State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought. Help Save Water!

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: August 12, 2016

File: P1590-0463

From: MARSUE MORRILL, CPA
Chief
External Audits – Local Governments
Audits & Investigations

Subject: **INDIRECT COST RATE PROPOSAL AUDIT – COUNTY OF SACRAMENTO, DEPARTMENT OF GENERAL SERVICES, REAL ESTATE DIVISION, SECURITIES DIVISION, AND FACILITIES DIVISION**

At the request of the California Department of Transportation (Caltrans) Audits and Investigations (A&I), the State Controller's Office (SCO) conducted an audit of the County of Sacramento, Department of General Services; Real estate Division, Securities Division, and Facilities Division's (County) Indirect Cost Rate Proposals (ICRPs) for fiscal year (FY) 2011/12.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225, and Caltrans Local Assistance Procedures Manual Chapter 5.

Based on audit work performed by SCO, we determined the County's ICRPs are presented in accordance with 2 CFR 225. The approved indirect cost rates are as follows:

Rate Type*	Effective Period	Rate	Applicable To
Final	FY 2011/12	31.50%	Real Estate Division
Final	FY 2011/12	21.63%	Securities Division
Final	FY 2011/12	51.01%	Facilities Division

* Base : Total direct salaries and wages plus fringe benefits

SCO found the County overstated indirect cost rates of Securities Division and Facilities Division by inaccurately including $389,971 of Residual Equity Transfers in the allowable indirect cost pool of Securities Division, and $717,689 for the Facilities Division. As a result, SCO's audited rates were 21.63 percent and 51.01 percent for Securities Division and Facilities Division respectively.

The final audited rates supersede the rates of 39.39 percent for Securities Division and 60.34 percent for Facilities Division accepted by A&I for FY 2011/12 on September 24, 2013. Since the audited indirect costs rates are lower than the previously accepted rates, the County is required to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayment

for FY 2011/12 are to be repaid to Caltrans within 30 days or by the next billing cycle, whichever occurs first.

Please provide our office with a corrective action plan addressing the recommendation in the report, including time lines, by September 12, 2016.

If you have any questions, please contact Yung Jo Ryoo, Auditor, at (916) 323-7950, or me, at (916) 323-7105.

Attachment

c: Ben Lamera, Director, Finance Department, County of Sacramento
Janice Richard, Director, Financial Services, Federal Highway Administration
Jack Lord, Planning and Air Quality Team Leader, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
Kara Magdaleno, Administrative Program Assistant Planning and Finance, Federal Highway Administration
John Hoole, Chief, Project Implementation South, Division of Local Assistance, Caltrans
Winton Emmett, Chief, Project Implementation North, Division of Local Assistance, Caltrans
Martin Villanueva, Chief, Office of Local Assistance, Division of Planning and Local Assistance, District 3, Caltrans
David Saia, LAPM/LAPG Coordinator, Division of Local Assistance, Caltrans
Lai Huynh, Audits and Federal Performance Measures Analyst, Division of Local Assistance, Caltrans
MarSue Morrill, CPA, Chief, External Audits - Local Governments, Audits & Investigations, Caltrans
Office Chron

SACRAMENTO COUNTY DEPARTMENT OF GENERAL SERVICES REAL ESTATE DIVISION, SECURITIES DIVISION, AND FACILITIES DIVISION

Audit Report

INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0034 (Audit Request No. P1590-0463)

July 1, 2011, through June 30, 2012

BETTY T. YEE

California State Controller

August 2016

BETTY T. YEE
California State Controller

August 5, 2016

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 (SCO) audited the indirect cost rate proposals (ICRP) of Sacramento County Department of General Services, Real Estate Division, Securities Division, and Facilities Division. The audit period included ICRPs for fiscal year (FY) 2011-12. The audit was performed at the request of the California Department of Transportation (Caltrans) Audits and Investigations.

The county proposed three separate indirect cost rates for the following divisions: (1) the Real Estate Division proposed an indirect cost rate of 31.50% by dividing indirect and direct costs of $712,011 and $2,260,556; (2) the Securities Division proposed an indirect cost rate of 39.39% by dividing indirect and direct costs of $865,030 and $2,196,243; and (3) the Facilities Division proposed an indirect cost rate of 60.34% by dividing indirect and direct costs of $4,640,985 and $7,691,230, respectively.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 225, and the Caltrans Local Programs Procedures 04-10. The county's management is responsible for fair presentation of the ICRPs.

