

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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April 10, 2014

Mr. Robert Murdock
Director
Department of Public Works
Resource Management Agency
County of Monterey
168 West Alisal Street, 2nd Floor
Salinas, CA 93901

Dear Mr. Murdock:

At the request of the California Department of Transportation (Caltrans), the State Controller's Office (SCO) conducted an audit of the County of Monterey, Department of Public Works, Resource Management Agency's (County) Indirect Cost Rate Proposals (ICRPs) for fiscal year (FY) 2011/2012 and FY 2012/2013 to determine whether the ICRPs were 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 ICRPs are presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rates are 42.43 percent and 59.86 percent of total direct salaries and wages plus fringe benefits for FY 2011/2012 and FY2012/2013, respectively.

These rates supersede the FY2011/2012 rate of 57.64 percent and the FY2012/2013 rate of 77.12 percent of total direct wages and fringe benefits stated in our Acceptance Letters dated July 25, 2011, and July 10, 2012. Since the audited indirect cost rates are lower than the previously accepted rates, the County is required to reconcile all prior reimbursement claims using the lower audited rates. Any resulting overpayment should be repaid to Caltrans within 30 days or by the next billing cycle, whichever occurs first.

The SCO auditors excluded unallocable fleet service and legal counsel charges totaling \$653,383 and \$712,956 for FY2011/2012 and FY2012/2013, respectively. In addition, the audit determined that the indirect costs were overstated because the county included unallowable contingency settlement charges of \$44,358 in FY2011/2012 and \$45,797 in FY2012/2013.

Mr. Robert Murdock
April 10, 2014
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These ICRPs are approved for billing and reimbursement purposes based on the understanding that the rates are fixed and a carry-forward provision will apply. No adjustments will be made to previously approved rates.

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 5, 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:

ICRP Audit Report of the County of Monterey, Department of Public Works, Resource
Management Agency for FY2011/2012 and FY2012/2013 prepared by the State
Controller's Office

Indirect Cost Rate Proposal for FY2011/2012

Indirect Cost Rate Proposal for FY2012/2013

- c: Shawne E. Ellerbee, Finance Manager III, County of Monterey, Department of Public Works, Resource Management Agency
- Augusto C. Capinguian, Finance Manager II, County of Monterey, Department of Public Works, Resource Management Agency
- 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
- 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
- Garin Schneider, DLAE, District 5, Office of Local Assistance, Caltrans
- James Ogbonna, Chief, Rural Transit and Intercity Bus Branch, Division of Mass Transportation, California Department of Transportation
- Terry Farris, Senior Transportation Planner, State Transit Program, Office of State Policy, Research and Capital, Division of Mass Transportation
- C. Edward Philpot, Jr., Chief, Office of Community Planning, Division of Transportation Planning, Caltrans
- Erin Thompson, Senior Transportation Planner, Division of Transportation Planning, Caltrans
- Karen Hunter, Rail Transportation Associate, Division of Rail, Caltrans
- Lisa Gore, Associate Accounting Analyst, Local Program Accounting Branch, Local Assistance, Caltrans
- David Saia, LAPM/LAPG Coordinator, Division of Local Assistance, Caltrans
- Lai Huynh, Audits & Federal Performance Measures Analyst, Division of Local Assistance, Caltrans

P1590-0313 and P1590-0314



JOHN CHIANG
California State Controller

March 13, 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 audited the indirect cost rate proposals (ICRPs) of the Monterey County Department of Public Works' for Fiscal Year (FY) 2011-12 and FY 2012-13. The county proposed department-wide indirect cost rates of 57.64% and 77.12% for these fiscal years, respectively.

The purpose of the audit was to determine whether the (1) proposed rates were in compliance with the cost principles prescribed in Title 2 of the *Code of Federal Regulations*, Part 225 (2 CFR 225), (2) ICRPs were in compliance with California Department of Transportation (Caltrans) Local Program Procedures Manual (LPP) 04-10, and (3) county's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Our audit determined an indirect cost rate of 42.43%, for FY 2011-12, a difference of 15.21%, and 59.86%, for FY 2012-13, a difference of 17.26%. The differences primarily were due to the county including unallocable and unallowable indirect charges. The county's proposed rates were based on entire costs of the Department of Public Works (DPW). However, we found that the combined indirect costs did not equitably benefit the direct cost objectives for the DPW because the indirect costs included significant fleet service charges and legal counsel charges that only benefitted DPW's Roads and Bridges Maintenance cost centers. Thus, we excluded fleet service and legal counsel charges totaling \$653,383 for FY 2011-12 and \$712,956 for FY 2012-13. In addition, our audit determined that the indirect costs were overstated because the county included unallowable contingency settlement charges of \$44,358 in FY 2011-12, and \$45,797 in FY 2012-13.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

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Audit Report

Summary

The State Controller's Office audited the indirect cost rate proposals (ICRPs) of the Monterey County Department of Public Works for Fiscal Year (FY) 2011-12 and FY 2012-13. The county proposed department-wide indirect cost rates of 57.64% and 77.12% for these fiscal years, respectively.

