

Independent Office of Audits And Investigations

P.O. BOX 942874, MS-2
SACRAMENTO, CA 94274-0001
PHONE (916) 323-7111
FAX (916) 323-7123
TTY 711
<https://ig.dot.ca.gov>



December 29, 2020

JEANIE WARD-WALLER
DEPUTY DIRECTOR
Planning and Modal Programs
California Department of Transportation

Dear Ms. Ward-Waller:

The Department of Finance, Office of State Audits and Evaluations (Finance), performed an Indirect Cost Rate Proposal (ICRP) audit of the Santa Barbara County Association of Governments' (SBCAG) ICRPs for fiscal years 2018-19 and 2019-20. The audit was performed to determine whether the ICRPs were prepared in compliance with Title 2 Code of Federal Regulations (CFR) Part 200, and the California Department of Transportation's Local Assistance Procedures Manual (LAPM). In addition, the audit was performed to recalculate fiscal years 2018-19 and 2019-20 rates if unallowable costs were identified. The final audit report, including SBCAG's response, is enclosed.

The audit determined that SBCAG included unallowable costs in their ICRP indirect cost pool. The amount; however, did not impact the rates.

Please provide our office with a corrective action plan addressing the recommendations in the enclosed report, including timelines, by February 26, 2021.

If you have any questions contact MarSue Morrill, Audit Chief, at marsue.morrill@dot.ca.gov.

Sincerely,

RHONDA L. CRAFT
INSPECTOR GENERAL

Enclosures
Final Audit Report

c: Richard Mullen, Deputy District Director, District 1, Caltrans
Marjie Kirn, Executive Director, Santa Barbara County Association of
Governments
DLA.audits@dot.ca.gov
DOTP.audits@dot.ca.gov
DRMT.audit@dot.ca.gov
Tim Gubbins, Director, District 5, California Department of Transportation
Reinie Jones, District 5 Local Assistance Engineer, California Department of
Transportation
Rodney Whitfield, Director, Financial Services, Federal Highway Administration
Veneshia Smith, Financial Manager, Financial Services, Federal Highway
Administration
MarSue Morrill, Audit Chief, Independent Office of Audits and Investigations
Nancy Shaul, Audit Manager, Independent Office of Audits and Investigations

P1594-0110



Santa Barbara County Association of Governments

Indirect Cost Allocation Plan
Fiscal Years 2018-19 and 2019-20

Report No. 21-2660-0196
December 2020

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Humberto E. Cervantes, CPA, Manager
Jeremy Cameron Jackson, CPA, Supervisor
Jonathan Cox, Lead
Muang Saeteurn
Amanda Voie

Final reports are available on our website at www.dof.ca.gov.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



DEPARTMENT OF
FINANCE

GAVIN NEWSOM • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

December 18, 2020

MarSue Morrill, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Final Report—Santa Barbara County Association of Governments, Indirect Cost Allocation Plan Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Santa Barbara County Association of Governments' (SBCAG) Indirect Cost Allocation Plan (ICAP) for fiscal years 2018-19 and 2019-20, Caltrans Audit Number P1594-0110.

The enclosed report is for your information and use. SBCAG's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Jeremy Jackson, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Nancy Shaul, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Monte Laskosky, Auditor, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The California Department of Transportation's (Caltrans) Division of Transportation Planning articulates a long-term vision for California's transportation system and implements statewide transportation policy through partnerships with state, regional, and local agencies. The Division provides quality planning products, services, and information to support and guide transportation investment decisions.¹

Santa Barbara County Association of Governments (SBCAG) is a regional planning agency comprised of Santa Barbara County and all eight incorporated cities within the county. SBCAG distributes local, state, and federal transportation funds and acts as a forum for addressing regional and multi-jurisdictional issues.²

SBCAG is both a Metropolitan Planning Organization (MPO) and a Regional Transportation Planning Agency (RTPA). As an MPO, SBCAG is responsible for all transportation planning and programming activities required under federal law. This includes the development of long range transportation plans and multi-year funding programs, and the selection and approval of transportation projects using federal funds. As an RTPA, SBCAG is responsible for the multi-modal transportation planning, programming, and fund allocation required by state statutes.³

At the discretion of local government agencies (LGA), including MPOs, indirect costs may be recovered when seeking reimbursement for federal-aid transportation projects and state funded projects. To recover indirect costs, LGAs annually submit an Indirect Cost Allocation Plan (ICAP), which may also include a fringe benefit rate, to Caltrans' Independent Office of Audits and Investigations (IOAI). IOAI reviews the documentation supporting the rate(s) and issues an acceptance letter allowing the LGAs to bill Caltrans and seek reimbursement of indirect costs, which IOAI may audit for compliance with Title 2 Code of Federal Regulations Part 200 (2 CFR 200), and Caltrans' Local Assistance Procedures Manual Chapter 5 (LAPM).