We noted that the county's accounting system miscoded the Residual Equity Transfers revenue account as an expense account in certain ICRP computations. Those costs claimed by the Securities Division and Facilities Division essentially were accounting abatements. As a result, the Securities Division's overall indirect cost rate changed from 39.39% to 21.63%, and the Facilities Division's overall indirect cost rate decreased from 60.34% to 51.01%.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg

cc: Alice M. Lee, Audit Manager
External Audits-Local Governments
Audits and Investigations (via email)

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRP) of Sacramento County Department of General Services, Real Estate Division, Securities Division, and Facilities Division. The audit period included ICRPs for fiscal year (FY) 2011-12.

The county proposed three separate indirect cost rates for the following divisions: (1) the Real Estate Division proposed an indirect cost rate of 31.50% by dividing indirect and direct costs of $712,011 and $2,260,556; (2) the Securities Division proposed an indirect cost rate of 39.39% by dividing indirect and direct costs of $865,030 and $2,196,243; and (3) the Facilities Division proposed an indirect cost rate of 60.34% by dividing indirect and direct costs of $4,640,985 and $7,691,230, respectively.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), and the California Department of Transportation's (Caltrans) Local Programs Procedures (LPPs) 04-10. The county's management is responsible for fair presentation of the ICRPs.

We determined that the county's accounting system miscoded the Residual Equity Transfers revenue account as an expense account in certain ICRP computations. Those costs claimed by the Securities Division and the Facilities Division essentially were accounting abatements. As a result, the Securities Division's overall indirect cost rate changed from 39.39% to 21.63%, and Facilities Division's overall indirect cost rate decreased from 60.34% to 51.01%.

Background

Sacramento County's Department of General Services provides facility and fleet maintenance services including central purchasing and contract management, printing and scan services, interoffice mail, surplus property management, warehousing, facility planning and design services, real estate management and construction inspection and management.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1590-0463). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0034 dated March 31, 2010, between the SCO and Caltrans, which provides that the SCO will perform audits of proposed ICRPs submitted to Caltrans from local government agencies to ensure compliance with 2 CFR 225 (formerly Office of Management and Budget Circular A-87) and LPPs 04-10.
- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state and may audit the disbursement of any money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

We conducted this performance audit in accordance with the 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 conducted the audit to determine whether (1) The county's ICRP is in compliance with the cost principles prescribed in 2 CFR 225; (2) the county's ICRP is in compliance with the requirements for ICRP preparation and application identified in the Caltrans LPPs 04-10; (3) the county has a sufficient financial management system to properly manage federal- and state-funded projects; and (4) the county has procurement policies and procedures that are in compliance with 2 CFR 225.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of recalculating the ICRP and making inquiries of department personnel. The audit also included tests of individual accounts in the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs, and an assessment of the internal control system related to the ICRP for FY 2011-12. Changes to the financial management system subsequent to FY 2011-12 were not tested and, accordingly, our conclusion does not pertain to changes arising after that fiscal year.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed the county's prior audit reports;
- 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 an understanding of the county's internal controls, accounting systems, timekeeping and payroll systems, procurement and billing process;
- Performed limited tests of controls on a judgmentally selected sample of transactions to confirm and validate existing documented processes and procedures;
- Tested project costs accounting systems;
- Tested indirect costs and direct costs bases by validating amounts claimed to supporting evidential matter; and
- Tested the ICRP calculations by ensuring that only allowable costs were included within the rates.

We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the proposed ICRP was in accordance with 2 CFR 225 and LPPs 04-10. In addition to developing appropriate auditing procedures, our review of internal control was limited to gaining an understanding of the transaction flow, accounting system, and applicable controls to determine the department's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

We determined that the county's ICRPs were prepared in accordance with 2 CFR 225, and that the county's financial management system appears to be able to accumulate and segregate allowable and allocable direct and indirect costs, except that the county miscoded the Residual Equity Transfers revenue account as an expense account in certain ICRP computations. As a result, for FY 2011-12, the Securities Division's indirect cost rate decreased from 39.39% to 21.63%, and the Facilities Division's indirect cost rate decreased from 60.34% to 51.01%.

We also determined that the county is in compliance with applicable state and/or federal procurement policies and procedures, and that the project billings are in compliance with Caltrans Local Assistance Procedures Manual, Chapter 5.

