

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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February 11, 2014

Ms. Madhur Gagla
 Fiscal Officer
 Santa Clara County
 Roads and Airports Department
 101 Skyport Drive
 San Jose, CA 95110-0660

Dear Ms Bagla:

At the request of the California Department of Transportation (Caltrans), the State Controller's Office (SCO) conducted an audit of the Santa Clara County Roads and Airports Department's (County) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2010/2011 to determine whether the ICRP is presented in accordance with Title 2, Code of Federal Regulations (CFR), Part 225.

Based on audit work performed by the SCO, we determined the County's ICRP for FY 2010/2011 is presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rates are:

<u>Rate Type</u>	<u>Rate</u>	<u>Applicable to</u>
First Tier:*		
Final	19.81%	All Cost Centers
Second Tier:**		
Final	7.48%	All Cost Centers
	85.46%	Land Development Services
	65.88%	Bridge Design
	145.71%	Highway Design
	109.54%	Construction Operations
	54.70%	Traffic Engineering and Ops
	111.84%	Signal Design
	47.08%	Signal Electrical Operations
	81.75%	Survey and Property

**Base: Direct Salaries and Wages plus Fringe Benefits, not including holidays

Ms. Madhur Bagla
February 11, 2014
Page 2

For the Survey and Property cost center the SCO audit identified \$23,394 of direct maintenance expenses that were incorrectly recorded as indirect, which resulted in an audited rate of 81.75% of direct salaries and wages plus fringe benefits, not including holidays. This rate supercedes the rate of 92.78% stated in our Acceptance Letter dated February 22, 2012. As a result, the County is required to reconcile all prior reimbursement claims to the lower audited rate. Any resulting overpayment should be repaid to Caltrans within 30 days or by the next billing cycle, whichever occurs first.

The ICRP is approved for billing and reimbursement purposes based on the understanding that the rate is a final rate and the carry-forward provision does not apply.

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. In addition, this report will be placed on the Caltrans website.

Please retain a copy of this letter with your ICRP. Copies of this letter were sent to the Caltrans District 4, the Caltrans Division of Accounting, and FHWA. If you have any questions, please call Alice Lee, Audit Manager, at (916) 323-7953.

Sincerely,



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

Enclosures:

- 1) Audit Report of the Santa Clara County Roads and Airports Department's Indirect Cost Rate Proposal prepared by the California State Controller's Office
- 2) FY 2010/2011 ICRP Certification

- c: Janice Richard, Director, Financial Services, Federal Highway Administration
Rodney Whitfield, Financial 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
Aldwin Valbuena, Account II, Santa Clara County Roads and Airports Department
Andrew Finlayson, Chief, State Agency Audit Bureau, California State Controller's Office
Chris Prasad, Audit Manager, State Agency Audit Bureau, State Controller's Office
Sean Tsao, Audit Manager, State Agency Audit Bureau, State Controller's Office
Sylvia Fung, DLAE, Chief, Office of Local Assistance, Division of Transportation Planning, District 4, California Department of Transportation
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Lai Huynh, Audits & Federal Performance Measures Analyst, Division of Local Assistance, California Department of Transportation

P1590-0251

SANTA CLARA COUNTY ROADS AND AIRPORTS DEPARTMENT

Audit Report

INDIRECT COST RATE PROPOSAL (Audit Request No. P1590-0251)

July 1, 2010, through June 30, 2011



JOHN CHIANG
California State Controller

January 2014



JOHN CHIANG
California State Controller

January 30, 2014

Zilan Chen, Chief
External Audits-Local Governments
Audits and Investigations, MS 2
California Department of Transportation
1304 O Street, Suite 200, MS 2
Sacramento, CA 95814

Dear Ms. Chen:

The State Controller's Office completed an audit of the Santa Clara County, Roads and Airports Department's Indirect Cost Rate Proposal (ICRP) for fiscal year 2010-11. The county proposed eight cost center rates, ranging from approximately 47% to 146%, for each of the service-providing divisions. In addition, the county proposed Administration Division and General Administration indirect cost rates of approximately 7% and 20%, respectively.

