



Independent Office of Audits and Investigations

February 24, 2022

Transmitted via email

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

Final Report – Association of Monterey Bay Area Governments, Indirect Cost Allocation Plan Audit

The Department of Finance, Office of State Audits and Evaluations, completed an audit of the Association of Monterey Bay Area Governments' (AMBAG) Indirect Cost Allocation Plans (ICAP) for fiscal years 2019-20 and 2020-21. Enclosed is the final audit report which includes AMBAG's response.

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

The audit determined the ICAPs were not in compliance with 2 CFR 200 and the LAPM. Specifically, unallowable costs in the indirect costs pool were identified and the rates were recalculated.

A detailed Corrective Action Plan (CAP) addressing the findings and recommendations must be developed in accordance with the Local Assistance Procedures Manual, Chapter 20.5, Caltrans Role. The CAP should be sent to ioai.admin@dot.ca.gov.

Jeanie Ward-Waller
February 24, 2022
Page 2

If you have any questions, please contact Fabiola Torres, Audit Chief, at (916) 704-3628 or Jonathan Cox, Audit Manager, at (916) 704 3428.
Sincerely,

ORIGINAL SIGNED BY FRANCES PARMELEE:

Diana C. Antony, CPA
Chief Deputy Inspector General

c: Maura F. Twomey, Executive Director, Association of Monterey Bay Area of Governments
Tim Gubbins, Director, District 5, California Department of Transportation
Reinie Jones, District Local Assistance Engineer, District 5, California Department of Transportation
Gilbert Petrisans, Chief, Division of Accounting, California Department of Transportation
Rodney Whitfield, Director, Financial Services, Federal Highway Administration
Grace Regidor, Transportation Finance Specialist, Federal Highway Administration

P1594-0111



Association of Monterey Bay Area Governments

Indirect Cost Allocation Plan
Fiscal Years 2019-20 and 2020-21

Report No. 21-2660-073
December 2021

Team Members

Cheryl L. McCormick, CPA, Chief
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Jonathan Cox, Lead
Hoang Ngo

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

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



December 9, 2021

Fabiola Torres, Chief, Planning and Modal Office
Independent Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Final Report—Association of Monterey Bay Area of Governments, Indirect Cost Allocation Plan

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Association of Monterey Bay Area of Governments' (AMBAG) Indirect Cost Allocation Plan for fiscal years 2019-20 and 2020-21, California Department of Transportation (Caltrans) Audit Number P1594-0111.

The enclosed report is for your information and use. AMBAG's response to the report findings is incorporated into this final report. AMBAG agreed with our findings. We appreciate AMBAG'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 Sherry Ma, Manager, at (916) 322-2985.

Sincerely,

A handwritten signature in blue ink that reads "Cheryl L. McCormick".

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, 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

The Association of Monterey Bay Area Governments (AMBAG) was organized in 1968 for the purpose of regional collaboration and problem solving. The AMBAG region includes Monterey, San Benito, and Santa Cruz Counties. AMBAG serves as both a federally designated Metropolitan Planning Organization (MPO) and Council of Governments. AMBAG performs metropolitan level transportation planning on behalf of the region.²

At the discretion of local government 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'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 AMBAG's ICAP for fiscal years 2019-20 and 2020-21.

The audit objectives were to:

1. Determine whether the 2019-20 and 2020-21 ICAPs are in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the 2019-20 and 2020-21 ICAP rates if unallowable costs are identified.

The 2019-20 and 2020-21 ICAPs include transactions related to actual costs incurred and billed to Caltrans in 2017-18 and 2018-19

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

² Excerpts obtained from AMBAG's website <https://ambag.org/index.php/about-us>.

