

Memorandum

*Making Conservation
a California Way of Life.*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: June 10, 2019

File: P1594-0072
P1594-0073
P1594-0074

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

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – COUNTY OF MONTEREY, DEPARTMENT OF PUBLIC WORKS**

At the request of the Independent Office of Audits and Investigations, the State Controller's Office completed an audit of the County of Monterey, Department of Public Works' (County) Indirect Cost Rate Proposal (ICRP) for fiscal years 2015/16 through 2017/18. The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 200 and Caltrans Local Assistance Procedures Manual Chapter 5. In addition, the audit was performed to determine whether the County has adequate accounting controls to properly manage federal- and state-funded projects, and whether the county's procurement policies and procedures were in compliance with 2 CFR 200. The complete audit report is attached.

The audit did not disclose any findings. No further action is required.

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

Attachment
County of Monterey Audit

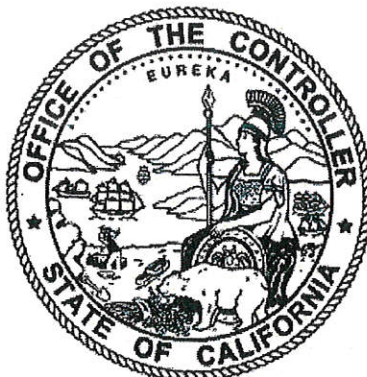
cc: Naville Pereira, Chief Director, Public Works and Facilities, Monterey County
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
William Lewis, Assistant Director, Independent Office of Audits and Investigations
Tim Gubbins, District Director, District 5, California Department of Transportation
Aileen Loe, Deputy District Director, Planning and Local Assistance, District 5, 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
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Jacqueline Kahrs, Regional Coordination Branch Chief, Office of Regional Planning, Division of Transportation Planning, California Department of Transportation
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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
P1594-0072
P1594-0073
P1594-0074

MONTEREY COUNTY DEPARTMENT OF PUBLIC WORKS

Audit Report

INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0044 (Audit Request Nos. P1594-0072, P1594-0073, and P1594-0074)

July 1, 2015, through June 30, 2018



BETTY T. YEE
California State Controller

May 2019



BETTY T. YEE
California State Controller

May 24, 2019

MarSue Morrill, Chief
External Audits – Local Governments
Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200, MS 2
Sacramento, CA 95814

Dear Ms. Morrill:

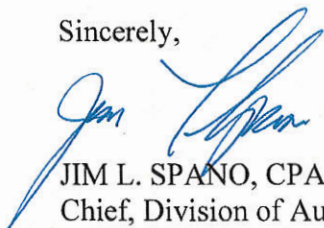
The State Controller's Office audited the indirect cost rate proposals (ICRPs) of Monterey County, Department of Public Works. The audit period included ICRPs for fiscal year (FY) 2015-16 through FY 2017-18. The audit was performed at the request of the California Department of Transportation (Caltrans) Audits and Investigations.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, U.S. *Code of Federal Regulations* (CFR), Part 200, and the Caltrans *Local Assistance Procedures Manual*, Chapter 5. Our audit was also performed to determine whether the county has sufficient accounting controls to properly manage federal- and state-funded projects, and whether the county's procurement policies and procedures were in compliance with 2 CFR 200.

The county submitted ICRPs for the Department of Public Works with rates of 91.68% for FY 2015-16, 76.49% for FY 2016-17, and 93.09% for FY 2017-18. Our audit found that the county's ICRPs were in compliance with the cost principles prescribed in 2 CFR 200.

If you have any questions, please contact Andrew Finlayson, Bureau Chief, by telephone at (916) 324-6310.

Sincerely,



JIM L. SPANO, CPA
Chief, Division of Audits

JLS/ljs

cc: Luisa Ruvalcaba, Audit Manager (via email)
External Audits – Local Governments
Audits and Investigations
California Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of Monterey County, Department of Public Works. The audit period included ICRPs for fiscal year (FY) 2015-16 through FY 2017-18.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, U.S. *Code of Federal Regulations* (CFR), Part 200, and the California Department of Transportation's (Caltrans) *Local Assistance Procedures Manual* (LAPM), Chapter 5.

