

Memorandum

*Making Conservation
a California Way of Life.*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: July 1, 2019

File: P1594-0068
P1594-0069
P1594-0070
P1594-0071

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

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – TEHAMA COUNTY, DEPARTMENT OF PUBLIC WORKS, ENGINEERING, OPERATIONS, FLOOD, AND SURVEYOR DIVISIONS**

At the request of the Independent Office of Audits and Investigations, the California State Controller's Office (SCO) completed an audit of the Tehama County (County) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2013/14 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) Parts 200 and 225, and the California Department of Transportation's 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 18.36. The complete audit report is attached.

Based on the audit, SCO determined the County misclassified administrative labor costs for FY 2013/14, FY 2014/15, and FY 2015/16 for the Engineering, Operations, and Flood Divisions. The audited rates are as follows:

Division	FY	Proposed Rate	Audited Rate*	Disposition
Engineering	2013/14	57.4%	41.5%	Reconcile prior billings and reimburse overpayment
Engineering	2014/15	50.7%	50.8%	No action required
Engineering	2015/16	53.2%	53.7%	No action required
Operations	2013/14	42.1%	43.7%	No action required
Operations	2014/15	49.0%	52.9%	No action required
Operations	2015/16	47.6%	48.0%	No action required
Flood	2013/14	161.2%	143.5%	Reconcile prior billings and reimburse overpayment
Flood	2014/15	114.2%	132.0%	No action required
Flood	2015/16	74.0%	72.9%	Reconcile prior billings and reimburse overpayment

***Base: Total Direct Salaries plus Fringe Benefits**

Please provide our office with a corrective action plan, including time lines, by August 27, 2019.

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

Attachment
Tehama County Audit

cc: Tim McSorley, Director, Public Works, Tehama 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
Dave Moore, District Director, District 2, California Department of Transportation
Thomas Balkow, Deputy District Director, Planning and Local Assistance, District 2,
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
Erin Thompson, Chief, Office of Regional Planning, Division of Transportation Planning,
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California Department of Transportation
Paula Bersola, Audit Coordinator, Division of Local Assistance, California Department of
Transportation
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
P1594-0068
P1594-0069
P1594-0070
P1594-0071

**TEHAMA COUNTY
DEPARTMENT OF PUBLIC WORKS
ENGINEERING, OPERATIONS, FLOOD,
AND SURVEYOR DIVISIONS**

Audit Report

**INDIRECT COST RATE PROPOSAL AUDIT OF
CALTRANS CONTRACT NO. 77A0044
(Audit Request Nos. P1594-0068, P1594-0069, P1594-0070,
and P1594-0071)**

July 1, 2013, through June 30, 2017



BETTY T. YEE
California State Controller

June 2019



BETTY T. YEE
California State Controller

June 13, 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 Tehama County, Department of Public Works Engineering, Operations, Flood, and Surveyor Divisions. The audit period included ICRPs for fiscal year (FY) 2013-14, 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, U.S. *Code of Federal Regulations* (CFR), Parts 200 and 225, 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.

Our audit found that the county misclassified administrative labor costs for FY 2013-14, FY 2014-15, and FY 2015-16 for the Engineering, Operations, and Flood Divisions. The proposed rates and audited rates were as follows for these divisions:

<u>Division</u>	<u>Proposed</u>	<u>Audited</u>	<u>Difference</u>
Engineering			
FY 2013-14	57.4%	41.5%	-15.9%
FY 2014-15	50.7%	50.8%	0.1%
FY 2015-16	53.2%	53.7%	0.5%
Operations			
FY 2013-14	42.1%	43.7%	1.6%
FY 2014-15	49.0%	52.9%	3.9%
FY 2015-16	47.6%	48.0%	0.4%
Flood			
FY 2013-14	161.2%	143.5%	-17.7%
FY 2014-15	114.2%	132.0%	17.8%
FY 2015-16	74.0%	72.9%	-1.1%

Our audit did not identify adjustments for other rates proposed.

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

Sincerely,

Original signed by

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 Tehama County, Department of Public Works Engineering, Operations, Flood, and Surveyor Divisions. The audit period included ICRPs for fiscal year (FY) 2013-14, 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), Parts 200 and 225, 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.

Our audit found that the county misclassified administrative labor costs for FY 2013-14, FY 2014-15, and FY 2015-16 for the Engineering, Operations, and Flood Divisions. The proposed rates and the audited rates were as follows for these divisions:

Division	Proposed Rate	Audited Rate	Difference
Engineering			
FY 2013-14	57.4%	41.5%	-15.9%
FY 2014-15	50.7%	50.8%	0.1%
FY 2015-16	53.2%	53.7%	0.5%
Operations			
FY 2013-14	42.1%	43.7%	1.6%
FY 2014-15	49.0%	52.9%	3.9%
FY 2015-16	47.6%	48.0%	0.4%
Flood			
FY 2013-14	161.2%	143.5%	-17.7%
FY 2014-15	114.2%	132.0%	17.8%
FY 2015-16	74.0%	72.9%	-1.1%

Our audit did not identify adjustments for other rates proposed.

