

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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May 15, 2014

Mr. Gerry Newcombe
Director
Department of Public Works
County of San Bernardino
825 E. 3rd Street
San Bernardino, CA 92415-0845

Re: County of San Bernardino, Department of Public Works-Transportation Division
Audit of Indirect Cost Rate Proposal for FY 2012/2013
File Number: P1590-0408

Dear Mr. Newcombe:

We have audited the County of San Bernardino, Department of Public Works (DPW), Transportation Division's (County) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) ended June 30, 2013 to determine whether the ICRP is presented in accordance with 2, Code of Federal Regulations (CFR), Part 225 and the California Department of Transportation's (Caltrans) Local Assistance Procedures Manual (LAPM). The County's management is responsible for the fair presentation of the ICRP. The County proposed the indirect cost rate of 57.91 percent of total direct salaries and wages plus fringe benefits and a fringe benefits rate of 76.80 percent of total salaries and wages for FY ended June 30, 2013.

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. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the County. Therefore, we did not audit and are not expressing an opinion on the County's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records selected. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting practices prescribed in Title 2 CFR, Part 225 and Caltrans' LAPM, and is not intended to present the results of operations of the County in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of the County's Single Audit Report for FY ended June 30, 2011 and 2012, and inquiries of County personnel. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs based on a risk assessment, as well as an assessment of the internal control system as related to the ICRP as of August 30, 2013. Financial management changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Beatriz Valdez, County's Public Works Chief Financial Officer on January 30, 2014. Our findings and recommendations take into consideration the County's response to our findings. Our findings, recommendations, and a summary of the County's response are detailed below.

AUDIT RESULTS

Based on audit work performed, the County's ICRP for FY ended June 30, 2013 is presented in accordance with 2 CFR, Part 225 and LAPM except for the findings noted below. The approved indirect cost rate is 58.68 percent of total direct salaries and wages plus fringe benefits and fringe benefits rate of 76.80 percent of total salaries and wages for FY ended June 30, 2013.

On May 14, 2013, Caltrans accepted the County's ICRP rates of 57.91 percent of total direct salaries and wages plus fringe benefits and a fringe benefit rate of 76.80 percent of total salaries for billing and reimbursement purposes. As a result, the County should adjust any prior billings to Caltrans using the audited rate. Interest may not be claimed on any underpayments.

Audit Finding 1

As part of our review of the County's time reporting procedures, we noted the following internal control weakness.

- The time-reporting module of the County's cost accounting system, WINCAMS allows the supervisor and payroll specialist to change timesheets prepared and signed by employees without requiring any documented reason.
- Timesheet labor hours are typically entered into WINCAMS and then transmitted biweekly to the County's Employee Management and Compensation System (EMACS). However adjustments to timesheets are manually entered into EMACS first and then manually entered into WINCAMS without a reconciliation being performed periodically.
- Prior to the transmittal of WINCAMS data to EMACS, WINCAMS is able to track as to time, dates, and who made the timesheet adjustments. However, for manual adjustments that occur after the transmittal, similar information is unavailable.

49 CFR Part 18. Section 20. (3) requires effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. 2 CFR Part 225, Appendix B, Section 8(h)(5)(d) requires that personnel activity reports or equivalent documentation must be signed by the employee.

Recommendation

The County should strengthen internal controls over its time reporting process by:

- Preventing supervisors and the payroll specialist to edit employee timesheets in WINCAMS without documenting justification and notifying employees.
- Implementing periodic reconciliations of WINCAMS to EMACS.
- Maintain supporting documentation for all timesheet adjustments made after the WINCAMS transmittal.

Auditee Response

The County will strengthen the internal controls of WINCAMS time reporting procedures as follows:

- Programming code changes will be made to WINCAMS to provide better controls when staff is requesting specific leave requests that they do not have available. This will reduce significantly the errors caught during the audit process and also after the time file has been submitted to EMACS. Since only the yard supervisors have access to a computer and to WINCAMS, it is not feasible to eliminate the supervisors from

making corrections to the timesheets. When a correction is caught during the audit process, Payroll Staff will release the time card to the supervisor or the employee where applicable for correction and an email will be sent to the employee/supervisor informing him/her of the change needed.

