

Memorandum

*Making Conservation
a California Way of Life.*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: June 10, 2019

File: P1594-0062
P1594-0063
P1594-0064

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

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – COUNTY OF SIERRA, DEPARTMENT OF TRANSPORTATION**

At the request of the Independent Office of Audits and Investigations, the State Controller's Office completed an audit of the County of Sierra, Department of Transportation's (County) Indirect Cost Rate Proposal (ICRP) for fiscal year 2014/15 through 2016/17. 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 and 49 CFR Part 18.36. 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

RIHUI ZHANG

June 10, 2019

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Attachment

County of Sierra Audit

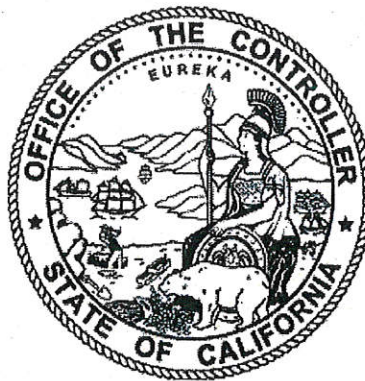
cc: Tim H. Beals, Director, Planning and Building, Sierra County
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
William Lewis, Assistant Director, Independent Office of Audits and Investigations
Amarjeet Benipal, District Director, District 3, California Department of Transportation
Susan Elkins, Deputy District Director, Planning and Local Assistance and Sustainability,
District 3, California Department of Transportation
Angel Pyle, Assistant Division Chief, Division of Rail and Mass Transportation, Caltrans
Ezequiel Castro, Chief, Capital South Branch, Division of Rail and Mass Transportation,
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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
P1594-0062
P1594-0063
P1594-0064

SIERRA COUNTY DEPARTMENT OF TRANSPORTATION

Audit Report

INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0044 (Audit Request Nos. P1594-0062, P1594-0063, and P1594-0064)

July 1, 2014, through June 30, 2017



BETTY T. YEE
California State Controller

May 2019



BETTY T. YEE
California State Controller

May 17, 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:

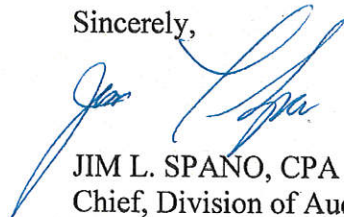
The State Controller's Office audited the indirect cost rate proposals (ICRPs) of Sierra County's Department of Transportation. The audit period included ICRPs for fiscal year (FY) 2014-15, FY 2015-16, and FY 2016-17. The audit was performed at the request of the California Department of Transportation (Caltrans) Audits and Investigations.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *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 and 49 CFR 18.36.

The county submitted ICRPs for the Sierra County Department of Transportation with rates of 0.00% for FY 2014-15, 24.41% for FY 2015-16, and 24.62% for FY 2016-17. Our audit found that the county's ICRPs are 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/as

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 Sierra County's Department of Transportation. The audit period included ICRPs for fiscal year (FY) 2014-15, FY 2015-16, and FY 2016-17.

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 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 and 49 CFR 18.36.

The county submitted ICRPs for the Department of Transportation with rates of 0.00% for FY 2014-15, 24.41% for FY 2015-16, and 24.62% for FY 2016-17. Our audit found that the county's ICRPs are in compliance with the cost principles prescribed in 2 CFR 200.

Background

The County government is overseen by an elected five-member Board of Supervisors. 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 Transportation.

The Department of Transportation provides services to the public through its engineering, maintenance, operations, and administration to carry out responsibilities including road construction, maintenance services, acquisition and disposition of real property related to county public improvements, county property lease services, developing plans for future construction of county facilities, and other public services.

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 225, 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 225 and 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 and 49 CFR 18.36.