Background

Engineering Division

The Engineering Division performs mandated functions in Tehama County, including reviewing construction plans and land development projects for consistency with state and local regulations, and reviewing proposed projects to provide conditions of approval.

Operations and Maintenance Division (Operations)

Tehama County road crews maintain paved roads, unpaved gravel shoulders, drainage ditches, gutters, and culverts. Pavement maintenance includes surface treatments, crack sealing, and pothole patching. Roadside maintenance activities include snowplowing, mowing, weed spraying, brush removal, culvert and ditch maintenance, street sweeping, and litter clean-up. Special crews are also responsible for bridge maintenance, pavement management, and sign maintenance.

Flood Control and Water Conservation District (Flood)

The Tehama County Flood Control and Water Conservation District was established in 1957 by the Tehama County Flood Control and Water Conservation District Act. The District is responsible for the flood risk reduction program, groundwater management plan, emergency water conservation regulations, integrated regional water management plan, water inventory and analysis, and flood mitigation.

We performed the audit at the request of Caltrans (Audit Request Nos. P1594-0068, P1594-0069, P1594-0070, and P1594-0071). 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 rates proposed in Tehama County's ICRPs for the audit period are as follows:

Division	Period	Proposed Rate	Rate Type
Engineering	July 1, 2013, to June 30, 2014	57.4%	Final
Engineering	July 1, 2014, to June 30, 2015	50.7%	Final
Engineering	July 1, 2015, to June 30, 2016	53.2%	Final
Engineering	July 1, 2016, to June 30, 2017	55.6%	Fixed
Operations	July 1, 2013, to June 30, 2014	42.1%	Final
Operations	July 1, 2014, to June 30, 2015	49.0%	Final
Operations	July 1, 2015, to June 30, 2016	47.6%	Final
Operations	July 1, 2016, to June 30, 2017	70.9%	Fixed
Flood	July 1, 2013, to June 30, 2014	161.2%	Final
Flood	July 1, 2014, to June 30, 2015	114.2%	Final
Flood	July 1, 2015, to June 30, 2016	74.0%	Final
Flood	July 1, 2016, to June 30, 2017	86.0%	Fixed
Surveyor	July 1, 2013, to June 30, 2014	48.5%	Final

To achieve our audit objectives, we:

- Reviewed the county's prior ICRP report for FY 2011-12, issued by the SCO and Caltrans, for findings related to the objectives of the audit;
- Reviewed the single audit reports for FY 2013-14 and FY 2014-15, issued by Smith and Newell, 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 2013-14 through 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				
	Sample		Population	
	Transactions	Amount	Transactions	Amount
<u>Engineering Division</u>				
FY 2013-14	18	\$ 75,075	494	\$ 723,130
FY 2014-15	18	\$ 64,559	494	\$ 1,305,303
FY 2015-16	18	\$ 86,149	494	\$ 1,172,977
<u>Operations Division</u>				
FY 2013-14	20	\$ 54,184	1040	\$ 3,164,372
FY 2014-15	20	\$ 74,383	1040	\$ 2,859,269
FY 2015-16	20	\$ 82,013	1040	\$ 2,871,344
<u>Flood Division</u>				
FY 2013-14	2	\$ 7,922	26	\$ 17,214
FY 2014-15	2	\$ 7,346	26	\$ 105,495
FY 2015-16	2	\$ 9,021	26	\$ 127,770

Non-Salary-Related Indirect Costs				
	Sample		Population	
	Transactions	Amount	Transactions	Amount
<u>Engineering Division</u>				
FY 2013-14	20	\$ 11,037	70	\$ 32,678
FY 2014-15	20	\$ 25,381	117	\$ 67,174
FY 2015-16	19	\$ 19,021	76	\$ 52,962
<u>Operations Division</u>				
FY 2013-14	60	\$ 55,122	383	\$ 142,603
FY 2014-15	62	\$ 60,791	379	\$ 143,788
FY 2015-16	51	\$ 60,965	377	\$ 128,633

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

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

- Verified that the county's invoices to Caltrans for approved projects were 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 Tehama 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 ICRP was not in compliance with the cost principles prescribed in 2 CFR 225 for FY 2013-14 and FY 2014-15, and 2 CFR 200 for FY 2015-16. The county both understated and overstated administrative direct and indirect salaries, resulting in errors in the proposed rates (see the Finding and Recommendation section);
- 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.