- Programming code changes will be made to WINCAMS to add a new status "Correction" after the "Audited" status. When changes are made after the time file is submitted to EMACS, a before and after timecard will be saved so that an accountant can verify the changes match in both WINCAMS and EMACS and that supporting documentation is present. The accountant will then uncheck the Correction status to proceed with posting.
- In addition, the department will perform periodic reconciliations of WINCAMS and EMACS to ensure the accuracy of payroll data.

Audit Finding 2

We judgmentally selected two contracts as part of our procurement testing. In our review of the Architects and Engineers contract for the Rock Springs Road Bridge Project, we determined seven proposals were evaluated by a five-member panel. Based on the evaluations, three consulting firms were chosen for interview. However, the County was missing one of the committee member's evaluation sheets, two interview scoring sheets, and the summary of all the evaluator's scores for both the proposals and the interviews. As a result, we could not determine if the County's selection process was performed in a way that the most qualified candidate was selected.

Title IX of the Federal Property and Administrative Services Act of 1949, Section 903 requires the agency head shall evaluate proposer's current statements of qualification and performance data on file with the agency, together with those submitted by other firms regarding the proposed project, and shall conduct discussions with no less than three firms regarding anticipated concepts and the relative utility of alternative methods of approach for furnishing the required services and then shall select therefrom, in order of preference based upon criteria established and published by him, no less than three of the firms deemed to be the most highly qualified to provide the services required. Caltrans' LAPM requires project records and documentation, including evaluation and ranking records, be kept for three years after payment of the final federal and/or state voucher. 49 CFR Part 18, Section 20 Standards for financial management systems requires that the effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Recommendation

The County should properly maintain all documentation supporting the procurement process in accordance with federal and State criteria.

Auditee Response

The County will strengthen the document preparation, filing and retrieval process in order to ensure the proper documentation and audit trail is maintained. The Department will develop a checklist to account for all documentation necessary to support that the procurement process followed the County's and Caltrans' requirements of selecting the most qualified consultant at a fair and reasonable compensation.

Audit Finding 3

Indirect cost pool of ICRP Rate incorrectly included \$130,183 in labor and benefit costs that were allocated to other Public Works Divisions

2 CFR Part 225, Appendix A, Section C, No. 3. "Allocable Costs" states that any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR Part 225 may not be charged to other Federal awards.

Recommendation

The County should exclude from its indirect cost pool the unallowable labor costs that were allocated to other benefitting programs.

Auditee Response

The County will perform more thorough reviews of cost elements included in the rate proposal to reduce or eliminate the chances of any significant errors.

Audit Finding 4

The salaries and benefits of DPW's Human Resource (HR) Officer are initially charged to the Flood Control Division and then allocated to other benefitting sub-divisions within DPW. In the County's FY 2010-11 county-wide cost allocation plan, we noted the Flood Control Division received a credit for the HR Officer's salaries and benefits. However, the credit was not properly allocated to the other sub-divisions but instead incorrectly absorbed by the Flood Division. We determined the Transportation Division's share of the credit to be \$89,346.

2 CFR Part 225, Appendix A, Section C, No. 4. "Applicable credits" states that credits received by the governmental unit relate to allowable costs shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

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Recommendation

The County should allocate the credit for the HR Officer's salaries and wages to the other sub-divisions under DPW and specifically credit the Transportation Division their share of \$89,346 in indirect costs.

Auditee Response

The County will ensure that each affected division gets their allocation of the credit for the HR Officer's salaries and wages. In addition, starting in the third quarter of this year, each division will pay HR directly for the HR Officer's costs to eliminate the need to reallocate the credit in the County Wide Cost Allocation Plan.

This report is intended solely for the information of the County, Caltrans' Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved ICRP for your files. Copies were sent to the Caltrans' District 8, Caltrans' Division of Accounting and the FHWA. If you have any questions, please contact Yung Jo Ryoo, Auditor, at (916) 323-7950 or Alice Lee, Audit Manager, at (916) 323-7953.