Though we found an instance of overstated indirect costs, our audit determined that (1) the proposed rates were in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225; (2) the ICRP was in compliance with the requirements for ICRP preparation and application identified in the California Department of Transportation's Local Program Procedures 04-10; and (3) the county's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

For the Survey and Property Cost Center, we determined an indirect cost rate of 81.75%, a difference of 11.03%. The rate was overstated because the county included \$23,394 of direct costs—maintenance expenses—as an indirect cost.

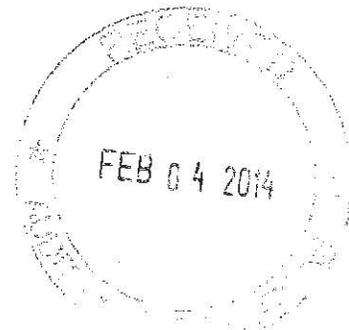
If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by phone at (916) 324-6310.

Sincerely,

A handwritten signature in black ink, reading "Jeffrey V. Brownfield", is written over the word "Sincerely,".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw



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Audit Report

Summary

The State Controller's Office (SCO) completed an audit of the Santa Clara County, Roads and Airports Department's (Department) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2010-11. The county proposed eight cost center rates, ranging from approximately 47% to 146%, for each of the service-providing divisions. In addition, the county proposed Administration Division and General Administration indirect cost rates of approximately 7% and 20%, respectively.

Though we found an instance of overstated indirect costs, our audit determined that (1) the proposed rates were in compliance with the cost principles prescribed in Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225); (2) the ICRP was in compliance with the requirements for ICRP preparation and application identified in the California Department of Transportation's (Caltrans) Local Program Procedures (LPP) 04-10; and (3) the county's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

For the Survey and Property cost center, we determined an indirect cost rate of 81.75%, a difference of 11.03%. The rate was overstated because the county included \$23,394 of direct costs—maintenance expenses—as an indirect cost.

Background

Santa Clara County is located at the southern end of the San Francisco Bay Area in California. The county government is overseen by an elected five-member Board of Supervisors (Board). The Board sets priorities for the county and, through delegated authority to the County Administrative Office, oversees most county departments and programs, including the Roads and Airports Department.

The Department consists of four divisions, including Administration, Infrastructure Development, Road Operations and Maintenance, and Aviation. The Department is responsible for a variety of activities, ranging from the construction and maintenance of roads and highways in the unincorporated areas to operating and maintaining the county's three general airports. The proposed ICRPs consist of indirect and direct costs for the Department's administrative and divisional cost centers within the Infrastructure Development Division.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P150-0251). 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 LPP 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

The scope of the audit was limited to select financial and compliance activities. The audit consisted of recalculating proposed rates 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 2010-11. Changes to the financial management system subsequent to FY 2010-11 were not tested and, accordingly, our conclusion does not pertain to changes arising after this fiscal year.

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.

Our audit was conducted to determine whether (1) the county’s ICRPs were presented in compliance with the cost principles prescribed in 2 CFR 225; (2) the ICRPs were in compliance with the requirements for ICRP preparation and application identified in the Caltrans LPP 04-10; (3) and accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit Santa Clara County’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the proposed ICRPs were in accordance with the 2 CFR 225 and LPP 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 completed an audit of the Santa Clara County, Roads and Airports Department’s ICRP for FY 2010-11. The county proposed eight cost center rates, ranging from approximately 47% to 146%, for each of the service-providing divisions. In addition, the county proposed Administration Division and General Administration indirect cost rates of approximately 7% and 20%, respectively.

Our audit determined that (1) the proposed rates were in compliance with the cost principles prescribed in 2 CFR 225; (2) the ICRP was in compliance with the requirements for ICRP preparation and application identified in the Caltrans LPP 04-10; and (3) the county's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

However, for the Survey and Property cost center, we determined an indirect cost rate of 81.75%, a difference of 11.03%. The rate was overstated because the county included \$23,394 of direct costs—maintenance expenses—as an indirect cost, causing the indirect costs to be overstated.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted on October 22, 2013. Madhur Bagla, Fiscal Officer; Rene Balance, Senior Accountant; and Sandy Phan, Accountant III, agreed with the audit results. Ms. Bagla 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 Santa Clara 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