The purpose of the audit was to determine whether the (1) proposed rates were in compliance with the cost principles prescribed in Title 2 of the *Code of Federal Regulations*, Part 225 (2 CFR 225), (2) ICRPs were in compliance with California Department of Transportation (Caltrans) Local Program Procedures Manual (LPP) 04-10, and (3) county's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

Our audit determined an indirect cost rate of 42.43% for FY 2011-12, a difference of 15.21%, and 59.86% for FY 2012-13, a difference of 17.26%. The differences primarily were due to the county including unallocable and unallowable indirect charges. The county's proposed rates were based on entire costs of the Department of Public Works (DPW). However, we found that the combined indirect costs did not equitably benefit the direct cost objectives for the DPW because the indirect costs included significant fleet service charges and legal counsel charges that only benefitted DPW's Roads and Bridges Maintenance cost centers. Thus, we excluded fleet service and legal counsel charges totaling \$653,383 and \$712,956 for FY 2011-12 and FY 2012-13, respectively. In addition, our audit determined that the indirect costs were overstated because the county included unallowable contingency settlement charges of \$44,358 in FY 2011-12, and \$45,797 in FY 2012-13.

Background

Monterey County is one of the original counties of California, located on the pacific coast. The county government is overseen by an elected five-member Board of Supervisors and elected officials head the offices of the Assessor, Auditor-Controller, Clerk/Recorder, Coroner, District Attorney, and Sheriff. The Board of Supervisors sets priorities for the county and through delegated authority to the County Administrative Office, oversees most county departments and programs, including the Department of Public Works.

The DPW is responsible for management, operation, and maintenance of public roads and bridges, county government owned buildings and facilities, fleet, storm drains, sanitation district collection, and treatment and disposal facilities. The department comprises the following cost centers:

- Architectural Services, New Facilities, and Major Renovations
- Facilities Management and Mail Operations
- Fleet Management

- Road and Bridge Design
- Road and Bridge Construction
- Road and Bridge Maintenance
- Stormwater Program
- Traffic Engineering
- Transportation Planning, Development Review

The proposed department-wide indirect cost rates, which are a product of department-wide indirect salaries, related fringe benefits, services, and supplies, divided by the direct labor and related fringe benefits, enable the county to recover Federal Highway Administration and Caltrans funded capital project related indirect costs for FY 2011-12 and FY 2012-13. Primarily, the DPW's engineering cost centers for Road and Bridge Design, and Traffic Engineering, provide direct labor services for these projects.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P150-0137). 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 the select financial and compliance activities. The audit consisted of recalculating the ICRPs 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 2012-13 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 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 the county's accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

We did not audit Monterey County's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the 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 accounting system, transaction flow, 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 Monterey County, Department of Public Works' indirect cost rate proposals for FY 2011-12 and FY 2012-13. The county proposed department-wide indirect cost rates of 57.64% and 77.12% for these FYs, respectively. Our audit determined whether the (1) proposed rates were in compliance with the cost principles prescribed in Title 2 of the *Code of Federal Regulations*, Part 225, (2) ICRPs were in compliance with Caltrans LPP 04-10, and (3) county's cost accounting system was accumulating and segregating reasonable, allowable, and allocable costs.

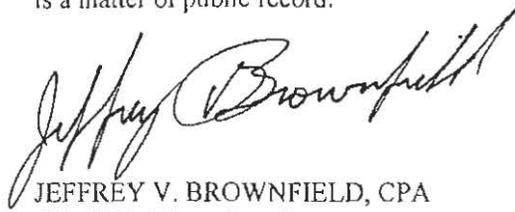
Our audit determined an indirect cost rate of 42.43% for FY 2011-12, a difference of 15.21%, and 59.86% for FY 2012-13, a difference of 17.26% for FY 2012-13. The differences were due primarily to the county including unallocable and unallowable indirect charges. The county's proposed rates were based on entire costs of the DPW. We found that the combined indirect costs did not equitably benefit the direct cost objectives for the DPW because the indirect costs included significant fleet service charges and legal counsel charges that only benefitted DPW's Roads and Bridges Maintenance cost centers. Thus, we excluded fleet service and legal counsel charges totaling \$653,383 and \$712,956 for FY 2011-12 and FY 2012-13, respectively. In addition, our audit determined that the indirect costs were overstated because the county included unallowable contingency settlement charges of \$44,358 in FY 2011-12 and \$45,797 in FY 2012-13.

