



Independent Office of Audits and Investigations

May 20, 2022

Transmitted via email

Jeanie Ward-Waller
Deputy Director
Planning and Modal Programs
California Department of Transportation

Final Report – City of Bakersfield, Indirect Cost Rate Proposal Audit

On behalf of the Independent Office of Audits and Investigations, the Department of Finance, Office of State Audits and Evaluations, completed an audit of the City of Bakersfield's (City) Indirect Cost Rate Proposals (ICRP) for fiscal years 2020-21 and 2021-22. Enclosed is the final audit report.

The audit was performed to determine whether the ICRPs complied with Title 2 Code of Federal Regulations Part 200 (2 CFR 200) and the California Department of Transportation's Local Assistance Procedures Manual, Chapter 5 (LAPM). In addition, the audit included recalculating the ICRP rates if unallowable costs were identified. The audit determined the ICRPs complied with 2 CFR 200 and the LAPM.

If you have any questions, please contact Fabiola Torres, Audit Chief, at (916) 704-3628.

Sincerely,

ORIGINAL SIGNED BY:

Diana C. Antony, CPA, CIG
Chief Deputy Inspector General

c: On the following page

Jeanie Ward-Waller

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c: Randy McKeegan, Finance Director, City of Bakersfield
Diana Gomez, Director, District 6, California Department of Transportation
James Perrault, District Local Assistance Engineer, District 6, California Department
of Transportation
Gilbert Petrissans, Chief, Division of Accounting, California Department of
Transportation
Rodney Whitfield, Director, Financial Services, Federal Highway Administration
Grace Regidor, Transportation Finance Specialist, Financial Services, Federal
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22A.ICAP03



City of Bakersfield

Department of Public Works, Engineering Division
Indirect Cost Rate Proposal
Fiscal Years 2020-21 and 2021-22

Report No. 22-2660-022
April 2022

Team Members

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

You can contact our office at:

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April 28, 2022

Fabiola Torres, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
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Final Report—City of Bakersfield, Indirect Cost Rate Proposal Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Bakersfield Indirect Cost Rate Proposal (ICRP) for fiscal years 2020-21 and 2021-22, California Department of Transportation Audit Number 22A.ICAP03.

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

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

Sincerely,

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

cc: Jonathan Cox, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Monte Laskosky, Auditor, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, METHODOLOGY, AND RESULTS

BACKGROUND

The California Department of Transportation's (Caltrans) Local Assistance Program oversees more than \$1 billion 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 City of Bakersfield, Public Works Engineering Division (City) oversees the construction of projects throughout the City and consists of five sections: Design Engineering, Construction Engineering, Freeway Engineering, Subdivision Engineering, and Traffic Engineering.²

At the discretion of local government agencies (LGA), 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 Rate Proposal (ICRP), which may also include a fringe benefit rate, to Caltrans's 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's 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 the City's ICRP for fiscal years 2020-21 and 2021-22.

The audit objectives were to:

1. Determine whether the 2020-21 and 2021-22 ICRPs were in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the 2020-21 and 2021-22 ICRP rates if unallowable costs are identified.

The 2020-21 and 2021-22 ICRPs include transactions related to actual costs incurred and billed to Caltrans in 2018-19 and 2019-20.

¹ Excerpts obtained from Caltrans's Division of Local Assistance website <http://www.dot.ca.gov/localassistance/index.html>.

² Excerpts obtained from the City's website: <https://www.bakersfieldcity.us/344/Engineering>.

The scope of the audit is limited to the Public Works Engineering Division that billed Caltrans for indirect costs. Accordingly, we did not audit the Development Services Planning Division.

The City 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 City's operations and identified relevant ICRP requirements by interviewing Caltrans and City personnel and reviewing 2 CFR 200, the LAPM, and applicable City 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 ICRP procedures, Caltrans's billings, separation of indirect and direct costs, timekeeping, and insurance allocation procedures. Our assessment included interviewing staff about processes, observing processes, and testing transactions related to ICRP preparation, Caltrans's billings, timekeeping/payroll, and insurance allocation for the effectiveness of existing processes and procedures. During our audit, we did not identify deficiencies in internal control significant within the context of our audit objectives or that warranted the attention of those charged with governance.

Additionally, we assessed the reliability of data from the City's financial management system, Naviline, and their timekeeping system, Executime. 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 2020-21 and 2021-22 ICRPs are in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> • Selected 2018-19 and 2019-20 significant and high-risk cost categories to verify compliance with 2 CFR 200, and the LAPM as follows: (1) 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; (2) direct and indirect salaries and fringe benefits were considered high-risk categories based on the impact to the rate; and (3) high-risk indirect costs pool categories were determined based on costs commonly identified for non-compliance with 2 CFR 200 and the LAPM. Specifically, costs were selected from direct and indirect salaries, fringe benefits, and the indirect costs pool. <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 hours charged to direct and indirect activities, and employee job classification. ○ Selection of indirect costs pool categories were based on quantitative and qualitative factors such as dollar amount of transactions and type (i.e. description) of costs. ○ Determined if direct and indirect salaries were allowable, supported, segregated, and equitably allocated by tracing the direct and indirect salaries to accounting records, payroll registers, and timesheets. ○ Determined if indirect costs pools and fringe benefits were allowable, supported, segregated, and equitably allocated, by interviewing City staff and tracing the indirect costs to accounting records, the insurance allocation method, accounting clearing accounts, the City's Comprehensive Annual Financial Report, the City's budget, and fringe benefit information on the City's website. • Determined the carry forward calculations³ were supported by: <ul style="list-style-type: none"> ○ Verifying the 2018-19 and 2019-20 rates were supported by the approved ICRP submissions. ○ Verifying the 2018-19 and 2019-20 actual costs were supported by accounting records and reconciled to audited financial data. ○ Recalculating the 2018-19 and 2019-20 recovered indirect costs, carry forward, and the 2020-21 and 2021-22 adjusted indirect costs. • Verified the actual indirect costs recovered by the City were billed at the IOAI approved indirect cost rate by tracing the rate used on Caltrans billings to the rate in Caltrans's Acceptance Letter and recalculated the indirect costs billed to Caltrans.

³ The City 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 is included in the calculation of a future ICRP rate. This is referred to as the carry forward calculation.

Audit Objective	Methods
<p>Objective 2: Recalculate the 2020-21 and 2021-22 ICRP rates if unallowable costs are identified.</p>	<ul style="list-style-type: none"> Unallowable costs were not identified and the ICRP recalculation was not performed.

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.

RESULTS

Based on procedures performed and evidence gathered, we determined the City's 2020-21 and 2021-2022 ICRPs are in compliance with 2 CFR 200 and the LAPM.

Table 1 - Accepted and Audited 2020-21 and 2021-22 ICRP Rates⁴

Fiscal Year	Accepted Rate (a)	Audited Rate (b)	Difference (a)-(b)
2020-21	120.80%	120.80%	0.00%
2021-22	132.94%	132.94%	0.00%

⁴ The ICRPs submitted by the City were accepted by IOAI on May 7, 2020 and September 1, 2021, respectively.