January 30, 2014

**Schedule 1—
Summary of Proposed and Audited Indirect Cost Rates
July 1, 2010, through June 30, 2011**

Cost Center	Proposed	Audited	Difference	Reference
<u>Cost Center Rates:</u>				
Highway Design	145.71%	145.71%	0.00%	Schedule 1A
Signal Design	111.84%	111.84%	0.00%	Schedule 1B
Construction Operations	109.54%	109.54%	0.00%	Schedule 1C
Survey and Property	92.78%	81.75%	11.03%	Schedule 1D
Land Development Services	85.46%	85.46%	0.00%	Schedule 1E
Bridge Design	65.88%	65.88%	0.00%	Schedule 1F
Traffic Engineering and Operations	54.70%	54.70%	0.00%	Schedule 1G
Signal Electrical Operations	47.08%	47.08%	0.00%	Schedule 1H
<u>Administration Rates:</u>				
General Administration (Tier 1)	19.81%	19.81%	0.00%	Schedule 2A
Administrative Division (Tier 2)	7.48%	7.48%	0.00%	Schedule 2B

**Schedule 1A—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Highway Design Division
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 409,803
Indirect Costs	
Salaries and benefits	441,895
Services, supplies, and other	
Safety shoes	139
Communication and phone	110
Postage expense - internal	227
Printing -internal	78
Personal computer software	533
Education expense- other	225
Workshop conference	609
Copy machine	60
Mileage	110
Local meals and meetings	55
Business travel	1,812
Total Services, supplies, and other	<u>3,958</u>
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	87,529
Administrative Division at 7.48% of direct and indirect salaries and benefits	63,722
Total general and administration overhead	<u>151,251</u>
Total indirect costs	<u>597,104</u>
Indirect cost base – direct salaries and benefits	\$ 409,803
Indirect cost rate (Total indirect costs ÷ Indirect cost base)	<u>145.71%</u>

**Schedule 1B—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Signal Design Division
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 353,955
Indirect Costs	
Salaries and benefits	287,124
Services, supplies, and other	
Safety shoes	137
Communication and phone	32
Maintenance office equipment	80
Personal computer software	1,744
Education expense- other	651
Small tools and instruments	1,206
Mileage	55
Business travel	6
Total Services, supplies, and other	3,911
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	56,873
Administrative Division at 7.48% of direct and indirect salaries and benefits	47,964
Total general and administration overhead	104,837
Total indirect costs	395,872
Indirect cost base – direct salaries and benefits	\$ 353,955
Indirect cost rate (total indirect costs ÷ indirect cost base)	111.84%

**Schedule 1C—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Construction Operation Division
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 1,150,648
Indirect Costs	
Salaries and benefits	897,898
Services, supplies, and other	
Safety shoes	1,338
Communication and phone	5,980
Linen/laundry service	887
Maintenance equipment—other	7,976
Postage expense—other	7
Postage expense—internal	461
Printing—internal	212
Workshop conference	1,039
Books and periodicals	305
Copy machine	157
Office rents	10,000
Small tools and instruments	2,810
Services and supplies—other	280
Total Services, supplies, and other	<u>31,452</u>
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	177,853
Administrative Division at 7.48% of direct and indirect salaries and benefits	<u>153,268</u>
Total general and administration overhead	<u>331,121</u>
Total indirect costs	<u>1,260,471</u>
Indirect cost base – direct salaries and benefits	<u>\$ 1,150,648</u>
Indirect cost rate (total indirect costs ÷ indirect cost base)	<u>109.54%</u>

**Schedule 1D—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Survey and Property Division
Fiscal Year 2010-11**

Description	Proposed	Audited	Difference ¹
Direct Costs			
Salaries and benefits	\$ 212,066	\$ 212,066	\$ —
Indirect Costs			
Salaries and benefits	123,288	123,288	—
Services, supplies, and other			
Maintenance structure improvement	23,394	—	23,394
Utilities	17	17	—
Membership dues and fees	538	538	—
Total Services, supplies, and other	23,949	555	23,394
Allocated administrative overhead			
General Administration at 19.81% of indirect salaries and benefits	24,420	\$ 24,420	—
Administrative Division at 7.48% of direct and indirect salaries and benefits	25,091	25,091	—
Total general and administration overhead	49,511	49,511	—
Total indirect costs	196,748	173,354	23,394
Indirect cost base—direct salaries and benefits	\$ 212,066	\$ 212,066	\$ —
Indirect cost rate (total indirect costs ÷ indirect cost base)	92.78%	81.75%	11.03%

¹ See Finding and Recommendation section.