Views of Responsible Officials

We discussed our audit results with the county's representatives during an exit conference conducted on June 11, 2013. Shawnee Ellerbee, Finance Manager III; Augusto Campinguian, Finance Manager of the Department of Public Works; Ron Holly, Chief Deputy; and William Gray, Auditor III of the Auditor-Controller's Office, agreed with the audit results and understood that the final report will be issued to Caltrans.

Restricted Use

This report is solely for the information and use of Monterey 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

March 13, 2014

Findings and Recommendations

FINDING 1— Unallowable liability insurance expense

The county included \$44,358 and \$45,797 of unallowable costs for “Liability Insurance—non recoverable” in the Indirect Cost Rate Proposals (ICRP) for fiscal years FY 2011-12 and 2012-13, respectively. The unallowable costs were for three specific legal settlements.

Furthermore, because the county’s proposed indirect costs for FY 2011-12 and FY 2012-13 were based on actual costs of FY 2009-10 and FY 2010-11, respectively, these unallowable costs also were included in the computation of FY 2009-10 and FY 2010-11 carry-forward adjustments. These carry-forward adjustments represent the difference between the estimated and actual indirect costs. Thus, these unallowable costs caused the actual indirect costs to be overstated.

See Schedule 1A and Schedule 1B for the effect of these unallowable costs on the proposed indirect cost rates.

Title 2 of *Code of Federal Regulations*, Part 225, Appendix B, Section 16, states in part, that “fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.”

Recommendation

We recommend that the county revise and resubmit the FY 2011-12 and FY 2012-13 Indirect Cost Rate Proposals, excluding these unallowable expenses from the indirect costs pool. 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.

FINDING 2— Unallocable county- wide central service expenses

The county included central service expenses of \$1,366,339 that did not benefit the Federal Highway Administration- and Caltrans-funded projects. As a result, the indirect costs and resulting indirect cost rates were overstated. In all, the county proposed \$2,191,292 and \$2,495,735 as county-wide allocated indirect expenses for FY 2011-12 and FY 2012-13, respectively. Such central service costs included fleet, legal counsel, human resources, accounting, and various other central services expenses. These services were provided by the county’s central service government agencies to the county’s user departments and agencies, such as the Department of Public Works (DPW).

The county developed a central service cost allocation plan to distribute these charges to individual user departments and agencies. The county auditor-controller, along with the individual departments, then determined and equitably allocated these expenses to each respective department and agency. Our audit found that though the central service charges were properly allocated to the DPW, a significant amount of fleet and county counsel allocated charges did not benefit the entire DPW, but only the Roads and Maintenance Cost Centers. We determined, and as shown in the chart below, that \$1,366,339 of allocated fleet and legal counsel costs did not benefit the entire department-wide direct cost objectives.

Central Service Costs	FY 2011-12	FY 2012-13	Total
Fleet Service	\$ 547,167	\$ 486,861	\$ 1,034,028
Legal Counsel	106,216	226,095	332,311
Total	\$ 653,383	\$ 712,956	\$ 1,366,339

Furthermore, because the county’s proposed indirect costs for FY 2011-12 and FY 2012-13 were based on actual costs of carry-forward adjustment for FY 2009-10 and FY 2010-11, these adjustments represent the difference between the estimated and actual indirect costs. Thus, these unallowable costs caused the actual indirect costs to be overstated.

See Schedule 1A and Schedule 1B for the effect of these unallowable costs on the proposed indirect cost rates.

Title 2, *Code of Federal Regulations*, Part 225, Appendix A, section F.1, states that “Indirect cost pools 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 C, Section A.1, states that “Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.”

Recommendation

We recommend that the county revise and resubmit the FY 2011-12 and FY 2012-13 Indirect Cost Rate Proposals, excluding these unallowable expenses from the indirect costs pool. 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.