SCOPE

At the request of IOAI, the California Department of Finance, Office of State Audits and Evaluations, audited SBCAG's ICAP for fiscal years 2018-19 and 2019-20.

The audit objectives were to:

1. Determine whether the 2018-19 and 2019-20 ICAPs are in compliance with 2 CFR 200 and the LAPM.

¹ Excerpts obtained from Caltrans Division of Transportation Planning website <http://www.dot.ca.gov/transplanning/>.

² Excerpts obtained from SBCAG's website: <http://www.sbcag.org/overview.html>.

³ Ibid.

2. Recalculate the 2018-19 and 2019-20 ICAP rates if unallowable costs are identified.⁴

In performing our audit, we considered internal controls significant to the audit objectives. See Appendix A for a list of significant internal control components and underlying principles.

SBCAG is responsible for preparing its ICAP in accordance with state and federal requirements, which includes implementing internal controls and maintaining an adequate financial management system to accumulate and segregate reasonable, allowable, and allocable costs.

METHODOLOGY

In planning the audit, we gained an understanding of SBCAG's operations, and identified relevant ICAP requirements by interviewing Caltrans and SBCAG personnel and reviewing 2 CFR 200, the Master Fund Transfer Agreement (MFTA), the LAPM, and applicable SBCAG policies and procedures.

We conducted a risk assessment, including evaluating whether key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key controls evaluated focused on the separation of indirect and direct costs including labor, and preparation of the ICAP. Our assessment included observing processes and testing transactions related to accounts payable, time keeping/payroll, journal entries, billing, and ICAP preparation for effectiveness of existing documented processes and procedures. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of data from SBCAG's financial management system, Financial Information Network, as well as the timekeeping and payroll system, Automatic Data Processing. Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, and determining if costs were separately categorized by tracing to the accounting and payroll records. We determined the data were sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies.

⁴ As noted in the Results section, adjustments to the indirect costs pool did not impact the rate; therefore, recalculation was not necessary.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: Determine whether the 2018-19 and 2019-20 ICAPs are in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> • Selected 2016-17 and 2017-18 significant and high-risk cost categories to verify compliance with 2 CFR 200, the MFTA, and the LAPM. Significant indirect costs pool categories were determined based on change analysis from the two prior year's actual costs and cost categories with ending balances that meet or exceed 1 percent of the current direct cost base. Further, direct and indirect salaries and fringe benefits were considered high-risk categories based on the impact to the rate. High-risk indirect costs pool categories were determined based on costs commonly identified for non-compliance with 2 CFR 200 and the LAPM. Specifically, costs were selected from direct and indirect salaries, fringe benefits, and the indirect costs pool. <ul style="list-style-type: none"> ○ Selection of direct and indirect salaries and fringe benefits were based on quantitative and qualitative factors such as total hours charged, dollar amount of fringe benefits, employee job classification, and type of fringe benefits. ○ Selection of indirect costs pool costs were based on quantitative and qualitative factors such as costs with a potential impact to the ICAP rate by 1 percent or greater, and the type (i.e. description) of costs. ○ Determined if direct and indirect salaries and fringe benefits were allowable, supported, segregated, and allocated, by interviewing staff, tracing the amounts to accounting and payroll records, recalculating rates, and verifying fringe benefits were included in employee billable rates. ○ Determined if indirect costs pool costs were allowable, authorized, supported, segregated, and allocated, by interviewing staff; reviewing accounting records, invoices, lease agreements, and settlement records for eligibility and accuracy; and comparing travel expense claims to California Department of Human Resources (CalHR) per diem and lodging rates. • Determined the carry forward calculations were supported by: <ul style="list-style-type: none"> ○ Verifying the 2016-17 and 2017-18 rates were supported by the approved ICAP submissions. ○ Verifying the 2016-17 and 2017-18 actual costs were supported by accounting records and reconciled to audited financial data. ○ Recalculating the 2016-17 and 2017-18 recovered indirect costs, carry forward, and the 2018-19 and 2019-20 adjusted indirect costs. • Verified the indirect costs recovered by SBCAG were billed at the IOAI approved indirect cost rate by tracing the rate used on Caltrans' billings to the rate in Caltrans' Acceptance Letter and recalculated the indirect costs billed to Caltrans.

