$ 179,231	
Indirect Costs Pool				
Salaries	\$ 138,421	\$ 0	\$ 138,421	
Fringe Benefits	167,419	0	167,419	
Communications	4,790	0	4,790	
Insurance	12,358	0	12,358	
Maintenance - S.I. & G.	5,102	0	5,102	
Memberships	300	0	300	
Office Expense	7,904	(67)	7,837	1
Bank Charges	368	0	368	
Record Storage Charges	844	0	844	
Postage and Freight	2,485	0	2,485	
Offset Printing	34	0	34	
Computer Software	2,042	0	2,042	
Professional & Special Services	15,221	0	15,221	
Legal Expenses	9,454	0	9,454	
Publications/Legal Notices	1,024	0	1,024	
Rent/Lease - Equipment	3,935	0	3,935	
Rent - Office Space	28,800	0	28,800	
Purchasing Charges	1,383	0	1,383	
In-Service Training	587	0	587	
Motor Pool Services	390	0	390	
Travel and Expense	5,972	(486)	5,486	1
Utilities	4,178	0	4,178	
Information Services	15,273	0	15,273	
CAP Charges	3,749	0	3,749	
Fixed Assets Depreciation	8,615	(3,426)	5,189	1
Total Indirect Costs Pool⁷	\$ 440,648	\$ (3,979)	\$ 436,669	1

⁶ 2016-17 Indirect Cost Base is forwarded to Table B.2 – 2016-17 Calculated Indirect Cost Recoveries.

⁷ 2016-17 Total Indirect Costs Pool is forwarded to Table B.3 – 2016-17 Carry Forward Calculation.

APPENDIX B (Continued)

Summary of Accepted and Audited Costs and Rates Indirect Cost Allocation Plan Kings County Association of Governments 2018-19

Table B.2 – 2016-17 Calculated Indirect Cost Recoveries				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(A) Indirect Costs Base (from Table B.1)	\$ 179,231	\$ 0	\$ 179,231	
(B) 2016-17 Indirect Cost Rate ⁸	188.17%	0	188.17%	
(C) Calculated Indirect Cost Recoveries (A) x (B)⁹	\$ 337,259	\$ 0	\$ 337,259	

Table B.3 – 2016-17 Carry Forward Calculation				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(D) 2016-17 Indirect Costs Pool (from Table B.1)	\$ 440,648	\$ (3,979)	\$ 436,669	1
(E) Calculated Indirect Cost Recoveries (from table B.2)	337,259	0	337,259	
(F) 2014-15 Carry Forward	(94,114)	0	(94,114)	
(G) 2016-17 Carry Forward (D) – (E) + (F)¹⁰	\$ 9,275	\$ (3,979)	\$ 5,296	

Table B.4 – 2018-19 ICAP Indirect Cost Rate				
Description	Accepted Amounts ¹¹	Audit Adjustments	Audited Amounts	Finding No.
(H) 2018-19 Budgeted Indirect Costs ¹²	\$ 651,247	\$ 0	\$ 651,247	
(I) 2016-17 Carry Forward (from Table B.3)	9,275	(3,979)	5,296	1
(J) Net 2018-19 Budgeted Indirect Cost Pool (H) + (I)	\$ 660,522	\$ (3,979)	\$ 656,543	
(K) 2018-19 Budgeted Direct Salaries (Indirect Cost Base) ¹³	\$ 245,313	\$ 0	\$ 245,313	
(L) 2018-19 KCAG Rate (J)/(K)	269.26%	(1.63)%	267.63%	

⁸ 2016-17 Indirect Cost Rate was accepted by IOAI on September 28, 2016.

⁹ Calculated Indirect Cost Recoveries is forwarded to Table B.3 – 2016-17 Carry Forward Calculation.

¹⁰ 2016-17 Carry Forward is forwarded to Table B.4 – 2018-19 ICAP Indirect Cost Rate.

¹¹ The ICAP costs and calculated rates submitted by KCAG were accepted by IOAI on October 9, 2018.

¹² Because the 2018-19 costs are budget estimates, specific costs/transactions were not tested.

¹³ Ibid.