Follow-up on Prior Audit Findings

Our previous 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 representative during an exit conference conducted by telephone on January 29, 2019. Mary Weston, Accountant II, agreed with the audit results. Ms. Weston agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of Tehama 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.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

June 13, 2019

**Schedule 1—
Summary of Proposed and Audited Rates
July 1, 2013, through June 30, 2017**

<u>Division</u>	<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference¹</u>
Engineering	2013-14	57.4%	41.5%	-15.9%	Finding
Engineering	2014-15	50.7%	50.8%	0.1%	Finding
Engineering	2015-16	53.2%	53.7%	0.5%	Finding
Engineering	2016-17	55.6%	55.6%	0.0%	
Operations	2013-14	42.1%	43.7%	1.6%	Finding
Operations	2014-15	49.0%	52.9%	3.9%	Finding
Operations	2015-16	47.6%	48.0%	0.4%	Finding
Operations	2016-17	70.9%	70.9%	0.0%	
Flood	2013-14	161.2%	143.5%	-17.7%	Finding
Flood	2014-15	114.2%	132.0%	17.8%	Finding
Flood	2015-16	74.0%	72.9%	-1.1%	Finding
Flood	2016-17	86.0%	86.0%	0.0%	
Surveyor	2013-14	48.5%	48.5%	0.0%	

¹ See the Finding and Recommendation section.

**Schedule 2—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Engineering Division
Fiscal Year 2013-14**

	Proposed Amount	Audited Amount	Audit Adjustment
Direct costs:			
Direct salaries	\$ 424,462	\$ 800,069	\$ 375,607
Direct fringe benefits	-	-	-
Total direct costs	<u>\$ 424,462</u>	<u>\$ 800,069</u>	<u>\$ 375,607</u>
Indirect costs:			
Indirect salaries	\$ 163,827	\$ 167,345	\$ 3,518
Indirect fringe benefits	-	-	-
53110 Clothing	487	487	-
53120 Communications	3,916	3,916	-
53140 Household Supplies	-	-	-
53150 Insurance	-	-	-
53170 Equipment Maintenance	7,834	7,834	-
53180 Structural Maintance	-	-	-
53190 Medical/Lab Supplies	-	-	-
53200 Memberships/Dues	-	-	-
53220 Office Expense	2,218	2,218	-
53230 Professional & Special	1,740	1,740	-
53235 A-87 Overhead Costs	-	-	-
53240 Ads, Publications, Legal Notices	2,219	2,219	-
53250 Rent/Lease – Equipment	-	-	-
53270 Small Tools	1,083	1,083	-
53280 Materials/Special Dept. Expense	919	919	-
53290 Travel Expense	5,705	5,705	-
53291 Fuel	-	-	-
53297 Transit Subsidy	-	-	-
53300 Utilities	6,558	6,558	-
55048 Taxes & Assessments	-	-	-
Depreciation of Fixed Assets	41,276	41,276	-
Distribution of Admin & General	134,841	219,800	84,959
Subtotal: Indirect costs before carry-forward adjustment	<u>\$ 372,623</u>	<u>\$ 461,100</u>	<u>\$ 88,447</u>
Carry-forward from FY 2011-12	(129,169)	(129,169)	-
Total indirect costs after carry-forward adjustment	<u>\$ 243,454</u>	<u>\$ 331,931</u>	<u>\$ 88,477</u>
Total indirect costs	\$ 243,454	\$ 331,931	\$ 88,477
Total direct costs	\$ 424,462	\$ 800,069	\$ 375,607
Indirect cost rate	<u>57.4%</u>	<u>41.5%</u>	<u>-15.9%</u>