The audit period is as follows:

Period	Proposed Rate	Rate Type
July 1, 2014, to June 30, 2015	0.00%	Fixed
July 1, 2015, to June 30, 2016	24.41%	Fixed
July 1, 2016, to June 30, 2017	24.62%	Fixed

To achieve our audit objectives, we:

- Reviewed the county's prior ICRP reports issued by the SCO for FY 2011-12 for findings related to the objectives of the audit;
- Reviewed the single audit reports issued by various public accounting firms for FY 2012-13 through FY 2015-16 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 2014-15, FY 2015-16, and FY 2016-17, 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: Eight transactions, totaling \$63,647 for FY 2012-13
- Population: 300 transactions, totaling \$1,753,375 for FY 2012-13
- Sample: Eight transactions, totaling \$57,563 for FY 2013-14
- Population: 252 transactions, totaling \$1,610,375 for FY 2013-14

- Sample: Eight transactions, totaling \$61,871 for FY 2014-15
- Population: 264 transactions, totaling \$1,688,231 for FY 2014-15

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 population¹;

- Determined whether payments to contractors were made in a timely manner and were billed to Caltrans subsequent to payment;
- Verified that the actual indirect costs recovered by the county were at the Caltrans approved indirect cost rate; and
- Verified that 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 and 49 CFR 18.36.

¹As these samples were not statistical, we made no assumption that errors would also be found in the transactions not sampled.

**Follow-up on
Prior Audit
Findings**

The last ICRP audit for FY 2011-12 included an audit finding. Based on the work performed in the current audit, we noted that the county has taken appropriate corrective actions in response to the audit finding.

**Views of
Responsible
Officials**

We discussed our audit results with the county's representatives during an exit conference conducted by telephone on April 11, 2019. Lynnea White, Interdepartmental Fiscal Officer, and Caleb Nelson, Chief Deputy Auditor, agreed with the audit results. Ms. White 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 Sierra 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 17, 2019

**Schedule 1—
Summary of Proposed and Audited Rates
July 1, 2014, through June 30, 2017**

<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Reference</u>
2014-15	0.00%	0.00%	Schedule 2
2015-16	24.41%	24.41%	Schedule 3
2016-17	24.62%	24.62%	Schedule 4

**Schedule 2—
Schedule of Direct Costs, Indirect Costs, and Carry-Forward
Fiscal Year 2014-15**

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries and wages	\$ 547,351	\$ 547,351
Direct fringe benefits	608,125	608,125
Subtotal	\$ 1,155,476	\$ 1,155,476
Highway Users Tax Account (HUTA) revenue reduction	(240,339)	(240,339)
Total direct costs	<u>\$ 915,137</u>	<u>\$ 915,137</u>
Indirect costs:		
Indirect salaries and wages – Admin	\$ 334,203	\$ 334,203
Indirect salaries and wages – Shop	51,464	51,464
Indirect fringe benefits – Admin	154,070	154,070
Indirect fringe benefits – Shop	27,565	27,565
5105 Clothing	500	500
5106 Insurance	43,273	43,273
5120 Communications	7,500	7,500
5130 Household expense	3,000	3,000
5239 Maintenance – Fuel	-	-
5242 Maintenance – Communications	-	-
5243 Maintenance – Parts	-	-
5241 Maintenance – Vehicles	-	-
5244 Maintenance – Tires	-	-
5150 Membership	1,000	1,000
5155 Miscellaneous	21,578	21,578
5160 Office expense	10,000	10,000
5165 Professional and specialized	20,000	20,000
5166 Cost allocation	128,756	128,756
5174 Publication and legal notice	500	500
5185 Small tools	3,000	3,000
5187 Special department expense	7,000	7,000
5191 Transportation and travel	2,000	2,000
5238 Utilities – LP gas	15,000	15,000
5195 Utilities	19,950	19,950
Subtotal	\$ 850,359	\$ 850,359
HUTA revenue reduction	(176,875)	(176,875)
Subtotal – Indirect costs before carry-forward adjustment	\$ 673,484	\$ 673,484
Carry-forward from FY 2012-13	(901,226)	(901,226)
Total indirect costs after carry-forward adjustment	<u>\$ (227,742)</u>	<u>\$ (227,742)</u>
Total indirect costs	\$ (227,742)	\$ (227,742)
Total direct costs	\$ 915,137	\$ 915,137
Indirect cost rate	<u>-24.89%</u>	<u>-24.89%</u>
Adjusted Rate Claimed	<u>0.00%</u>	<u>0.00%</u>