**Summary of Accepted and Audited Costs and Rates
Indirect Cost Allocation Plan
Kings County Association of Governments
2019-20**

Table C.1 – 2017-18 Actual Costs (Carry Forward Year)				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding Number
Direct Costs				
Salaries	\$ 178,947	\$ 0	\$ 178,947	
Total Indirect Cost Base¹⁴	\$ 178,947	\$ 0	\$ 178,947	
Indirect Costs Pool				
Salaries	\$ 165,149	\$ 0	\$ 165,149	
Fringe Benefits	165,737	0	165,737	
Communications	4,696	0	4,696	
Insurance	12,714	0	12,714	
Maintenance - S.I. & G.	5,434	0	5,434	
Memberships	310	0	310	
Office Expense	7,115	(262)	6,853	1
Bank Charges	421	0	421	
Books/Periodicals	63	0	63	
Record Storage Charges	844	0	844	
Postage and Freight	1,164	0	1,164	
Offset Printing	20	0	20	
Computer Software	2,715	0	2,715	
Professional & Special Services	14,417	0	14,417	
Legal Expenses	9,943	0	9,943	
Publications/Legal Notices	632	0	632	
Rent/Lease - Equipment	3,751	0	3,751	
Rent - Office Space	28,800	0	28,800	
Purchasing Charges	1,383	0	1,383	
In-Service Training	3,053	0	3,053	
Motor Pool Services	1,145	0	1,145	
Travel and Expense	4,330	(243)	4,087	1
Utilities	6,054	0	6,054	
Information Services	13,011	0	13,011	
CAP Charges	3,462	0	3,462	
Fixed Assets Depreciation	5,405	(4,059)	1,346	1
Total Indirect Costs Pool¹⁵	\$ 461,768	\$ (4,564)	\$ 457,204	

¹⁴ 2017-18 Indirect Cost Base is forwarded to Table C.2 – 2017-18 Calculated Indirect Cost Recoveries.

¹⁵ 2017-18 Total Indirect Costs Pool is forwarded to Table C.3 – 2017-18 Carry Forward Calculation.

Summary of Accepted and Audited Costs and Rates Indirect Cost Allocation Plan Kings County Association of Governments 2019-20

Table C.2 – 2017-18 Calculated Indirect Cost Recoveries				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(A) Indirect Costs Base (from Table C.1)	\$ 178,947	\$ 0	\$ 178,947	
(B) 2017-18 Indirect Cost Rate ¹⁶	231.64%	0	231.64%	
(C) Calculated Indirect Cost Recoveries (A) x (B)¹⁷	\$ 414,513	\$ 0	\$ 414,513	

Table C.3 – 2017-18 Carry Forward Calculation				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(D) 2017-18 Indirect Costs Pool (from Table C.1)	\$ 461,768	\$ (4,564)	\$ 457,204	1
(E) Calculated Indirect Cost Recoveries (from table C.2)	414,513	0	414,513	
(F) 2015-16 Carry Forward	(52,642)	0	(52,642)	
(G) 2017-18 Carry Forward (D) – (E) + (F)¹⁸	\$ (5,387)	\$ (4,564)	\$ (9,951)	

Table C.4 – 2019-20 ICAP Indirect Cost Rate				
Description	Accepted Amounts ¹⁹	Audit Adjustments	Audited Amounts	Finding No.
(H) 2019-20 Budgeted Indirect Costs ²⁰	\$ 655,813	\$ 0	\$ 655,813	
(I) 2017-18 Carry Forward (from Table C.3)	(5,387)	(4,564)	(9,951)	1
(J) Net 2019-20 Budgeted Indirect Cost Pool (H) + (I)	\$ 650,426	\$ (4564)	\$ 645,862	
(K) 2019-20 Budgeted Direct Salaries (Indirect Cost Base) ²¹	\$ 260,886	\$ 0	\$ 260,886	
(L) 2019-20 KCAG Rate (J)/(K)	249.31%	(1.75)%	247.56%	

¹⁶ 2017-18 Indirect Cost Rate was accepted by IOAI on October 26, 2017.

¹⁷ Calculated Indirect Cost Recoveries is forwarded to Table C.3 – 2017-18 Carry Forward Calculation.

¹⁸ 2017-18 Carry Forward is forwarded to Table C.4 – 2019-20 ICAP Indirect Cost Rate.

¹⁹ The ICAP costs and calculated rates submitted by KCAG were accepted by IOAI on October 11, 2019.

²⁰ Because the 2019-20 costs are budget estimates, specific costs/transactions were not tested.

²¹ Ibid.