**Schedule 3—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Engineering Division
Fiscal Year 2014-15**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 911,005	\$ 911,062	\$ 57	Finding
Total direct costs	\$ 911,005	\$ 911,062	\$ 57	
Indirect costs:				
Indirect salaries & fringe benefits	\$ 162,574	\$ 163,337	\$ 763	Finding
53110 Clothing	963	963	-	
53120 Communications	2,977	2,977	-	
53140 Household Supplies	-	-	-	
53150 Insurance	-	-	-	
53170 Equipment Maintenance	29,254	29,254	-	
53180 Structural Maintenance	-	-	-	
53190 Medical/Lab Supplies	-	-	-	
53200 Memberships/Dues	50	50	-	
53220 Office Expense	1,131	1,131	-	
53230 Professional & Special	503	503	-	
53235 A-87 Overhead Costs	-	-	-	
53240 Ads, Publications, Legal Notices	1,097	1,097	-	
53250 Rent/Lease – Equipment	-	-	-	
53270 Small Tools	551	551	-	
53280 Materials/Special Dept. Expense	1,452	1,452	-	
53290 Travel Expense	3,515	3,515	-	
53291 Fuel	120	120	-	
53297 Transit Subsidy	-	-	-	
53300 Utilities	6,501	6,501	-	
55048 Taxes & Assessments	-	-	-	
Depreciation of Fixed Assets	19,058	19,058	-	
Distribution of Admin & General	231,724	235,687	3,963	Finding
Subtotal: Indirect costs before carry-forward adjustment	\$ 461,470	\$ 466,196	\$ 4,726	
Carry-forward	-	(3,553)	(3,553)	Finding
Total indirect costs after carry-forward adjustment	\$ 461,470	\$ 462,643	\$ 1,173	
Total indirect costs	\$ 461,470	\$ 462,643	\$ 1,173	
Total direct costs	\$ 911,005	\$ 911,062	\$ 57	
Indirect cost rate	50.7%	50.8%	0.1%	

¹ See the Finding and Recommendation section.

**Schedule 4—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Engineering Division
Fiscal Year 2015-16**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 800,060	\$ 800,064	\$ 4	
Total direct costs	<u>\$ 800,060</u>	<u>\$ 800,064</u>	<u>\$ 4</u>	Finding
Indirect costs:				
Indirect salaries & fringe benefits	\$ 176,102	\$ 176,320	\$ 218	Finding
53110 Clothing	1,177	1,177	-	
53120 Communications	2,579	2,579	-	
53140 Household supplies	-	-	-	
53150 Insurance	-	-	-	
53170 Equipment Maintenance	19,809	19,809	-	
53180 Structural Maintenance	-	-	-	
53190 Medical/Lab supplies	-	-	-	
53200 Memberships/Dues	101	101	-	
53220 Office Expense	466	466	-	
53230 Professional & Special	503	503	-	
53235 A-87 Overhead Costs	-	-	-	
53240 Ads, Publications, Legal Notices	160	160	-	
53250 Rent/Lease – Equipment	-	-	-	
53270 Small Tools	40	40	-	
53280 Materials/Special Dept. Expense	226	226	-	
53290 Travel Expense	2,133	2,133	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	-	-	-	
53300 Utilities	8,182	8,182	-	
55048 Taxes & Assessments	-	-	-	
Depreciation of Fixed Assets	17,586	17,586	-	
Distribution of Admin & General	196,815	200,361	3,546	Finding
Subtotal: Indirect costs before carry-forward adjustment	<u>\$ 425,879</u>	<u>\$ 429,643</u>	<u>\$ 3,764</u>	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	<u>\$ 425,879</u>	<u>\$ 429,643</u>	<u>\$ 3,764</u>	
Total indirect costs	\$ 425,879	\$ 429,643	\$ 3,764	
Total direct costs	\$ 800,060	\$ 800,064	\$ 4	
Indirect cost rate	<u>53.2%</u>	<u>53.7%</u>	<u>0.5%</u>	

¹ See the Finding and Recommendation section.

**Schedule 5—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Engineering Division
Fiscal Year 2016-17**

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries & fringe benefits	\$ 887,385	\$ 887,385
Total direct costs	<u>\$ 887,385</u>	<u>\$ 887,385</u>
Indirect costs:		
Indirect salaries & fringe benefits	\$ 207,411	\$ 207,411
53110 Clothing	826	826
53120 Communications	4,918	4,918
53140 Household Supplies	-	-
53150 Insurance	-	-
53170 Equipment Maintenance	19,403	19,403
53180 Structural Maintance	-	-
53190 Medical/Lab Supplies	-	-
53200 Memberships/Dues	34	34
53220 Office Expense	1,709	1,709
53230 Professional & Special	1,978	1,978
53235 A-87 Overhead Costs	-	-
53240 Ads, Publications, Legal Notices	634	634
53250 Rent/Lease – Equipment	-	-
53270 Small Tools	530	530
53280 Materials/Special Dept. Expense	426	426
53290 Travel Expense	4,159	4,159
53291 Fuel	-	-
53297 Transit Subsidy	18	18
53300 Utilities	7,809	7,809
55048 Taxes & Assessments	996	996
Depreciation of Fixed Assets	8,420	8,420
Distribution of Admin & General	234,237	234,237
Subtotal: Indirect costs before carry-forward adjustment	\$ 493,508	\$ 493,508
Carry-forward	-	-
Total indirect costs after carry-forward adjustment	<u>\$ 493,508</u>	<u>\$ 493,508</u>
Total indirect costs	\$ 493,508	\$ 493,508
Total direct costs	\$ 887,385	\$ 887,385
Indirect cost rate	<u>55.6%</u>	<u>55.6%</u>