**Schedule 1E—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Land Development Services
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 767,796
Indirect Costs	
Salaries and benefits	454,756
Services, supplies, and other	
Safety shoes	569
Communication and phone	2,308
Utility—natural gas	24
Maintenance equipment - other	4,443
Utility—electricity	32
Postage expense-internal	59
Utility—water	1,758
Services and supplies—other	19
Equipment and furniture	7,211
Small tools and instruments	3,452
Total Services, supplies, and other	<u>19,875</u>
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	90,076
Administrative Division at 7.48% of direct and indirect salaries and benefits	91,469
Total general and administration overhead	<u>181,545</u>
Total indirect costs	<u>656,176</u>
Indirect cost base—direct salaries and benefits	<u>\$ 767,796</u>
Indirect cost rate (total indirect cost ÷ indirect cost base)	<u>85.46%</u>

**Schedule 1F—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Bridge Design Division
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 519,081
Indirect Costs	
Salaries and benefits	229,352
Services, supplies, and other	
Safety shoes	324
Personal computer software	1,700
Education expense-other	676
Workshop conference	3,395
Books and periodicals	1,182
Copy machine	62
Personal computer hardware	1,308
Local meals and meetings	328
Business travel	2,243
Total Services, supplies, and other	<u>11,218</u>
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	45,429
Administrative Division at 7.48% of direct and indirect salaries and benefits	55,996
Total general and administration overhead	<u>101,425</u>
Total indirect costs	<u>341,995</u>
Indirect cost base—direct salaries and benefits	\$ 519,081
Indirect cost rate (total indirect cost ÷ indirect cost base)	<u>65.88%</u>

**Schedule 1G—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Traffic Engineering and Operations
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 1,210,225
Indirect Costs	
Salaries and benefits	419,327
Services, supplies, and other	
Safety shoes	361
Communication and phone	23,745
Maintenance office equipment	2,881
Maintenance structure improvement	(1,110)
Personal computer software	6,100
Education expense—other	2,437
Small tools and instruments	3,200
Personal computer hardware	(633)
Mileage	437
Business travel	306
Total Services, supplies, and other	<u>37,724</u>
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	83,059
Administrative Division at 7.48% of direct and indirect salaries and benefits	<u>121,920</u>
Total general and administration overhead	<u>204,979</u>
Total indirect costs	<u>662,030</u>
Indirect cost base—direct salaries and benefits	<u>\$ 1,210,225</u>
Indirect cost rate (total indirect cost ÷ indirect cost base)	<u>54.70%</u>

**Schedule 1H—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Signal Electrical Operations
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct Costs	
Salaries and benefits	\$ 1,919,328
Indirect Costs	
Salaries and benefits	325,643
Services, supplies, and other	
Safety shoes	2,225
Communication and phone	2,162
Maintenance equipment—other	32,894
Maintenance structure improvement	13,140
Utilities	275,918
Utility—water	732
Small tools and instruments	18,187
Personal computer hardware	284
Business travel	10
Total Services, supplies, and other	<u>345,552</u>
Allocated administrative overhead	
General Administration at 19.81% of indirect salaries and benefits	64,502
Administrative Division at 7.48% of direct and indirect salaries and benefits	<u>167,964</u>
Total general and administration overhead	<u>232,466</u>
Total indirect costs	<u>903,661</u>
Indirect cost base—direct salaries and benefits	<u>\$ 1,919,328</u>
Indirect cost rate (total indirect cost ÷ indirect cost base)	<u>47.08%</u>