Our audit was also performed to determine whether the county's accounting controls properly manage federal- and state-funded projects, and whether the county's procurement policies and procedures were in compliance with 2 CFR 200.

The county submitted ICRPs for the Department of Public Works with rates of 91.68% for FY 2015-16, 76.49% for FY 2016-17, and 93.09% for FY 2017-18. Our audit found that the county's ICRPs were in compliance with the cost principles prescribed in 2 CFR 200.

Background

Monterey County is one of the original counties of California, located on the Pacific coast. The county government is overseen by an elected five-member Board of Supervisors and elected officials head the offices of the Assessor, Auditor-Controller, Clerk/Recorder, Coroner, District Attorney, and Sheriff. The Board of Supervisors sets priorities for the county and through delegated authority to the County Administrative Office, oversees most county departments and programs, including the Department of Public Works.

The Department of Public Works is responsible for management, operation, and maintenance of public roads and bridges, county government-owned buildings and facilities, fleet storm drains, sanitation district collection, and treatment and disposal facilities.

We performed the audit at the request of Caltrans (Audit Request Nos. P1594-0062, P1594-0063, and P1594-0064. The authority to conduct this audit is given by Interagency Agreement No. 77A0044, dated June 1, 2014, between the SCO and Caltrans, which authorizes the SCO to perform audits of proposed ICRPs submitted to Caltrans from local government agencies to ensure compliance with 2 CFR 200 and the Caltrans LAPM, Chapter 5.

Objectives, Scope, and Methodology

We conducted the audit to determine whether:

- The county's ICRPs are in compliance with the cost principles prescribed in 2 CFR 200;
- The county's ICRPs are in compliance with the requirements for ICRP preparation and application identified in the Caltrans LAPM, Chapter 5;

- The county's accounting controls properly managed federal- and state-funded projects; and
- The county's procurement policies and procedures are in compliance with 2 CFR 200.

The audit periods for the Department of Public Works were as follows:

Period	Proposed Rate	Rate Type
July 1, 2015, to June 30, 2016	91.68%	Fixed
July 1, 2016, to June 30, 2017	76.49%	Fixed
July 1, 2017, to June 30, 2018	93.09%	Fixed

To achieve our audit objectives, we:

- Reviewed the county's FY 2011-12 and FY 2012-13 ICRP reports, issued by the SCO, for findings related to the objectives of the audit;
- Reviewed FY 2015-16 through FY 2017-18 single audit reports, issued by independent public accounting firms, for findings related to the objectives of the audit;
- Reviewed the county's written policies and procedures relating to accounting systems, procurement, and project/contract management;
- Interviewed employees, completed an internal control questionnaire, and performed a system walk-through in order to gain a limited understanding of the county's internal controls, accounting systems related to timekeeping and payroll, procurement and billing processes, accounts payable, and accounts receivable;
- Assessed the internal control system related to the ICRPs for FY 2015-16, FY 2016-17, and FY 2017-18, based on the review of written procedures and policies, internal control interviews, and walk-throughs;
- Based on our internal control assessment, designed a non-statistical sampling plan for direct and indirect costs reported in the ICRPs;
- Judgmentally selected a non-statistical sample of direct and indirect costs reported in the ICRPs, and performed a limited test of controls to confirm and validate that documented processes and procedures were functioning as designed. Tested the cost and financial accounting system to ensure that the system can identify projects, activities related to projects, direct costs, and indirect costs, as indicated by the county's written policies and procedures and internal control interviews. We also tested the same sampled costs to determine whether the amounts claimed were adequately supported and in compliance with 2 CFR 200:
 - Salaries and Fringe Benefits
 - Sample: \$29,595 for FY 2013-14
 - Population: \$10,084,027 for FY 2013-14
 - Sample: \$27,140 for FY 2014-15