**Schedule 6—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Operations Division
Fiscal Year 2013-14**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 2,468,555	\$ 2,173,309	\$ (295,246)	Finding
Total direct costs	\$ 2,468,555	\$ 2,173,309	\$ (295,246)	
Indirect costs:				
Indirect salaries & fringe benefits	\$ 105,761	\$ 92,138	\$ (13,623)	Finding
53110 Clothing	7,951	7,951	-	
53120 Communications	10,205	10,205	-	
53140 Household Supplies	30,130	30,130	-	
53150 Insurance	96,867	96,867	-	
53170 Equipment Maintenance	40,254	40,254	-	
53180 Structural Maintenance	19,158	19,158	-	
53190 Medical/Lab Supplies	327	327	-	
53200 Memberships/Dues	79	79	-	
53220 Office Expense	26,655	26,655	-	
53230 Professional & Special	42,312	42,312	-	
53235 A-87 Overhead Costs	-	-	-	
53240 Ads, Publications, Legal Notices	1,377	1,377	-	
53250 Rent/Lease – Equipment	1,454	1,454	-	
53270 Small Tools	11,254	11,254	-	
53280 Materials/Special Dept. Expense	12,867	12,867	-	
53290 Travel Expense	2,318	2,318	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	1,740	1,740	-	
53300 Utilities	22,896	22,896	-	
55048 Taxes & Assessments	1,600	1,600	-	
Depreciation of Fixed Assets	13,012	13,012	-	
Distribution of Admin & General	590,054	514,717	(75,337)	Finding
Subtotal: Indirect costs before carry-forward adjustment	\$ 1,038,271	\$ 949,311	\$ (88,960)	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	\$ 1,038,271	\$ 949,311	\$ (88,960)	
Total indirect costs	\$ 1,038,271	\$ 949,311	\$ (88,960)	
Total direct costs	\$ 2,468,555	\$ 2,173,309	\$ (295,246)	
Indirect cost rate	42.1%	43.7%	1.6%	

¹ See the Finding and Recommendation section.

**Schedule 7—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Operations Division
Fiscal Year 2014-15**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 2,191,688	\$ 2,133,592	\$ (58,096)	Finding
Total direct costs	<u>\$ 2,191,688</u>	<u>\$ 2,133,592</u>	<u>\$ (58,096)</u>	
Indirect costs:				
Indirect salaries & fringe benefits	\$ 167,511	\$ 215,680	\$ 48,169	Finding
53110 Clothing	13,080	13,080	-	
53120 Communications	14,706	14,706	-	
53140 Household Supplies	38,083	38,083	-	
53150 Insurance	74,785	74,785	-	
53170 Equipment Maintenance	66,597	66,597	-	
53180 Structural Maintenance	7,005	7,005	-	
53190 Medical/Lab Supplies	100	100	-	
53200 Memberships/Dues	960	960	-	
53220 Office Expense	24,885	24,885	-	
53230 Professional & Special	32,511	32,511	-	
53235 A-87 Overhead Costs	-	-	-	
53240 Ads, Publications, Legal Notices	658	658	-	
53250 Rent/Lease – Equipment	333	333	-	
53270 Small Tools	7,337	7,337	-	
53280 Materials/Special Dept. Expense	18,700	18,700	-	
53290 Travel Expense	3,494	3,494	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	-	-	-	
53300 Utilities	22,669	22,669	-	
55048 Taxes & Assessments	280	280	-	
Depreciation of Fixed Assets	79,128	79,128	-	
Distribution of Admin & General	500,070	506,926	6,856	Finding
Subtotal: Indirect costs before carry-forward adjustment	\$ 1,072,892	\$ 1,127,917	\$ 55,025	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	<u>\$ 1,072,892</u>	<u>\$ 1,127,917</u>	<u>\$ 55,025</u>	
Total indirect costs	\$ 1,072,892	\$ 1,127,917	\$ 55,025	
Total direct costs	\$ 2,191,688	\$ 2,133,592	\$ (58,096)	
Indirect cost rate	<u>49.0%</u>	<u>52.9%</u>	<u>3.9%</u>	

¹ See the Finding and Recommendation section.