ZILAN CHEN, Chief
External Audits - Local Governments
Audits and Investigations

Enclosure

- c: Janice Richard, Director, Financial Services, Federal Highway Administration
- Rodney Whitfield, Financial Program Manager, Federal Highway Administration
- Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
- Kara Magdaleno, Administrative Program Assistant Planning and Finance,
Federal Highway Administration
- Beatriz Valdez, Chief Financial Officer, Department of Public Works,
County of San Bernardino
- David Kang, Supervising Accountant II, Department of Public Works,
County of San Bernardino
- Sean Yeung, Chief, Office of Local Assistance, Division of Planning and Local
Assistance, District 8, California Department of Transportation
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass
Transportation, California Department of Transportation
- Terry Farris, Chief, State Transit Grant Program, Division of Mass Transportation,
California Department of Transportation
- C. Edward Philpot, Jr., Branch Chief, Grants/Public Engagement,
Office of Community Planning, California Department of Transportation
- Erin Thompson, Senior Transportation Planner, Regional and Interagency Planning,
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- Karen Hunter, Rail Transportation Associate, Division of Rail,
California Department of Transportation
- Lisa Gore, Associate Accounting Analyst, Division of Accounting,
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- David Saia, LAPM/LAPG Coordinator, Division of Local Assistance,
California Department of Transportation
- Lai Huynh, Audits & Federal Performance Measures Analyst, Division of Local
Assistance, California Department of Transportation

**COUNTY OF SAN BERNARDINO – DEPARTMENT OF PUBLIC WORKS –
TRANSPORTATION DIVISION
Indirect Cost Rate**

The indirect cost rate plan contained herein is for use on grants, contracts and other agreements with the Federal Government and the California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the County of San Bernardino - Department of Public Works - Transportation Division and approved by the Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable to</u>
Fixed w/carry forward*	7/1/12 to 6/30/13	58.68%	Transportation Division
Fringe Benefit**	7/1/12 to 6/30/13	76.80%	Transportation Division

* Base: Total Direct Salary and Wages, including Fringe Benefits

** Base: Total Salary and Wages

SECTION II: General Provisions

A. Limitations:

The rate in this Agreement is subject to any statutory or administrative limitations and applies to a given grant, contract, or other agreement only to the extent that funds are available. Approval of the rate is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally approved: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rate is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with 2 Code of Federal Regulations, Part 225. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined – either by the grantee's Single Audit, or if a Single Audit is not required, then by the grantee's audited financial statements –

any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan. *(Note: If a predetermined rate is used, then the carry forward provision does not apply).*

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Record Retention:

The proposal and all related documentation must be retained for audit in accordance with the record retention requirements of the State or Federal agreements for which the indirect rate will be billed or for three years after the fiscal year for which the rate is calculated, whichever is longer.

F. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

G. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate to the appropriate base to identify the proper amount of indirect cost allocable to these programs.

H. Rate Calculation:

FY 12/13 Estimated Indirect Costs	\$11,865,843
Carry Forward from FY 10/11	<u>\$0</u>
FY 12/13 Estimated Indirect Costs	\$11,865,843
FY 12/13 Estimated Direct Salaries & Wages (including fringe benefits)	\$20,222,258
FY 2013 Indirect Cost Rate	<u>58.68%</u>
FY 12/13 Estimated Fringe Benefits	\$12,190,728
FY 12/13 Estimated Salaries & Wages	\$15,873,344
FY 2013 Fringe Benefits Rate	<u>76.80%</u>

CERTIFICATION OF INDIRECT COSTS

This is to certify that I, Gerry Newcombe, have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in the proposal to establish billing or final indirect cost rates for fiscal year 2013 (July 1, 2012 to June 30, 2013) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and 2 Code of Federal Regulations (CFR), Part 225, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Government Unit: County of San Bernardino-Dept. of Public Works-Transportation Division

Signature: Gerry Newcombe

Signature: David Kang

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Gerry Newcombe

Name of Official: David Kang

Title: Director, Department of Public Works

Title: Supervising Accountant II

Date of Execution: 3/11/14

Telephone No.: (909) 387-8084

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature: Zilan Chen

Signature: Yung Jo Ryoo

Reviewed and Approved by:

Reviewed and Approved by:

Zilan Chen

Yung Jo Ryoo

Date: May 15, 2014

Date: May 15, 2014

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