**Schedule 2A—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—Administration Division (Tier 1)
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct costs	
Salaries and benefits	\$ 23,029,361
Indirect Costs	
Salaries and benefits	2,326,899
Services, supplies, and other	
Communication and phone	26,409
Janitorial supplies	4,650
Garbage	2,088
Insurance	649,544
Maintenance—equipment - other	312
Contract maintenance	27,587
Maintenance structure improvement	77,047
Membership dues and fees	11,165
Office expense	20,342
Postage expense—external	1,768
Postage expense—internal	480
Printing—external	26
Printing—internal	1,415
Personal computer software	143,277
Educational expense—other	18,646
Workshop conference	1,590
Books and periodicals	1,401
County counsel—legal—internal	141,459
Copy machine	11,333
Small tools and instruments	1,604
Personal computer hardware	70,832
Overhead—internal	932,303
Auto services—internal	44
Mileage	194
Local meals and meetings	1,789
Business travel	4,905
Utility electricity	61,791
Utilities—natural gas	5,039
Utility water	4,414
Employee recognition	2,207
Direct expense—other	1,574
Settlement—external	7,443
Total services, supplies, and other	<u>2,234,678</u>
Total indirect costs	<u>4,561,577</u>
Indirect cost base—direct salaries and benefits	\$ 23,029,361
Indirect cost rate (total indirect cost ÷ indirect cost base)	<u>19.81%</u>

**Schedule 2B—
Summary of Proposed and
Audited Direct Costs, Indirect Costs, and
Indirect Cost Rate—General Administration (Tier 2)
Fiscal Year 2010-11**

Description	Proposed and Audited
Direct costs	
Salaries and benefits	\$ 9,722,185
Indirect costs	
Salaries and benefits	542,705
Services, supplies, and other	
Communication and phone	814
Communications—phone	12,822
Linen/laundry service	9,418
Membership dues and fees	2,836
Office expense	17,217
postage expense—external	1,452
Postage expense—internal	48
Printing—internal	3,465
Educational expense—other	807
data processing services—internal	5,670
Copy machine	6,886
Small tools and instruments	95
Mileage	235
Local meals and meetings	1,757
Business travel	1,591
Equipment and furniture	12,077
Total services, supplies, and other	<u>77,190</u>
General administration at 19.81% of indirect salaries and benefits	<u>107,497</u>
Total indirect costs	<u>727,392</u>
Indirect cost rate base - direct salaries and benefits	<u>\$ 9,722,185</u>
Indirect cost rate (total indirect costs ÷ indirect cost base)	<u>7.48%</u>

Finding and Recommendation

FINDING— Unallowable maintenance expenses

The county overstated the Survey and Property Division's indirect costs by \$23,394, causing the indirect cost rate to be overstated by 11.03%. The costs were overstated because the county included maintenance expenses for county-owned, income-producing residential rental properties. Though these maintenance costs were solely for the benefit of the rental income-producing properties, the expenses were included as an indirect charge for all direct costs objectives, including federal and state-funded capital projects. In addition, had these maintenance costs been an allocable indirect expense, the entire amount would not have been chargeable to the Federal Highway Administration and California Department of Transportation-funded projects, as the county had rental proceeds to offset these expenses. In all, the county received \$100,919 of rental income from these properties.

Title 2, *Code of Federal Regulations*, Part 225, (2 CFR 225) Appendix A, Section D (2) Classification of costs, states:

There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost.

2 CFR 225, Appendix A, Section (C)(3)(a) states:

A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

2 CFR 225, Appendix A, Section (F)(1) Indirect Cost states, in part:

Indirect costs are those incurred for common or joint purpose benefitting more than one cost objective. Indirect cost pool should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2 CFR 225, Appendix A, Section C (4) states in part:

Applicable credits refer to those receipts or reduction-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: rebates, recoveries or indemnities on losses . . . they shall be credited to Federal award either as a cost reduction or cash refund, as appropriate.

Recommendation

We recommend that the county revise and resubmit the Indirect Cost Rate Proposal excluding this unallowable expense from the indirect costs pool for the Survey and Property Division. We further recommend that the county implement policies and procedures to ensure that only reasonable, allowable, and allocable costs are included in the indirect cost pool and that these indirect costs are distributed to all benefitted direct costs objectives.

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

<http://www.sco.ca.gov>

ICAP/ICRP SUBMISSION CERTIFICATION

Santa Clara County Roads and Airports Department Indirect Cost Rate FY 2011

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 provisions in Section II. This rate was prepared by the Santa Clara County Roads and Airports Department and accepted by the Department.