**Schedule 8—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Operations Division
Fiscal Year 2015-16**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 2,226,700	\$ 2,215,674	\$ (11,026)	Finding
Total direct costs	<u>\$ 2,226,700</u>	<u>\$ 2,215,674</u>	<u>\$ (11,026)</u>	
Indirect costs:				
Indirect salaries & fringe benefits	\$ 169,136	\$ 164,764	\$ (4,372)	Finding
53110 Clothing	14,003	14,003	-	
53120 Communications	21,553	21,553	-	
53140 Household Supplies	45,222	45,222	-	
53150 Insurance	103,576	103,576	-	
53170 Equipment Maintenance	36,001	36,001	-	
53180 Structural Maintenance	10,462	10,462	-	
53190 Medical/Lab Supplies	240	240	-	
53200 Memberships/Dues	990	990	-	
53220 Office Expense	23,548	23,548	-	
53230 Professional & Special	10,034	10,034	0.31	
53231 Pre-Employment Physical	195	195	-	
53234 DMV Physical	1,045	1,045	-	
53236 DOT Drug/Alc Testing	626	626	-	
53235 A-87 Overhead Costs	-	-	-	
53240 Ads, Publications, Legal Notices	539	539	0.13	
53250 Rent/Lease – Equipment	998	998	-	
53270 Small Tools	10,017	10,017	-	
53280 Materials/Special Dept. Expense	16,077	16,077	-	
53290 Travel Expense	-	-	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	520	520	-	
53300 Utilities	32,594	32,594	-	
55048 Taxes & Assessments	280	280	-	
Depreciation of Fixed Assets	87,096	87,096	-	
Distribution of Admin & General	475,508	482,074	6,566	Finding
Subtotal: Indirect costs before carry-forward adjustment	\$ 1,060,260	\$ 1,062,454	\$ 2,194	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	<u>\$ 1,060,260</u>	<u>\$ 1,062,454</u>	<u>\$ 2,194</u>	
Total indirect costs	\$ 1,060,260	\$ 1,062,454	\$ 2,194	
Total direct costs	\$ 2,226,700	\$ 2,215,674	\$ (11,026)	
Indirect cost rate	<u>47.6%</u>	<u>48.0%</u>	<u>0.4%</u>	

¹ See the Findings and Recommendations section.

**Schedule 9—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Operations Division
Fiscal Year 2016-17**

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries & fringe benefits	\$ 1,659,025	\$ 1,659,025
Total direct costs	<u>\$ 1,659,025</u>	<u>\$ 1,659,025</u>
Indirect costs:		
Indirect salaries & fringe benefits	\$ 235,610	\$ 235,610
53110 Clothing	11,693	11,693
53120 Communications	16,284	16,284
53140 Household Supplies	57,373	57,373
53150 Insurance	162,666	162,666
53170 Equipment Maintenance	71,648	71,648
53180 Structural Maintenance	11,560	11,560
53190 Medical/Lab Supplies	500	500
53200 Memberships/Dues	492	492
53220 Office Expense	234,804	234,804
53230 Professional & Special	57,137	57,137
53235 A-87 Overhead Costs	-	-
53240 Ads, Publications, Legal Notices	554	554
53250 Rent/Lease – Equipment	1,772	1,772
53270 Small Tools	11,671	11,671
53280 Materials/Special Dept. Expense	16,330	16,330
53290 Travel Expense	1,438	1,438
53291 Fuel	-	-
53297 Transit Subsidy	339	339
53300 Utilities	28,814	28,814
55048 Taxes & Assessments	2,079	2,079
Depreciation of Fixed Assets	67,259	67,259
Distribution of Admin & General	396,783	396,783
Subtotal: Indirect costs before carry-forward adjustment	\$ 1,386,806	\$ 1,386,806
Carry-forward	-	-
Total indirect costs after carry-forward adjustment	<u>\$ 1,386,806</u>	<u>\$ 1,386,806</u>
Total indirect costs	\$ 1,386,806	\$ 1,386,806
Total direct costs	\$ 1,659,025	\$ 1,659,025
Indirect cost rate	<u>70.9%</u>	<u>70.9%</u>