AMBAG 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 AMBAG operations, and identified relevant ICAP requirements by interviewing Caltrans and AMBAG's personnel and reviewing 2 CFR 200, the LAPM, the Master Fund Transfer Agreement (MFTA), and applicable AMBAG 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 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 AMBAG's financial management system, QuickBooks, as well as the timekeeping and payroll system, Paychex. Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, and determining whether 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 2019-20 and 2020-21 ICAPs are in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> • Selected 2017-18 and 2018-19 significant and high-risk cost categories to verify compliance with 2 CFR 200, MFTA, 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, 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 type (i.e. description) of costs. ○ Determined if direct and indirect salaries and fringe benefits were allowable, supported, segregated, and properly/equitably allocated, by interviewing staff, tracing the amounts to accounting and payroll records, performing analytical procedures to verify reasonableness of direct and indirect salaries, recalculating employee billable rates, and verifying fringe benefits were included in employee billable rates. ○ Determined if indirect costs pool costs were allowable, supported, segregated, and properly/equitably allocated between direct and indirect, by interviewing staff, reviewing accounting records, invoices, and lease agreements for eligibility and accuracy; and comparing travel expense claims to California Department of Human Resources per diem and lodging rates. • Determined the carry forward calculations³ were supported by: <ul style="list-style-type: none"> ○ Verifying the 2017-18 and 2018-19 rates were supported by the approved ICAP submissions. ○ Verifying the 2017-18 and 2018-19 actual costs were supported by accounting records and reconciled to audited financial data. ○ Recalculating the 2017-18 and 2018-19 recovered indirect costs, carry forward, and the 2019-20 and 2020-21 adjusted indirect costs. ○ Verifying the actual indirect costs recovered by AMBAG were billed at the IOAI approved indirect cost rate by tracing the rate used on Caltrans's billings to the rate in Caltrans's Acceptance Letter and recalculated the indirect costs billed to Caltrans.

³ AMBAG 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 ICAP rate. This is referred to as the carry forward calculation.

Audit Objective	Methods
<p>Objective 2: Recalculate the 2019-20 and 2020-21 ICAP rates if unallowable costs are identified.</p>	<ul style="list-style-type: none"> Recalculated the ICAP rates by adjusting salary and fringe benefit costs for ineligible indirect costs and reclassifying as direct costs, and removing 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 the procedures performed and evidence gathered, we determined AMBAG's 2019-20 and 2020-21 ICAPs are not in compliance with 2 CFR 200 and the LAPM. We identified weaknesses in AMBAG's review process when preparing the ICAPs, as noted in Finding 1. Additionally, as described in Finding 1, we identified unallowable costs that impacted the 2019-20 and 2020-21 ICAP rates and recommend a rate change decrease of 3.52 percent and 2.29 percent; respectively, as identified in Table 1.

Table 1 - Accepted and Audited 2019-20 and 2020-21 ICAP Rates⁴

Fiscal Year	Accepted Rate (a)	Audited Rate (b)	Difference (a)-(b)
2019-20	88.18%	84.66%	3.52%
2020-21	94.76%	92.47%	2.29%

See Appendix A and Appendix B for the Summary of Accepted and Audited Costs and Rates for the 2019-20 and 2020-21 ICAPs.

FINDING AND RECOMMENDATIONS

Finding 1: Unallowable Costs in the Indirect Costs Pool

AMBAG included \$54,479 of unallowable costs in the 2017-18 and 2018-19 indirect cost pools related to labor costs and depreciation. Specifically, \$30,459 and \$16,566 of misclassified indirect labor costs were included in the 2017-18 and 2018-19 indirect cost pools, respectively. In 2017-18 and the first two months of 2018-19, sick bank and floating holiday costs were not removed from indirect salaries due to an error in AMBAG's allocation formula. AMBAG does not have an established review process to ensure leave costs are appropriately removed from indirect salaries prior to the allocation of fringe benefits. As a result, a portion of the misclassified indirect labor costs should be included in the indirect cost bases of the ICAP rate calculations, as illustrated in Tables A.2 and B.2. Overstated indirect salaries and fringe benefits costs results in inaccurate carry forward amounts, leading to overstated indirect cost rates.

Additionally, AMBAG recorded duplicate depreciation costs of \$7,454 in the 2018-19 indirect costs pool. The 2018-19 depreciation costs were included in the Other Costs and Depreciation cost categories in the 2020-21 ICAP. AMBAG relies on the external auditor to accurately record indirect expenditures in AMBAG's annual financial statements and does not have a process in place to reconcile indirect expenditures used in the ICAP to the expenditures in its accounting system. Inaccurate costs in the carry forward calculation can result in an incorrect indirect cost rate for the current year. As a result, the 2020-21 indirect cost rate was overstated.

⁴ The ICAPs submitted by AMBAG were accepted by IOAI on August 6, 2019 and August 20, 2020, respectively.

