


Memorandum

*Serious drought.
Help save water!*

To: MARSUE MORRILL, CPA
Chief, External Audit—Local Governments
Audits and Investigations

Date: April 4, 2017

File: P1594-0012/0016
0018/0019/0020/0021

From: MARK SAMUELSON 
Acting Division Chief
Local Assistance

Subject: **DIVISION CORRECTIVE ACTION PLAN—INDIRECT COST RATE PROPOSAL AUDIT—CITY OF SAN DIEGO**

This memorandum serves as the Division of Local Assistance (DLA) corrective action plan for findings described in Audits and Investigations (A&I) Indirect Cost Rate Proposal (ICRP) Audit for the City of San Diego (City) dated December 2016. We thank you and your staff for the efforts in completing this audit and for helping the City improve their financial management system.

The DLA concurs with the entire Audit findings:

Finding 1: Development Services Division Unallowable Indirect Costs

The City included unallowable costs of services and supplies, overstating \$121,373 in indirect cost rates. Therefore, the indirect cost rate decreased by 0.85% and 0.66% in FY 2010–11 and FY 2012–13. These costs were classified as indirect costs per the City's accounting system. The City did not review transactions for any unallowable indirect costs; therefore, these costs were included in the ICRP.

Corrective Action:

District 11 will work with the City to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayment is to be repaid to Caltrans by June 30, 2017.

Finding 2: Development Services Division Misclassified Indirect Costs

The City included unallowable costs of services and supplies. The unallowable costs were due to misclassification of indirect costs. A "Transfer-to-Other" transaction totaling \$1,502,488 was misclassified as an indirect cost. Therefore, the indirect cost rate decreased by 8.53% in FY 2012–13 and FY 2013–14.

Corrective Action:

District 11 will work with the City to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayment is to be repaid to Caltrans by June 30, 2017.

Finding 3: General Services Division Unallowable Indirect Costs

The City overstated a total of \$556,871 in indirect costs; therefore, the indirect cost rate decreased by 1.81% in FY 2010–11 and FY 2012–13. These costs were classified as indirect costs per the City's accounting system. The City did not review transactions for any unallowable indirect costs; therefore, these costs were included in the ICRP.

Corrective Action:

District 11 will work with the City to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayment is to be repaid to Caltrans by June 30, 2017.

Finding 4: Transportation and Storm Water Division Unallowable Indirect Costs

The City included unallowable costs for services and supplies. The unallowable costs were promotional advertising to educate the public about usage of storm water drains to mitigate damage to infrastructure and limit pollution. Federal awards did not require this promotional advertising. The City overstated \$110,966 in indirect costs, causing the indirect cost rate to decrease by 0.65% in FY 2011–12 and FY 2013–14. These costs were classified as indirect costs per the City's accounting system.

Corrective Action:

District 11 will work with the City to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayment is to be repaid to Caltrans by June 30, 2017.

Finding 5: City Planning and Community Development Division Unallowable Indirect Costs

The City included unallowable costs for services and supplies. These unallowable costs were prior year costs for a capital improvement. The costs totaled \$38,000, causing the indirect cost rate to decrease by 0.83% in FY 2010–11.

Corrective Action:

District 11 will work with the City to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayments is to be repaid to Caltrans by June 30, 2017.

Summary:

District 11 will work with the City to reconcile all prior reimbursement claims using the audited rates. Any resulting overpayments are to be repaid to Caltrans by June 30, 2017.

If you have any questions, please contact Phyllis Nahale, Division of Local Assistance, at (916) 651-8257 or by email sent to phyllis.nahale@dot.ca.gov.

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