**Schedule 1—
Summary of Proposed and Audited Indirect Cost Rates
Fiscal Year (FY) 2011-12 and FY 2012-13**

<u>Fiscal Year</u>	<u>Proposed Rate</u>	<u>Audited Rate</u>	<u>Difference</u>	<u>Reference</u>
2011-12	57.64%	42.43%	-15.21%	Schedule 1A
2012-13	77.12%	59.86%	-17.26%	Schedule 1B

**Schedule 1A—
Summary of Proposed and Audited Direct Costs,
Indirect Costs, and Indirect Cost Rate
Fiscal Year 2011-12**

	Proposed	Audited	Difference	Reference
Direct costs				
Salaries and wages	\$ 5,231,632	\$ 5,231,632		
Fringe benefits	3,943,417	3,943,417		
Total direct cost	9,175,049	9,175,049		
Indirect costs				
Salaries and wages	502,617	502,617		
Fringe benefits	381,989	381,989		
Subtotal indirect cost	884,606	884,606		
Services, supplies, and other				
Uniforms and safety equipment	249	249		
Communication charges--external	2,435	2,435		
Communication charges--internal	47,076	47,076		
Food	120	120		
Liability insurance--non recoverable	44,358	—	\$ (44,358)	Finding 1
Liability insurance--recoverable	512,107	512,107		
Insurance--property	1,960	1,960		
Membership fees	3,916	3,916		
Advertising	1,949	1,949		
Books/periodicals/subscriptions	78	78		
Bottled water	107	107		
Minor computer hardware	1,165	1,165		
Minor computer software	51	51		
Minor equipment and furnishings	585	585		
Office supplies	32,104	32,104		
Postage and shipping	62	62		
Printing/graphics/binding--external	579	579		
Printing/graphics/binding--internal	1,416	1,416		
Other office expense	(3)	(3)		
Accounting and auditing charges	2,800	2,800		
Data processing services--internal	302,381	302,381		
Temporary help services	16,133	16,133		
Other professional services	936,945	936,945		
Publication and legal notices	(265)	(265)		
Rent and leases--equipment	13,882	13,882		
Other special department expense	365	365		
Conference/lodging/meals/travel	3,843	3,843		
Employee moving expense	5,507	5,507		
Utilities expense	82	82		
Cost plan charges	2,191,292	1,537,909	(653,383)	Finding 2
Temporary administrative staff	44,455	44,455	—	
Subtotal - Services, supplies, and other	4,167,734	3,469,993	(697,741)	
carry-forward adjustment (FY 2009-10)	235,978 ¹	(461,763)	(697,741)	Findings 1, 2

Schedule 1A (continued)

	<u>Proposed</u>	<u>Audited</u>	<u>Difference</u>	<u>Reference</u>
Total indirect costs	\$ 5,288,318	\$ 3,892,836		
Indirect cost rate base--direct salaries and benefits	9,175,049	9,175,049		
Indirect cost rate	57.64%	42.43%	-15.21%	

¹ Due to a mathematical rounding error, the proposed carry-forward adjustment was improperly calculated to be \$236,006, a difference of \$28. The proposed rate was unaffected.

**Schedule 1B—
Summary of Proposed and Audited Direct Costs,
Indirect Costs, and Indirect Cost Rate
Fiscal Year 2012-13**

	<u>Proposed</u>	<u>Audited</u>	<u>Difference</u>	<u>Reference</u>
Direct costs:				
Salaries and wages	\$ 5,031,919	\$ 5,031,919		
Fringe benefits	<u>3,762,392</u>	<u>3,762,392</u>		
Total direct cost	<u>8,794,311</u>	<u>8,794,311</u>		
Indirect costs:				
Salaries and wages	573,058	573,058		
Fringe benefits	<u>446,018</u>	<u>446,018</u>		
Subtotal indirect cost	<u>1,019,076</u>	<u>1,019,076</u>		
Services, supplies, and other:				
Uniforms and safety equipment	150	150		
Communication charges-external	2,431	2,431		
Communication charges-internal	38,602	38,602		
Food	547	547		
Liability insurance--non recoverable	45,797	—	\$ (45,797)	Finding 1
Liability insurance--recoverable	394,756	394,756		
Insurance-property	1,653	1,653		
Building maintenance--external	7	7		
Membership fees	6,005	6,005		
Advertising	665	665		
Books/periodicals/subscription	329	329		
Bottled water	151	151		
Courier services	28	28		
Minor computer hardware	2,658	2,658		
Minor computer software	694	694		
Minor equipment & furnishings	3,158	3,158		
Office supplies	21,675	21,675		
Postage and shipping	161	161		
Printing/graphics/binding--external	102	102		
Printing/graphics/binding--internal	1,551	1,551		
Other office expense	366	366		
Accounting and auditing charges	7,455	7,455		
Data processing services--internal	340,768	340,768		
Temporary help services	42,449	42,449		
Other professional services	1,050,817	1,050,817		
Publication and legal notices	996	996		
Rent and leases--equipment	14,172	14,172		
Other special department expense	1,632	1,632		
Conference/lodging/meals/travel	3,782	3,782		
Utilities expense	68	68		
Cost plan charges	2,495,735	1,782,779	(712,956)	Finding 2
Temporary administrative staff	<u>21,686</u>	<u>21,686</u>		
Subtotal - Services, supplies, and other	4,501,046	3,742,293	(758,753)	Findings 1, 2
Carry-forward adjustment (FY 2010-11)	<u>1,261,632</u>	<u>502,879</u>	(758,753) ¹	