Views of Responsible Officials

We conducted a telephone exit conference with representatives from the county. After the discussion, we emailed a copy of the audit finding and recommendation to Maggie Stewart, Chief of Departmental Administrative Services, Accounting and Fiscal Services. Ms. Stewart responded by letter dated February 29, 2016, agreeing with the audit results. Ms. Stewart 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 Sacramento County; the California Department of Transportation; 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 report, which is a matter of public record.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 5, 2016

Schedule 1—
Summary of Indirect Cost Rate Proposal Costs
Real Estate Division
July 1, 2011, through June 30, 2012

	Proposed Amount	Audit Adjustment	Audited Amount
Direct costs			
Salaries and benefits			
Salaries	$1,491,046	$ -	$1,491,046
Benefits	769,510	-	769,510
Total salaries and benefits	$2,260,556	$ -	$2,260,556
Indirect costs			
Salaries and benefits			
Salaries	$ 109,919	$ -	$ 109,919
Benefits	47,668	-	47,668
Total salaries and benefits	$ 157,587	$ -	$ 157,587
Services and supplies			
Periodical subscriptions	$ 1,200	$ -	$ 1,200
Reference manual	81	-	81
Education/training for supervisors	2,642	-	2,642
Tuition reimbursements	1,540	-	1,540
Transportation	13	-	13
Insurance liability	11,076	-	11,076
Membership dues	645	-	645
Office supplies	2,950	-	2,950
Office equipment maintenance	795	-	795
Rent/lease equipment	3,471	-	3,471
Custodial supervision	7	-	7
Legal service charge	60,438	-	60,438
Personnel service charge	35,663	-	35,663
Safety program	286	-	286
Environmental service charge	3,380	-	3,380
Application	2,725	-	2,725
County wide IT	10,382	-	10,382
System development service charge	28,312	-	28,312
System supervisor service charge	79	-	79
WAN allocation	12,526	-	12,526
Public works service charge	219	-	219
DPW-GIS service charge	9,922	-	9,922
Leased properties use	36,839	-	36,839
Surplus properties	700	-	700
Telephone installation	6,727	-	6,727
Lease obligation retention	17,773	-	17,773
Depreciation expenses	17,772	-	17,772
County wide cost allocation	79,062	-	79,062
County wide cost A8	(4)	-	(4)

Schedule 1 (continued)

	Proposed Amount	Audit Adjustment	Audited Amount
Services and supplies			
Agency overhead allocation	21,380	-	21,380
Department overhead allocation	162,781	-	162,781
Systems development	3,728	-	3,728
Printing service charge	122	-	122
Mail/postage charge	764	-	764
Messenger service charge	4,522	-	4,522
Microfilm service charge	61	-	61
Purchasing service charge	(145)	-	(145)
Store charge	1,933	-	1,933
County equipment rental	9,371	-	9,371
Fuel usage - light	1,696	-	1,696
Surplus program manager	990	-	990
Total services and supplies	$ 554,424	$ -	$ 554,424
Total indirect costs	$ 712,011	$ -	$ 712,011
Total direct costs	2,260,556	-	2,260,556
Indirect cost rate [1]	**31.50%**	-	**31.50%**

[1] The indirect cost rate is calculated by dividing the total indirect costs by direct costs.

Schedule 2—
Summary of Indirect Cost Rate Proposal Costs
Securities Division
July 1, 2011, through June 30, 2012

	Proposed Amount	Audit Adjustment	Audited Amount	Reference[1]
Direct costs				
Salaries and benefits				
Salaries	$1,318,891	$ -	$1,318,891	
Benefits	877,352	-	877,352	
Total salaries and benefits	$2,196,243	$ -	$2,196,243	
Indirect costs				
Salaries and benefits				
Salaries	$ -	$ -	$ -	
Benefits	-	-	-	
Total salaries and benefits	$ -	$ -	$ -	
Services and supplies				
Business/conference	$ 553	$ -	$ 553	
Education/training service charge	4,110	-	4,110	
Education/training for supervisors	663	-	663	
Freight/cartage	299	-	299	
Membership dues	16,097	-	16,097	
Office supplies	245	-	245	
Permit charges	509	-	509	
Cellphone/pager	(4)	-	(4)	
Office equipment maintenance	180	-	180	
County facility use	7,853	-	7,853	
Radio system service charge	15,386	-	15,386	
Telephone service charge	3,162	-	3,162	
Telephone installation	650	-	650	
County wide cost allocation	21,469	-	21,469	
Agency overhead allocation	27,372	-	27,372	
Department overhead allocation	110,793	-	110,793	
Division overhead allocation	17,082	-	17,082	
Printing service charge	513	-	513	
Store charge	157	-	157	
County equipment rental	18,312	-	18,312	
Fuel usage - light	12,274	-	12,274	
GS FAC use charges	15,385	-	15,385	
Equipment maintenance	261	-	261	
Uniform allowance	4,752	-	4,752	
Service fees	130	-	130	
Personnel service charge	68,911	-	68,911	
Environmentals	12,876	-	12,876	