Per 2 CFR 200.303 (a), AMBAG must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Recommendations:

- A. Reconcile the 2019-20 and 2020-21 indirect cost billings using the audited rates in Table 1 and reimburse Caltrans for any over payments.
- B. Implement a review process to ensure leave balances are removed from indirect salaries prior to the allocation of fringe benefits costs.
- C. Implement a reconciliation process to ensure actual indirect costs used in the carry forward calculation, such as depreciation costs, trace and agree to the accounting system.

**Summary of Accepted and Audited Costs and Rates
Indirect Cost Allocation Plan
Association of Monterey Bay Area Governments
2019-20**

Table A.1 – 2017-18 Actual Costs (Carry Forward Year)				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding Number
Direct Costs				
Salaries	\$ 817,862	\$ 1,321	\$ 819,183	1
Fringe Benefits	478,674	29,138	507,812	1
Total Indirect Cost Base⁵	\$ 1,296,536	\$ 30,459	\$ 1,326,995	
Indirect Costs Pool				
Salaries	\$ 481,948	\$ (27,997)	\$ 453,951	1
Fringe Benefits	279,098	(2,462)	276,636	1
Professional Services	81,677	0	81,677	
Lease/Rentals	77,687	0	77,687	
Communications	16,061	0	16,061	
Supplies	11,210	0	11,210	
Printing	727	0	727	
Transportation	10,211	0	10,211	
Other Costs	45,356	0	45,356	
Depreciation	5,699	0	5,699	
Total Indirect Costs Pool⁶	\$ 1,009,674	\$ (30,459)	\$ 979,215	

⁵ 2017-18 Indirect Cost Base is forwarded to Table A.2 – 2017-18 Calculated Indirect Cost Recoveries.

⁶ 2017-18 Total Indirect Costs Pool is forwarded to Table A.3 – 2017-18 Carry Forward Calculation.

APPENDIX A (continued)

Summary of Accepted and Audited Costs and Rates Indirect Cost Allocation Plan Association of Monterey Bay Area Governments 2019-20

Table A.2 – 2017-18 Calculated Indirect Cost Recoveries				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(A) Indirect Costs Base (from Table A.1)	\$ 1,296,536	\$ 30,459	\$ 1,326,995	1
(B) 2017-18 Indirect Cost Rate ⁷	84.92%	84.92%	84.92%	
(C) Calculated Indirect Cost Recoveries (A) x (B)⁸	\$ 1,101,050⁹	\$ 25,866	\$ 1,126,884¹⁰	

Table A.3 – 2017-18 Carry Forward Calculation				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(D) 2017-18 Indirect Costs Pool (from Table A.1)	\$ 1,009,674	\$ (30,459)	\$ 979,215	1
(E) Calculated Indirect Cost Recoveries (from table A.2)	1,101,050	25,866	1,126,884	
(F) 2015-16 Carry Forward	163,545	0	163,545	
(G) Rounding Adjustment		(32)		
(H) 2017-18 Carry Forward (D) – (E) + (F) + (G)¹¹	\$ 72,169¹²	\$ (56,293)¹³	\$ 15,876	

Table A.4 – 2019-20 ICAP Indirect Cost Rate				
Description	Accepted Amounts ¹⁴	Audit Adjustments	Audited Amounts	Finding No.
(I) 2019-20 Budgeted Indirect Costs ¹⁵	\$ 1,338,782	\$ 0	\$ 1,338,782	
(J) 2017-18 Carry Forward (from Table A.3)	72,169	(56,293)	15,876	1
(K) Net 2019-20 Budgeted Indirect Cost Pool (I) + (J)	\$ 1,410,951	\$ (56,293)	\$ 1,354,658	
(L) 2019-20 Budgeted Direct Salaries and Wages plus Fringe Benefits (Indirect Cost Base) ¹⁶	\$ 1,600,055	\$ 0	\$ 1,600,055	
(M) 2019-20 AMBAG Rate (K)/(L)	88.18%	(3.52)%	84.66%	

⁷ 2017-18 Indirect Cost Rate was accepted by IOAI on May 23, 2017.

⁸ Calculated Indirect Cost Recoveries is forwarded to Table A.3 – 2017-18 Carry Forward Calculation.