**Schedule 3—
Schedule of Direct Costs, Indirect Costs, and Carry-Forward
Fiscal Year 2015-16**

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries and wages	\$ 644,706	644,706
Direct fringe benefits	575,673	575,673
Subtotal	\$ 1,220,379	\$ 1,220,379
HUTA revenue reduction	(217,227)	(217,227)
Total direct costs	\$ 1,003,152	\$ 1,003,152
Indirect costs:		
Indirect salaries and wages – Admin	\$ 367,716	\$ 367,716
Indirect salaries and wages – Shop	46,943	46,943
Indirect fringe benefits – Admin	166,064	166,064
Indirect fringe benefits – Shop	26,564	26,564
5105 Clothing	1,000	1,000
5106 Insurance	91,099	91,099
5120 Communications	14,100	14,100
5130 Household expense	3,500	3,500
5239 Maintenance – Fuel	-	-
5242 Maintenance – Communications	-	-
5243 Maintenance – Parts	-	-
5241 Maintenance – Vehicles	-	-
5244 Maintenance – Tires	-	-
5150 Membership	1,000	1,000
5155 Miscellaneous	10,000	10,000
5160 Office expense	10,000	10,000
5165 Professional and specialized	20,000	20,000
5166 Cost allocation	123,593	123,593
5174 Publication and legal notice	500	500
5185 Small tools	3,000	3,000
5187 Special department expense	32,773	32,773
5191 Transportation and travel	3,000	3,000
5238 Utilities – LP gas	15,000	15,000
5195 Utilities	27,000	27,000
Subtotal	\$ 962,852	\$ 962,852
HUTA revenue reduction	(171,388)	(171,388)
Subtotal – Indirect costs before carry-forward adjustment	\$ 791,464	\$ 791,464
Carry-forward from FY 2013-14	(546,621)	(546,621)
Total indirect costs after carry-forward adjustment	\$ 244,843	\$ 244,843
Total indirect costs	\$ 244,843	\$ 244,843
Total direct costs	\$ 1,003,152	\$ 1,003,152
Indirect cost rate	24.41%	24.41%

Schedule 4— Schedule of Direct Costs, Indirect Costs, and Carry-Forward Fiscal Year 2016-17

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries and wages	\$ 588,600	\$ 588,600
Direct fringe benefits	551,947	551,947
Subtotal	\$ 1,140,547	\$ 1,140,547
HUTA revenue reduction	(359,272)	(359,272)
Total direct costs	<u>\$ 781,275</u>	<u>\$ 781,275</u>
Indirect costs:		
Indirect salaries and wages – Admin	\$ 385,922	\$ 385,922
Indirect salaries and wages – Shop	88,686	88,686
Indirect fringe benefits – Admin	177,634	177,634
Indirect fringe benefits – Shop	51,457	51,457
5105 Clothing	1,000	1,000
5106 Insurance	39,093	39,093
5120 Communications	14,100	14,100
5130 Household expense	3,500	3,500
5239 Maintenance – Fuel	-	-
5242 Maintenance – Communications	-	-
5243 Maintenance – Parts	-	-
5241 Maintenance – Vehicles	-	-
5244 Maintenance – Tires	-	-
5150 Membership	1,000	1,000
5155 Miscellaneous	10,000	10,000
5160 Office expense	10,000	10,000
5165 Professional and specialized	20,000	20,000
5166 Cost allocation	146,454	146,454
5174 Publication and legal notice	500	500
5185 Small tools	3,000	3,000
5187 Special department expense	32,773	32,773
5191 Transportation and travel	3,000	3,000
5238 Utilities – LP gas	15,000	15,000
5195 Utilities	27,000	27,000
Subtotal	\$ 1,030,119	\$ 1,030,119
HUTA revenue reduction	(324,487)	(324,487)
Subtotal – Indirect costs before carry-forward adjustment	\$ 705,632	\$ 705,632
Carry-forward from FY 2014-15	(513,298)	(513,298)
Total indirect costs after carry-forward adjustment	<u>\$ 192,334</u>	<u>\$ 192,334</u>
Total indirect costs	\$ 192,334	\$ 192,334
Total direct costs	\$ 781,275	\$ 781,275
Indirect cost rate	<u>24.62%</u>	<u>24.62%</u>