Schedule 2 (continued)

	Proposed Amount	Audit Adjustment	Audited Amount	Reference[1]
Services and supplies				
Data processing	6,291	-	6,291	
PY Expend	63,010	-	63,010	
County wide IT	12,551	-	12,551	
Systems development	20,692	-	20,692	
WAN allocation	4,490	-	4,490	
Alarm services	7,008	-	7,008	
Surplus program manager	1,026	-	1,026	
Residual equity transfer	389,971	(389,971)	-	Finding
Total services and supplies	$ 865,029	$ (389,971)	$ 475,058	
Total indirect costs	$ 865,029	$ (389,971)	$ 475,058	
Total direct costs	2,196,243	-	2,196,243	
Indirect cost rate 2	**39.39%**	17.76%	**21.63%**	

[1] See Finding and Recommendation section.

[2] The indirect cost rate is calculated by dividing the total indirect costs by direct costs.

Schedule 3—
Summary of Indirect Cost Rate Proposal Costs
Facilities Division
July 1, 2011, through June 30, 2012

	Proposed Amount	Audit Adjustment	Audited Amount	Reference[1]
Direct costs				
Salaries and benefits	$4,837,589	$ -	$4,837,589	
Salaries	2,853,640	-	2,853,640	
Benefits	$7,691,230	$ -	$7,691,230	
Total salaries and benefits				
Indirect costs				
Salaries and benefits				
Salaries	$ 135,545	$ -	$ 135,545	
Benefits	68,783	-	68,783	
Total salaries and benefits	$ 204,328	$ -	$ 204,328	
Services and supplies				
Books/periodical subscriptions	$ 98	$ -	$ 98	
Education/training for supervisors	6,205	-	6,205	
Tuition reimbursements	809	-	809	
Employee recognition	1,200	-	1,200	
Transportation	2,666	-	2,666	
Insurance liability	47,141	-	47,141	
Membership dues	269	-	269	
Office supplies	4,498	-	4,498	
Agricultural service charge	61,321	-	61,321	
Building maintenance service charge	6,083	-	6,083	
Building maintenance supervision	87,263	-	87,263	
Chemical supplies	2,480	-	2,480	
Electric maintenance service charge	33,878	-	33,878	
Electric maintenance supervision	50,396	-	50,396	
Mechanic system	184,819	-	184,819	
Mechanic system maintenance	297,866	-	297,866	
Painting supervision	3,513	-	3,513	
Plumbing maintenance	161,229	-	161,229	
Construction service charge	58,644	-	58,644	
Permit charges	67,105	-	67,105	
Collections	127,533	-	127,533	
Telephone service charge	40	-	40	
Construction equipment maintenance	7,800	-	7,800	
Expend tools	27,904	-	27,904	
Cellphone/pager	1,758	-	1,758	
Fire/crash/rescue	6,492	-	6,492	
Fuel/lubricants	15,347	-	15,347	
Equipment - low value	-	-	-	
Rental/lease equipment	2,320	-	2,320	
Other equipment	36,499	-	36,499	

Schedule 3 (continued)

	Proposed Amount	Audit Adjustment	Audited Amount	Reference[1]
Services and supplies				
Other equipment maintenance	1,199	-	1,199	
Uniform allowance	26,712	-	26,712	
Custodial service charge	134,199	-	134,199	
Custodial supervision	32,721	-	32,721	
Medical service charge	1,516	-	1,516	
Service fees	182	-	182	
Personnel service	201,810	-	201,810	
Safety program	37,710	-	37,710	
Environmental	6,897	-	6,897	
Security service charge	4,071	-	4,071	
Data processing	10,106	-	10,106	
Lab non-medical service charge	13,212	-	13,212	
Other operational expense	26,210	-	26,210	
Other operational expense charges	25,138	-	25,138	
County wide IT	47,379	-	47,379	
System development service charge	59,792	-	59,792	
System development supervision	390	-	390	
WAN allocation	26,937	-	26,937	
Alarm services	1,861	-	1,861	
Store charge	527	-	527	
Public works services	161	-	161	
Administrative	146	-	146	
Water resources	180,727	-	180,727	
Water quality	24,692	-	24,692	
Transportation use	3,245	-	3,245	
DPW building design	6,280	-	6,280	
County facility use	35,646	-	35,646	
Radio system	14,964	-	14,964	
Telephone service charge	41,467	-	41,467	
Telephone installation	856	-	856	
Depreciation expenses	8,146	-	8,146	
County wide cost allocation	62,872	-	62,872	
Agency overhead allocation	80,162	-	80,162	
Department overhead allocation	485,158	-	485,158	
Division overhead allocation	120,569	-	120,569	
Systems development	93,884	-	93,884	
Mail/postage charge	433	-	433	
Messenger service charge	5,786	-	5,786	
Store charges	146,750	-	146,750	
County equipment rental - long term	270,854	-	270,854	
County equipment rental	69,036	-	69,036	
Fuel usage - light	84,368	-	84,368	
Fuel usage - heavy	6,486	-	6,486	