- Population: \$9,508,146 for FY 2014-15
- Sample: \$41,062 for FY 2015-16
- Population: \$9,698,215 for FY 2015-16
- Non-Salary-Related Indirect Costs
 - Sample: \$59,740 for FY 2012-13 through FY 2014-15
 - Population \$257,976 for FY 2012-13 through FY 2014-15

Errors found in the samples selected were not projected to the intended (total) population;

- Determined whether payments to contractors were made in a timely manner and were billed to Caltrans subsequent to payment;
- Determined whether the actual indirect costs recovered by the county were at the Caltrans approved indirect cost rate; and
- Determined whether the county's invoices to Caltrans for approved projects are in compliance with the Caltrans LAPM, Chapter 5.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the county's financial statements. The scope of the audit was limited to select financial and compliance activities. In addition, our review of internal controls was limited to gaining and understanding of the transaction flow and accounting controls to determine the county's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

Our audit found that:

- The county's ICRPs were in compliance with the cost principles prescribed in 2 CFR 200;
- The county's ICRPs were prepared in compliance with the Caltrans LAPM, Chapter 5;
- The county's accounting controls properly managed federal- and state-funded projects; and
- The county's procurement policies and procedures were in compliance with 2 CFR 200.

Follow-up on Prior Audit Findings

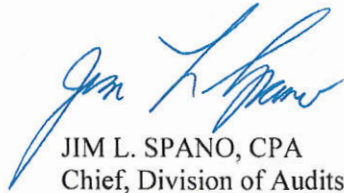
There were no findings in the prior ICRP audit for FY 2011-12 and FY 2012-13. As there were no findings noted in the previous audit, no follow-up was necessary.

**Views of
Responsible
Officials**

We discussed our audit results with the county's representatives during an exit teleconference on April 16, 2019. Jessica Cordiero-Martinez, Finance Manager II; Crystal Corpuz, Accountant III; and Shawne Ellerbee, Deputy Director of Administrative Services, agreed with the audit results. Ms. Ellerbee declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of Monterey County, Caltrans, and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record.



JIM L. SPANO, CPA
Chief, Division of Audits

May 24, 2019

**Schedule 1—
Summary of Proposed and Audited Rates
Department of Public Works
July 1, 2015, through June 30, 2018**

<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
2015-16	91.68%	91.68%	0.00%	Schedule 2
2016-17	76.49%	76.49%	0.00%	Schedule 3
2017-18	93.09%	93.09%	0.00%	Schedule 4

**Schedule 2—
Schedule of Direct Costs, Indirect Costs, and
Carry-Forward
Department of Public Works
Fiscal Year 2015-16**

	Proposed Amount	Audited Amount
Direct costs:		
Salaries and wages	\$ 4,752,968	\$ 4,752,968
Fringe benefits	3,732,666	3,732,666
Total direct costs	<u>\$ 8,485,634</u>	<u>\$ 8,485,634</u>
Indirect costs:		
Indirect salaries	\$ 803,778	\$ 803,778
Indirect fringe benefits	794,615	794,615
6222 Uniforms and Safety Equipment	118	118
6231 Communication Charges – External	535	535
6232 Communication Charges – Internal	52,954	52,954
6241 Food	126	126
6262 Liability Insurance – Recoverable	635,344	635,344
6266 Insurance – Property	17,180	17,180
6268 Insurance – Other	6,752	6,752
6311 Building Maintenance – External	11	11
6312 Building Maintenance – Internal	-	-
6321 Equipment Maintenance	142	142
6351 Membership Fees	4,646	4,646
6381 Advertising	3,284	3,284
6401 Books/Periodicals/Subscriptions	80	80
6404 Courier Services – External	84	84
6405 Courier Services – Internal	-	-
6406 Mail Handling Charges	-	-
6407 Minor Computer Hardware	972	972
6408 Minor Computer Software	20,115	20,115
6409 Minor Equipment and Furnishings	1,303	1,303
6410 Office Supplies	6,717	6,717
6411 Postage and Shipping	81	81
6412 Printing/Graphics/Binding – External	1,707	1,707
6414 Other Office Expense	16	16
6415 Record Retention	14,895	14,895
6601 Accounting and Auditing Charges	3,500	3,500
6603 Data Processing Services – Internal	323,691	323,691
6608 Other Medical Services	225	225
6609 Other Personnel Services	1,777,688	1,777,688
6611 Staff Training Services	12,507	12,507
6612 Temporary Help Services	66,109	66,109