⁹ AMBAG did not round the 2017-18 carry forward year approved indirect cost rate to the nearest hundredth when calculating the indirect cost recoveries; therefore, the calculated amount totals \$1,101,018, resulting in a \$32 variance.

¹⁰ Amount does not cross foot due to \$32 rounding variance.

¹¹ 2017-18 Carry Forward is forwarded to Table A4 – 2019-20 ICAP Indirect Cost Rate.

¹² Due to the rounding of the indirect cost recoveries accepted amount of \$1,101,050, AMBAG under calculated its 2017-18 carry forward by \$32 which impacted the audit adjustments.

¹³ Ibid.

¹⁴ The ICAP costs and calculated rates submitted by AMBAG were accepted by IOAI on August 6, 2019.

¹⁵ Because the 2020-21 costs are budget estimates, specific costs/transactions were not tested.

¹⁶ Ibid.

**Summary of Accepted and Audited Costs and Rates
Indirect Cost Allocation Plan
Association of Monterey Bay Area Governments
2020-21**

Table B.1 – 2018-19 Actual Costs (Carry Forward Year)				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding Number
Direct Costs				
Salaries	\$ 895,595	\$ 581	\$ 896,176	1
Fringe Benefits	456,688	11,159	467,847	1
Total Indirect Cost Base¹⁷	\$ 1,352,283	\$ 11,740	\$ 1,364,023	
Indirect Costs Pool				
Salaries	\$ 541,224	\$ (15,007)	\$ 526,217	1
Fringe Benefits	281,573	(1,559)	280,014	1
Professional Services	113,951	0	113,951	
Lease/Rentals	88,247	0	88,247	
Communications	18,461	0	18,461	
Supplies	29,623	0	29,623	
Printing	2,440	0	2,440	
Transportation	12,086	0	12,086	
Other Costs	59,991	(7,454)	52,537	1
Depreciation	7,454	0	7,454	
Total Indirect Costs Pool¹⁸	\$ 1,155,050	\$ (24,020)	\$ 1,131,030	

¹⁷ 2018-19 Indirect Cost Base is forwarded to Table B.2 – 2018-19 Calculated Indirect Cost Recoveries.

¹⁸ 2018-19 Total Indirect Costs Pool is forwarded to Table B.3 – 2018-19 Carry Forward Calculation.

APPENDIX B (continued)

Summary of Accepted and Audited Costs and Rates Indirect Cost Allocation Plan Association of Monterey Bay Area Governments 2020-21

Table B.2 – 2018-19 Calculated Indirect Cost Recoveries				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(A) Indirect Costs Base (from Table B.1)	\$ 1,352,283	\$ 11,740	\$ 1,364,023	1
(B) 2018-19 Indirect Cost Rate ¹⁹	84.73%	84.73%	84.73%	
(C) Calculated Indirect Cost Recoveries (A) x (B)²⁰	\$ 1,145,817²¹	\$ 9,947	\$ 1,155,736²²	

Table B.3 – 2018-19 Carry Forward Calculation				
Description	Accepted Amounts	Audit Adjustments	Audited Amounts	Finding No.
(D) 2018-19 Indirect Costs Pool (from Table B.1)	\$ 1,155,050	\$ (24,020)	\$ 1,131,030	1
(E) Calculated Indirect Cost Recoveries (from table B.2)	1,145,817	9,947	1,155,736	
(F) 2016-17 Carry Forward	98,739	0	98,739	
(G) Rounding Adjustment		(28)		
(H) 2018-19 Carry Forward (D) – (E) + (F) – (G)²³	\$ 107,972²⁴	\$ (33,939)²⁵	\$ 74,033	

Table B.4 – 2020-21 ICAP Indirect Cost Rate				
Description	Accepted Amounts ²⁶	Audit Adjustments	Audited Amounts	Finding No.
(I) 2020-21 Budgeted Indirect Costs ²⁷	\$ 1,293,700	\$ 0	\$ 1,293,700	
(J) 2018-19 Carry Forward (from Table B.3)	107,792	(33,939)	74,033	1
(K) Net 2020-21 Budgeted Indirect Cost Pool (I) + (J)	\$ 1,401,672	\$ (33,939)	\$ 1,367,733	
(L) 2020-21 Budgeted Direct Salaries and Wages plus Fringe Benefits (Indirect Cost Base) ²⁸	\$ 1,479,112	\$ 0	\$ 1,479,112	
(M) 2020-21 AMBAG Rate (K)/(L)	94.76%	(2.29)%	92.47%	

¹⁹ 2018-19 Indirect Cost Rate was accepted by IOAI on September 6, 2018.