Schedule 1B—continued

	<u>Proposed</u>	<u>Audited</u>	<u>Difference</u>	<u>Reference</u>
Total indirect costs	6,781,754	5,264,248		
Indirect cost rate base - direct salaries and benefits	8,794,311	8,794,311		
Indirect cost rate	77.12%	59.86%	-17.26%	

¹ Due to a mathematical rounding error, the proposed carry-forward adjustment was improperly calculated to be \$1,261,796 a difference of \$164. The proposed rate was unaffected.

MONTEREY COUNTY PUBLIC WORKS
Indirect Cost Rate

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the AGENCY NAME 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	7/1/11 to 6/30/12	42.43%	All Programs

* Base: Total Direct Salaries and Wages plus Fringe Benefits

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 2012 Budgeted Indirect Costs	\$4,354,599
Carry Forward from 2010	(\$ 461,763)
Budgeted FY 2012 Indirect Costs	\$3,892,836
FY 2012 Budgeted Direct Salaries & Wages (or applicable base)	\$9,175,050
FY 2012 Indirect Cost Rate	42.43%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I 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 costs rates for fiscal year 2012 (July 1, 2011 to June 30, 2012) are allowable in accordance with the

requirements of the Federal and State award(s) to which they apply and 2 Code of Federal Regulations, 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.

Governments Unit: AGENCY NAME

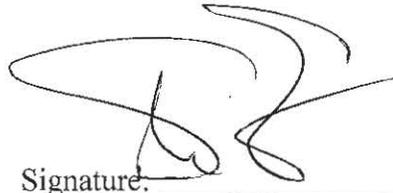
Signature: 

Reviewed, Approved and Submitted by:

Name of Official: Robert Murdoch, P.E.

Title: Public Works Director

Date of Execution: 4/3/14



Signature: _____

Prepared by:

Name of Official: Shawne E. Ellerbee

Title: Finance Manager III

Telephone No.: (831) 755 - 4794

INDIRECT COST RATE APPROVAL

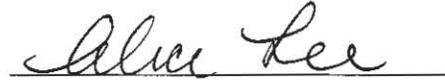
The Department has reviewed this indirect cost plan and hereby approves the plan.


Signature

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

Date: 4.10.14

Phone Number: (916)323-7877


Signature

Reviewed and Approved by:
Alice Lee, Senior Management
Auditor

Date: 4.10.14

Phone Number: (916)323-7953

MONTEREY COUNTY PUBLIC WORKS
Indirect Cost Rate

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the AGENCY NAME 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	59.86%	All Programs

* Base: Total Direct Salaries and Wages plus Fringe Benefits

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 2013 Budgeted Indirect Costs	\$4,761,369
Carry Forward from 2011	\$ 502,879
Budgeted FY 2013 Indirect Costs	\$5,264,248
FY 2013 Budgeted Direct Salaries & Wages (or applicable base)	\$8,794,311
FY 2013 Indirect Cost Rate	59.86%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I 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 costs 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, 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.

Governments Unit: AGENCY NAME

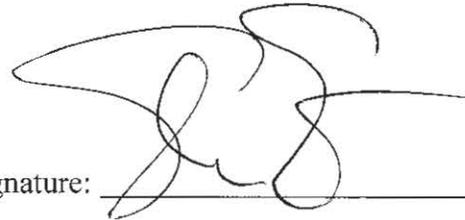
Signature: Robert Murdoch

Reviewed, Approved and Submitted by:

Name of Official: Robert Murdoch, P.E.

Title: Public Works Director

Date of Execution: 4/3/14



Signature: _____

Prepared by:

Name of Official: Shawne E. Ellerbee

Title: Finance Manager III

Telephone No.: (831) 755 -4794

INDIRECT COST RATE APPROVAL

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

Zilan Chen
Signature

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

Date: 4.10.14

Phone Number: (916)323.7877

Alice Lee
Signature

Reviewed and Approved by:
Alice Lee, Senior Management
Auditor

Date: 4.10.14

Phone Number: (916)323.7953