Schedule 2 (continued)

	Proposed Amount	Audited Amount
Indirect costs (continued):		
6613 Other Professional/Special Services	99,066	99,066
6801 Publications and Legal Notices	1,902	1,902
6821 Rents and Leases – Equipment	31,081	31,081
6835 Other Special Departmental Expenses	4,684	4,684
6861 Conference/Lodging/Meals/Travel	4,807	4,807
6862 Employee Mileage Reimbursement	103	103
6866 Vehicle Maintenance – External	-	-
6881 Utilities	81	81
7201 Contribution to Other Agencies	131,008	131,008
7301 Cost Plan Charges	885,980	885,980
7531 Equipment	-	-
Temporary administrative staff	53,386	53,386
Subtotal, indirect costs*	\$ 5,761,272	\$ 5,761,272
Carry-forward adjustment	\$ 2,018,638	\$ 2,018,638
Total indirect costs with carry-forward*	\$ 7,779,910	\$ 7,779,910
 Total indirect costs*	 \$ 7,779,910	 \$ 7,779,910
Total direct costs	\$ 8,485,634	\$ 8,485,634
 Indirect cost rate	 91.68%	 91.68%

* Differences due to rounding.

**Schedule 3—
Schedule of Direct Costs, Indirect Costs, and
Carry-Forward
Department of Public Works
Fiscal Year 2016-17**

	Proposed Amount	Audited Amount
Direct costs:		
Salaries and wages	\$ 4,940,695	\$ 4,940,695
Fringe benefits	3,418,012	3,418,012
Total direct costs	<u>\$ 8,358,707</u>	<u>\$ 8,358,707</u>
Indirect costs:		
Indirect salaries	\$ 578,014	\$ 578,014
Indirect fringe benefits	571,425	571,425
6222 Uniforms and Safety Equipment	-	-
6231 Communication Charges – External	829	829
6232 Communication Charges – Internal	91,377	91,377
6241 Food	-	-
6262 Liability Insurance – Recoverable	967,737	967,737
6266 Insurance – Property	16,632	16,632
6268 Insurance – Other	6,385	6,385
6311 Buildings Maintenance – External	-	-
6312 Buildings Maintenance – Internal	2,844	2,844
6321 Equipment Maintenance	-	-
6351 Membership Fees	6,750	6,750
6381 Advertising	645	645
6401 Books/Periodicals/Subscriptions	1,495	1,495
6404 Courier Services – External	-	-
6405 Courier Services – Internal	12,463	12,463
6406 Mail Handling Charges	618	618
6407 Minor Computer Hardware	3,840	3,840
6408 Minor Computer Software	2,498	2,498
6409 Minor Equipment and Furnishings	749	749
6410 Office Supplies	9,913	9,913
6411 Postage and Shipping	1,893	1,893
6412 Printing/Graphics/Binding – External	2,194	2,194
6414 Other Office Expense	-	-
6415 Record Retention	20,011	20,011
6601 Accounting and Auditing Charges	3,938	3,938
6603 Data Processing Services – Internal	357,719	357,719
6608 Other Medical Services	160	160
6609 Other Personnel Services	532,812	532,812
6611 Staff Training Services	-	-
6612 Temporary Help Services	20,021	20,021

Schedule 3 (continued)