**Schedule 10—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Flood Division
Fiscal Year 2013-14**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ -	\$ 6,962	\$ 6,962	Finding
Modified direct costs	\$ 52,048	\$ 52,048	\$ -	
Total direct costs	<u>\$ 52,048</u>	<u>\$ 59,010</u>	<u>\$ 6,962</u>	
Indirect costs:				
Indirect salaries	\$ -	\$ 960	\$ 960	Finding
53110 Clothing	-	-	-	
53120 Communications	-	-	-	
53140 Household Supplies	-	-	-	
53150 Insurance	270	270	-	
53170 Equipment Maintenance	2,263	2,263	-	
53180 Structural Maintenance	-	-	-	
53190 Medical/Lab Supplies	-	-	-	
53200 Memberships/dues	5,000	5,000	-	
53220 Office Expense	97	97	-	
53230 Professional & Special	56,278	56,278	-	
53235 A-87 Overhead Costs	8,084	8,084	-	
53240 Ads, Publications, Legal Notices	425	425	-	
53250 Rent/Lease – Equipment	-	-	-	
53270 Small Tools	-	-	-	
53280 Materials/Special Dept. Expense	-	-	-	
53290 Travel Expense	513	513	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	-	-	-	
53300 Utilities	-	-	-	
55048 Taxes & Assessments	-	-	-	
Depreciation of Fixed Assets	-	-	-	
Distribution of Admin & General	10,980	10,803	(177)	Finding
Subtotal: Indirect costs before carry-forward adjustment	\$ 83,910	\$ 84,693	\$ 783	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	<u>\$ 83,910</u>	<u>\$ 84,693</u>	<u>\$ 783</u>	
Total indirect costs	\$ 83,910	\$ 84,693	\$ 783	
Total direct costs	\$ 52,048	\$ 59,010	\$ 6,962	
Indirect cost rate	<u>161.2%</u>	<u>143.5%</u>	<u>-17.7%</u>	

¹ See the Finding and Recommendation section.

**Schedule 11—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Flood Division
Fiscal Year 2014-15**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 87,416	\$ 81,287	\$ (6,129)	Finding
Modified direct costs	-	-	-	
Total direct costs	<u>\$ 87,416</u>	<u>\$ 81,287</u>	<u>\$ (6,129)</u>	
Indirect costs:				
Indirect salaries	\$ -	\$ 7,156	\$ 7,156	Finding
53110 Clothing	25	25	-	
53120 Communications	-	-	-	
53140 Household Supplies	-	-	-	
53150 Insurance	156	156	-	
53170 Equipment Maintenance	2,887	2,887	-	
53180 Structural Maintenance	-	-	-	
53190 Medical/Lab Supplies	-	-	-	
53200 Memberships/Dues	130	130	-	
53220 Office Expense	65	65	-	
53230 Professional & Special	34,101	34,101	-	
53235 A-87 Overhead Costs	3,862	3,862	-	
53240 Ads, Publications, Legal Notices	1,373	1,373	-	
53250 Rent/Lease – Equipment	-	-	-	
53270 Small Tools	-	-	-	
53280 Materials/Special Dept. Expense	37,670	37,670	-	
53290 Travel Expense	1,512	1,512	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	-	-	-	
53300 Utilities	-	-	-	
55048 Taxes & Assessments	-	-	-	
Depreciation of Fixed Assets	-	-	-	
Distribution of Admin & General	18,079	18,392	313	Finding
Subtotal: Indirect costs before carry-forward adjustment	\$ 99,860	\$ 107,329	\$ 7,469	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	<u>\$ 99,860</u>	<u>\$ 107,329</u>	<u>\$ 7,469</u>	
Total indirect costs	\$ 99,860	\$ 107,329	\$ 7,469	
Total direct costs	\$ 87,416	\$ 81,287	\$ (6,129)	
Indirect cost rate	<u>114.2%</u>	<u>132.0%</u>	<u>17.8%</u>	

¹ See the Finding and Recommendation section.

**Schedule 12—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Flood Division
Fiscal Year 2015-16**

	Proposed Amount	Audited Amount	Audit Adjustment	Reference ¹
Direct costs:				
Direct salaries & fringe benefits	\$ 95,661	\$ 93,308	\$ (2,353)	Finding
Modified direct costs	-	-	-	
Total direct costs	<u>\$ 95,661</u>	<u>\$ 93,308</u>	<u>\$ (2,353)</u>	
Indirect costs:				
Indirect salaries	\$ 8,678	\$ 5,581	\$ (3,097)	Finding
53110 Clothing	173	173	-	
53120 Communications	-	-	-	
53140 Household Supplies	-	-	-	
53150 Insurance	273	273	-	
53170 Equipment Maintenance	1,200	1,200	-	
53180 Structural Maintenance	-	-	-	
53190 Medical/Lab Supplies	140	140	-	
53200 Memberships/Dues	-	-	-	
53220 Office Expense	49	49	-	
53230 Professional & Special	25,000	25,000	-	
53235 A-87 Overhead Costs	8,473	8,473	-	
53240 Ads, Publications, Legal Notices	-	-	-	
53250 Rent/Lease – Equipment	-	-	-	
53270 Small Tools	-	-	-	
53280 Materials/Special Dept. Expense	3,289	3,289	-	
53290 Travel Expense	81	81	-	
53291 Fuel	-	-	-	
53297 Transit Subsidy	-	-	-	
53300 Utilities	-	-	-	
55048 Taxes & Assessments	-	-	-	
Depreciation of Fixed Assets	-	-	-	
Distribution of Admin & General	23,431	23,807	376	Finding
Subtotal: Indirect costs before carry-forward adjustment	<u>\$ 70,787</u>	<u>\$ 68,066</u>	<u>\$ (2,721)</u>	
Carry-forward	-	-	-	
Total indirect costs after carry-forward adjustment	<u>\$ 70,787</u>	<u>\$ 68,066</u>	<u>\$ (2,721)</u>	
Total indirect costs	\$ 70,787	\$ 68,066	\$ (2,721)	
Total direct costs	\$ 95,661	\$ 93,308	\$ (2,353)	
Indirect cost rate	<u>74.0%</u>	<u>72.9%</u>	<u>-1.1%</u>	