²⁰ Calculated Indirect Cost Recoveries is forwarded to Table B.3 – 2018-19 Carry Forward Calculation.

²¹ AMBAG did not round the 2018-19 carry forward year approved indirect cost rate to the nearest hundredth when calculating the indirect cost recoveries; therefore, the calculated amount totals \$1,145,789, resulting in a \$28 variance.

²² Amount does not cross foot due to \$28 rounding variance.

²³ 2018-19 Carry Forward is forwarded to Table B.4 – 2020-21 ICAP Indirect Cost Rate.

²⁴ Due to the rounding of the indirect cost recoveries accepted amount of \$1,145,817, AMBAG under calculated its carry forward by \$28 which impacted the audit adjustments.

²⁵ Ibid.

²⁶ The ICAP costs and calculated rates submitted by AMBAG were accepted by IOAI on August 20, 2020.

²⁷ Because the 2020-21 costs are budget estimates, specific costs/transactions were not tested.

²⁸ Ibid.



November 23, 2021

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street
Sacramento, CA 95819-3706

Dear Ms. McCormack,

In response to the Confidential Draft Audit Report – Association of Monterey Bay Area Governments (AMBAG) Indirect Cost Allocation Plan Audit, AMBAG submits the following:

Recommendation A – Reconcile the 2019-2020 and 2020-2021 indirect cost billing using the audited rates in Table 1 and reimburse Caltrans for any over payments.

- The reconciliation of the 2019-2020 indirect cost billing using the audited rates is in process. AMBAG will work with Caltrans Division of Planning to arrange for the reimbursement of any over payments when the reconciliation is complete.

Recommendation B – Implement a review process to ensure leave balances are removed from indirect salaries prior to the allocation of fringe benefit costs.

- AMBAG will formalize its review process to ensure leave balances are allocated correctly prior to the allocation of fringe benefit costs.

Finding 1 of the audit report indicates that \$47,025 of the \$54,479 identified as part of the unallowable costs in the indirect pool were costs allowable for reimbursement, but misclassified as indirect instead of direct costs. The misclassification occurred as a result of platform changes made by AMBAG's payroll provider that were not fully implemented by the provider. AMBAG was not informed of the changes or the fact that the integration was incomplete. The situation was rectified in the 2018-19 when it came to attention of the agency.

Recommendation C – Implement a reconciliation process to ensure actual direct costs used in the carry forward calculation, such as depreciation costs, trace and agree to the accounting system.

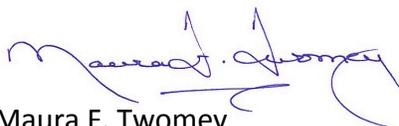
- AMBAG will formalize a robust reconciliation process to ensure that actual direct costs in used in the carry forward calculation trace and agree to the accounting system.

Planning Excellence!

As noted in Finding 1, AMBAG's 2018-19 indirect cost pool included duplicate depreciation costs of \$7,454. AMBAG's external auditor included the depreciation costs in both the schedule of Other Costs and Depreciation cost categories and as a separate line item which resulted in the duplication. The error was undiscovered by both the external auditor's and AMBAG staff's review processes. Please note that the duplicate depreciation costs were never entered into AMBAG's accounting system although they were reported incorrectly by the external auditors. Please note, also, that AMBAG staff confirmed that this was an isolated incident and does not effect subsequent years.

Thank you for the opportunity to respond to the Confidential Draft Audit Report – Association of Monterey Bay Area Governments Indirect Cost Allocation Plan Audit. We appreciate the professionalism and diligence of your staff throughout the audit process, as well as the opportunity the audit provided to make improvements to our fiscal processes and procedures.

Sincerely,

A handwritten signature in blue ink, appearing to read "Maura F. Twomey", with a stylized flourish at the end.

Maura F. Twomey
Executive Director