Schedule 3 (continued)

	Proposed Amount	Audit Adjustment	Audited Amount	Reference[1]
Services and supplies				
Equipment maintenance	11,534	-	11,534	
Surplus program manager	3,006	-	3,006	
Residual equity transfer	717,689	(717,689)	-	Finding
Total services and supplies	$4,436,657	$(717,689)	$3,718,968	
Total indirect costs	4,640,985	(717,689)	3,923,296	
Total direct costs	7,691,230	-	7,691,230	
Indirect cost rate [2]	**60.34%**	9.33%	**51.01%**	

[1] See Finding and Recommendation section.

[2] The indirect cost rate is calculated by dividing the total indirect costs by direct costs.

Finding and Recommendation

FINDING — Unallowable indirect costs

The county proposed three separate indirect cost rates of 31.50%, 39.39% and 60.34% for the Department of General Services' Real Estate Division, Securities Division, and Facilities Division, respectively. Our objective was to verify the accuracy of the costs included in the indirect and direct cost pools. The SCO judgmentally selected several accounts and transactions, and reviewed their supporting documents for detailed testing.

During the test of Residual Equity Transfers in each of the indirect cost pools, we noted that the costs claimed by the Securities Division and the Facilities Division essentially were accounting abatements due to prior year over-collections. We suspected that the county's accounting system may have miscoded the nature of those transfers in, and accidentally considered these abatements as claimable expenses in the ICRPs.

2 CFR 225 Appendix A Section B states:

> "Cost" means an amount as determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. It does not include transfers to a general or similar fund.

The county was not aware of the system glitch, and the correction of this accounting system issue likely will require reprogramming the accounting software. As a result, the county inaccurately claimed $389,971 of Residual Equity Transfers for the Securities Division, and $717,689 for the Facilities Division.

Recommendation

The county should ensure that indirect expenses claimed in the ICRPs include only allowable and allocable costs in accordance with 2 CFR 225. We recommend that the county perform a comprehensive review of all transactions associated with Residual Equity Transfers and ensure that they are indeed expenditures.

County's Response

> The County agrees with the recommendation and will perform a comprehensive review of all transactions associated with Residual Equity Transfers to ensure that they are expenditures prior to inclusion in all future Indirect Cost Rate Proposals.

SCO's Comment

The county agreed with the finding and recommendation.

Attachment—
County's Response

Internal Services

Department of Finance
Ben Lamera,
Interim Director

County of Sacramento

Navdeep S. Gill,
Interim County Executive

David Villanueva,
Chief Deputy County Executive

February 29, 2016

Andy Finlayson
State Controller's Office
Division of Audits-ICAP
3301 C Street, Suite 710
Sacramento, CA 95816

Dear Mr. Finlayson:

Our office received the preliminary audit findings for the State Controller's Office's audit of the County of Sacramento, Department of Transportation's Indirect Cost Rate Proposal (ICRP) for Fiscal Year 2012.

The finding is: Unallowable indirect cost account

The recommendation is: Sacramento County should ensure that indirect expenses claimed in the ICRP includes only allowable and allocable costs in accordance with the Title 2 CFR Part 225. We recommend the county to perform a comprehensive review of all transactions associated with Residual Equity Transfer and ensure that they are indeed expenditures.

County response: The County agrees with the recommendation and will perform a comprehensive review of all transactions associated with Residual Equity Transfers to ensure that they are expenditures prior to inclusion in all future Indirect Cost Rate Proposals.

Sincerely,

Ben Lamera
Interim Director of Finance

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