¹ See the Finding and Recommendation section.

**Schedule 13—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Flood Division
Fiscal Year 2016-17**

	Proposed Amount	Audited Amount
Direct costs:		
Direct salaries & fringe benefits	\$ 103,371	\$ 103,371
Modified direct costs	-	-
Total direct costs	<u>\$ 103,371</u>	<u>\$ 103,371</u>
Indirect costs:		
Indirect salaries	\$ -	\$ -
53110 Clothing	500	500
53120 Communications	700	700
53140 Household Supplies	-	-
53150 Insurance	1,297	1,297
53170 Equipment Maintenance	1,200	1,200
53180 Structural Maintenance	-	-
53190 Medical/Lab Supplies	-	-
53200 Memberships/Dues	140	140
53220 Office Expense	9,500	9,500
53230 Professional & Special	25,000	25,000
53235 A-87 Overhead Costs	8,732	8,732
53240 Ads, Publications, Legal Notices	500	500
53250 Rent/Lease – Equipment	500	500
53270 Small Tools	500	500
53280 Materials/Special Dept. Expense	10,500	10,500
53290 Travel Expense	81	81
53291 Fuel	-	-
53297 Transit Subsidy	-	-
53300 Utilities	-	-
55048 Taxes & Assessments	-	-
Depreciation of Fixed Assets	-	-
Distribution of Admin & General	29,755	29,755
Subtotal: Indirect costs before carry-forward adjustment	<u>\$ 88,905</u>	<u>\$ 88,905</u>
Carry-forward	-	-
Total indirect costs after carry-forward adjustment	<u>\$ 88,905</u>	<u>\$ 88,905</u>
Total indirect costs	\$ 88,905	\$ 88,905
Total direct costs	\$ 103,371	\$ 103,371
Indirect cost rate	<u>86.0%</u>	<u>86.0%</u>

**Schedule 14—
Summary of Direct Costs, Indirect Costs, and
Carry-Forward, Surveyor Division
Fiscal Year 2013-14**

	Proposed Amount	Audited Amount
Direct costs:		
Modified total direct costs	\$ 25,000	\$ 25,000
Total direct costs	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Indirect costs:		
Indirect supplies and services	\$ 12,117	\$ 12,117
Subtotal: Indirect costs before carry-forward adjustment	\$ 12,117	\$ 12,117
Carry-forward	-	-
Total indirect costs after carry-forward adjustment	<u>\$ 12,117</u>	<u>\$ 12,117</u>
Total indirect costs	\$ 12,117	\$ 12,117
Total direct costs	\$ 25,000	\$ 25,000
Indirect cost rate	<u>48.5%</u>	<u>48.5%</u>

Finding and Recommendation

FINDING— Misclassified Labor Costs

Tehama County misclassified labor costs between divisions and categories, which resulted in understated and overstated indirect cost rates for the Engineering, Operations, and Flood Divisions for FY 2013-14 through FY 2015-16. Administrative labor allocation costs were also miscalculated because the allocation was based on each division's labor costs.

2 CFR 200.412 states, in part, "it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances."

Labor costs were misclassified as a result of a clerical error in preparing the ICRPs. The error occurred because a staff member classified some cost centers in incorrect divisions or categories. This was the preparer's first attempt at preparing ICRPs for the county. The county noticed the mistake during fieldwork discussions and corrected the errors.

Misclassified labor was reclassified to the correct division and labor classifications were corrected. The administrative labor allocation was adjusted based on new division labor totals. The indirect cost rates changed as follows:

Division	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Engineering	-15.9%	0.1%	0.5%	0.0%
Operations	1.6%	3.9%	0.4%	0.0%
Flood	-17.7%	17.8%	-1.1%	0.0%
Surveyor	0.0%	N/A	N/A	N/A

Recommendation

We recommend that the county implement processes and procedures for verifying that all cost centers are correctly accounted for during ICRP preparation.

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