March 10, 2021

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street
Sacramento, CA 95814-3706

RE: Confidential Draft Report - Kings County Association of Governments, Indirect Cost
Allocation Plan Audit (Caltrans Audit No. P1594-0104)

Dear Ms. McCormack:

Thank you for the opportunity for the Kings County Association of Governments (KCAG) to respond to the audit finding resulting from a review conducted by the California Department of Finance, Office of State Audits and Evaluations at the request of the California Department of Transportation (Caltrans), Independent Office of Audits and Investigations (IOAI). Please accept this letter as the written response to the Confidential Draft Report – Kings County Association of Governments, Indirect Cost Allocation Plan Audit.

Our understanding of the scope of this audit was to determine whether the FY 2018-19 and FY 2019-20 Indirect Cost Allocation Plans (ICAP) approved by the IOAI were in compliance with 2 CFR 200 and Caltrans' Local Assistance Procedures Manual Chapter 5 (LAPM). Additionally, a recalculation of the 2018-19 and 2019-20 ICAP would be completed if unallowable costs identified were determined to impact the calculated indirect rates.

Finding 1: Unallowable Costs in the Indirect Costs Pool

KCAG included \$8,543 of unallowable costs within the Office Expense, Travel and Expense, and Fixed Asset Depreciation categories. Specifically, the unallowable costs were related to food purchases, travel costs for hotels and meals in excess of per diem rates allowed by CalHR, and depreciation expenses for a vehicle purchased with grant funds. Additionally, KCAG recorded a duplicate travel expenditure in its accounting records, which was also included in its indirect costs pool.

These unallowable costs result in changes to the accepted ICAP rates. These costs should be excluded from future calculations of the ICAP submission to reduce the risk of overstating ICAP rates and overbilling indirect costs.

KCAG does not have written policies and procedures for preparing and reviewing the ICAP and does not routinely review 2 CFR 200 for compliance.

Recommendations:

- A. Reconcile the 2018-19 and 2019-20 billings using the audited rates and reimburse Caltrans for any over payments.
- B. Review all ICAP indirect Cost Pool Accounts to ensure costs are in compliance with 2 CFR 200 and applicable CalHR policies.
- C. Develop and document ICAP policies and procedures to comply with 2 CFR 200 and applicable CalHR policies.

KCAG Response

Page 1, Paragraph 2 states “KCAG is a joint powers authority whose member agencies include Kings County and the cities of Avenal, Corcoran, Hanford, and Lemoore.” Please correct this to read “. . .County of Kings and the cities of . . .”

KCAG is in agreement with the findings that a total of \$8,543 of unallowable costs for the items identified for Office Expense, Travel and Expense, and Fixed Asset Depreciation categories were included in the indirect cost pool of the ICAP rates for FY 2016-17 and FY 2017-18. These unallowable costs result in changes to the accepted ICAP rates for FY 2018-19 and FY 2019-20, as shown in Table 1 below:

Table 1 – Accepted and Audited 2018-19 and 2019-20 ICAP Rates

Fiscal Year	Rate Type	Accepted Rate (a)	Audited Rate (b)	Rate Difference (a)-(b)
2018-19	ICAP	269.26%	267.63%	1.63%
2019-20	ICAP	249.31%	247.56%	1.75%

KCAG agrees that costs for hotels and meals were in excess of per diem rates allowed by CalHR. As stated, KCAG was not aware it had to adhere to CalHR travel policies, and instead used federal per diem rates in the cost pool. KCAG agrees to bill for travel costs in compliance with CalHR and that any overage amount will be paid for with local funds.

KCAG agrees to comply with the recommendation to review all ICAP indirect costs pool accounts to ensure costs are in compliance with 2 CFR 200 and applicable CalHR policies. These costs should be excluded from future calculations of the ICAP submission to reduce the risk of overstating ICAP rates and overbilling indirect costs.

KCAG agrees to develop ICAP policies and procedures to comply with 2 CFR 200 and applicable CalHR policies.

KCAG will reconcile the FY 2018-19 and FY 2019-20 billings using the audited rates in Table 1 and reimburse Caltrans for any over payments.

KCAG appreciates the opportunity to respond to the Kings County Association of Governments, Indirect Cost Allocation Plan Audit. If you have any questions regarding our response or would like to discuss this matter further, please contact me at Terri.King@co.kings.ca.us or (559) 852-2678.

Sincerely,

KINGS COUNTY ASSOCIATION OF GOVERNMENTS

Original signed by

Terri King, Executive Director