SECTION I: Rates

<u>Rate Type*</u>	<u>Effective Period</u>	<u>Rate**</u>	<u>Applicable to</u>
First Tier:*			
Final	7/1/10 to 6/30/11	19.81%	All Cost Centers
* Base: Total Salaries & Benefits (Not Including Holidays)			
Second Tier:**			
Final	7/1/10 to 6/30/11	7.48%	All Cost Centers
	7/1/10 to 6/30/11	85.46%	Land Development Services
	7/1/10 to 6/30/11	65.88%	Bridge Design
	7/1/10 to 6/30/11	145.71%	Highway Design
	7/1/10 to 6/30/11	109.54%	Construction Operations
	7/1/10 to 6/30/11	54.70%	Traffic Engineering & Ops
	7/1/10 to 6/30/11	111.84%	Signal Design
	7/1/10 to 6/30/11	47.08%	Signal Electrical Operations
	7/1/10 to 6/30/11	81.75%	Survey & Property

** Base: Direct Salaries and Wages & Benefits (Not Including Holidays)

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.

Acceptance 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 accepted; 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; (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 OMB A-133. 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 plans 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 accept this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this acceptance is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This acceptance does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The acceptance 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 accepted rate in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the accepted rate to the appropriate base to identify the proper amount of indirect cost allocable to these programs.

H. Rate Calculation:

	First Tier	Second Tier	Second Tier	Second Tier	Second Tier
			Land Dev	Bridge	Highway
Fiscal Year 2011	G & A	G & A	Services	Design	Design
Actual Pool Costs	\$ 4,561,577	\$ 727,395	\$ 656,175	\$ 341,996	\$ 597,106
Labor Allocation Base	\$23,029,361	\$ 9,722,185	\$ 767,796	\$ 519,081	\$ 409,803
	*	*	**	**	**
Rate	19.81%	7.48%	85.46%	65.88%	145.71%

	Second Tier	Second Tier	Second Tier	Second Tier	Second Tier
	Constructions	Traffic	Signal	Signal &	Survey &
Fiscal Year 2011	Operations	Engineering & Operations	Design	Electrical Operations	Property
Actual Pool Costs	\$ 1,260,470	\$ 662,033	\$ 395,873	\$ 903,660	\$ 173,354
Labor Allocation Base	\$ 1,150,648	\$ 1,210,225	\$ 353,955	\$ 1,919,328	\$ 212,066
	**	**	**	**	**
Rate	109.54%	54.70%	111.84%	47.08%	81.75%

*Total Salaries & Fringe Benefits (Less Holidays)

**Direct Salaries & Fringe Benefits (Less Holidays)

CERTIFICATION OF INDIRECT COSTS

This is to certify that I, name of responsible official, 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 2011 (July 1, 2010 to June 30, 2011) 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 final rate.

- (3) Additionally, I understand that in accordance with 2 CFR, Part 225, Appendix E, Section E.4, refunds shall be made if proposals are later found to have included costs that are unallowable as specified by law or regulation, as identified in Appendix B to this part, or by the terms and conditions of Federal and State award, or are unallowable because they are clearly not allocable to Federal or State awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed or provisional).

I acknowledge as a representative of Santa Clara County Roads and Airports Department that the proper use and application of the indirect rate contained in this indirect cost rate proposal is the responsibility of the Santa Clara County Roads and Airports Department and such use may be subject to audit by the Department or Federal Highway Administration. Failure to cooperate with an audit can result in the withdrawal of Department acceptance and require immediate reimbursement of previously reimbursed indirect costs.

I declare that the foregoing is true and correct.

Government Unit: Santa Clara County Roads and Airports Department

Signature: Madhur Bagla

Signature: Aldwin Valbuena

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Madhur Bagla

Name of Official: Aldwin Valbuena

Title: Department Fiscal Officer

Title: Accountant III

Date of Execution: 02/06/14

Telephone No.: (408) 573-2455

INDIRECT COST RATE APPROVAL

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



Signature

Reviewed and Approved by:
Zilan Chen, Chief of External
Audits, Local Governments

Date: 2/11/2014

Phone Number: (916) 323-7877



Signature

Reviewed and Approved by:
Alice Lee, Audit Manager
External Audit, Local Agencies

Date: 2/10/14

Phone Number: (916) 323-7953