	Proposed Amount	Audited Amount
Indirect costs (continued):		
6613 Other Professional/Special Services	31,090	31,090
6801 Publications and Legal Notices	-	-
6821 Rents and Leases – Equipment	46,867	46,867
6835 Other Special Departmental Expenses	569	569
6861 Conference/Lodging/Meals/Travel	4,498	4,498
6862 Employee Mileage Reimbursement	-	-
6866 Vehicle Maintenance – External	-	-
6881 Utilities	-	-
7201 Contribution to Other Agencies	131,063	131,063
7301 Cost Plan Charges	941,391	941,391
7531 Equipment	6,134	6,134
Temporary administrative staff	-	-
Subtotal, indirect costs*	\$ 4,374,575	\$ 4,374,575
Carry-forward adjustment	\$ 2,018,638	\$ 2,018,638
Total indirect costs with carry-forward*	\$ 6,393,213	\$ 6,393,213
Total indirect costs*	\$ 6,393,213	\$ 6,393,213
Total direct costs	\$ 8,358,707	\$ 8,358,707
Indirect cost rate	76.49%	76.49%

*Differences due to rounding.

**Schedule 4—
Schedule of Direct Costs, Indirect Costs, and
Carry-Forward
Department of Public Works
Fiscal Year 2017-18**

	Proposed Amount	Audited Amount
Direct costs:		
Salaries and wages	\$ 4,357,825	\$ 4,357,825
Fringe benefits	3,461,913	3,461,913
Total direct costs	\$ 7,819,738	\$ 7,819,738
Indirect costs:		
Indirect salaries	\$ 1,001,374	\$ 1,001,374
Indirect fringe benefits	877,103	877,103
6222 Uniforms and Safety Equipment	917	917
6231 Communication Charges – External	1,633	1,633
6232 Communication Charges – Internal	(4,521)	(4,521)
6241 Food	51	51
6262 Liability Insurance – Recoverable	1,226,656	1,226,656
6266 Insurance – Property	16,371	16,371
6268 Insurance – Other	6,707	6,707
6311 Building Maintenance – External	-	-
6312 Building maintenance – Internal	-	-
6321 Equipment Maintenance	4,202	4,202
6351 Membership Fees	7,822	7,822
6381 Advertising	1,135	1,135
6401 Books/Periodicals/Subscriptions	1,012	1,012
6404 Courier Services – External	64	64
6405 Courier Services – Internal	10,033	10,033
6406 Mail Handling Charges	662	662
6407 Minor Computer Hardware	3,865	3,865
6408 Minor Computer Software	10,292	10,292
6409 Minor Equipment and Furnishings	2,209	2,209
6410 Office Supplies	10,125	10,125
6411 Postage and Shipping	1,870	1,870
6412 Printing/Graphics/Binding – External	533	533
6414 Other Office Expense	22	22
6415 Record Retention	-	-
6601 Accounting and Auditing Charges	3,878	3,878
6603 Data Processing Services – Internal	521,721	521,721
6608 Other Medical Services	-	-
6609 Other Personnel Services	702,385	702,385
6611 Staff Training Services	-	-
6612 Temporary Help Services	8,867	8,867

Schedule 4 (continued)

	Proposed Amount	Audited Amount
Indirect costs (continued):		
6613 Other Professional/Special Services	143	143
6801 Publications and Legal Notices	417	417
6821 Rents and Leases – Equipment	38,692	38,692
6835 Other Special Departmental Expenses	55	55
6861 Conference/Lodging/Meals/Travel	5,079	5,079
6862 Employee Mileage Reimbursement	-	-
6866 Vehicle Maintenance – External	29	29
6881 Utilities	6,529	6,529
7201 Contribution to Other Agencies	131,152	131,152
7301 Cost Plan Charges	1,615,707	1,615,707
7531 Equipment	-	-
Temporary administrative staff	-	-
Subtotal, indirect costs*	\$ 6,214,788	\$ 6,214,788
Carry-forward adjustment	\$ 1,064,290	\$ 1,064,290
Total indirect costs with carry-forward*	\$ 7,279,078	\$ 7,279,078
 Total indirect costs*	 \$ 7,279,078	 \$ 7,279,078
Total direct costs	\$ 7,819,738	\$ 7,819,738
 Indirect cost rate	 93.09%	 93.09%

*Differences due to rounding.