Audit Objective	Methods
Objective 2: Recalculate the 2018-19 and 2019-20 ICAP rates if unallowable costs are identified. ⁵	<ul style="list-style-type: none"> • Determined the identified unallowable costs did not impact the rates by 1 percent or more when removing ineligible direct costs from the indirect costs pool and recalculating the carry forward adjustment based on 2018-19 and 2019-20 audited actual amounts.

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.

⁵ Ibid.

CONCLUSION

Based on the procedures performed and evidence gathered, we determined SBCAG's 2018-19 and 2019-20 ICAPs are not in compliance with 2 CFR 200 and the LAPM. We identified unallowable costs as described in Finding 1; however, the proposed 2018-19 and 2019-20 rates were not impacted. Therefore, there are no changes to SBCAG's accepted rates, as shown in Table 1.

Table 1 - Accepted and Audited 2018-19 and 2019-20 ICAP Rates⁶

Fiscal Year	Rate Type	Accepted Rate (a)	Audited Rate (b)	Rate Difference (a)-(b)
2018-19	ICAP	51.31%	51.31%	0.00%
2019-20	ICAP	25.95%	25.95%	0.00%

FINDING AND RECOMMENDATIONS

Finding 1: Unallowable Costs in the Indirect Costs Pool

SBCAG included \$1,107 of unallowable costs within the Office Expense and Transportation and Travel categories. Specifically, the unallowable costs were related to food purchased for a staff lunch meeting, and travel costs for hotels and meals in excess of per diem rates allowed by CalHR. Since SBCAG was not aware it had to adhere to CalHR travel policies, and SBCAG does not perform a review to verify costs are correctly coded, SBCAG followed its own internal travel policies resulting in the unallowable costs.

Although these unallowable costs did not result in a change to the accepted ICAP rates, the costs should be excluded from future calculations of the ICAP submission to reduce the risk of overstating ICAP rates and overbilling indirect costs. For details of the disallowed costs, see Table 2.

Table 2 – Unallowable Indirect Costs Pool Costs

Fiscal Year ⁷	Costs Categories	Unallowable Costs
2016-17	Transportation and Travel	\$ 394
2017-18	Office Expense	573
2017-18	Transportation and Travel	140
Total Unallowable Costs		\$ 1,107

2 CFR 200.445 (a) states that goods or services for personal use are unallowable. Additionally, Article II, section 2, A, of the MFTA, effective January 1, 2015, states that payments for travel expenses are not to exceed rates under current CalHR policies.

⁶ The ICAPs submitted by SBCAG were accepted by IOAI on September 25, 2018 and May 24, 2019, respectively.

⁷ The respective fiscal year actual costs incurred were used to calculate the 2018-19 and 2019-20 ICAP rates, respectively.

Recommendations:

- A. Review all ICAP indirect costs pool accounts to ensure costs are in compliance with 2 CFR 200 and applicable CalHR policies.
- B. Update and implement policies and procedures to comply with 2 CFR 200 and applicable CalHR policies.

We considered the following internal control components and underlying principles significant to the audit objectives:

Internal Control Component	Internal Control Principle
Control Activities	<ul style="list-style-type: none"> • Management designs control activities to achieve objectives and respond to risks. • Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none"> • Management uses quality information to achieve the entity's objectives.



■ 260 North San Antonio Road., Suite B ■ Santa Barbara, CA ■ 93110
■ Phone: 805/961-8900 ■ Fax: 805/961-8901 ■ www.sbcag.org

December 14, 2020

California Department of Finance
Chief of Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814-3706

RE: Confidential Draft Report Santa Barbara County Association of Governments (SBCAG), Indirect Cost Allocation Plan audit -Audit No. P1594-0110)

Dear Ms. McCormick,

Thank you for the opportunity to respond to the audit finding resulting from a review conducted by the California Department of Finance, Office of State Audits and Evaluations at the direction of the Independent Office of Audits and Investigations (IOAI). Our understanding of the scope of this audit was to determine whether the fiscal year 2018-19 and 2019-20 Indirect Cost Allocation Plan(s)(ICAP) approved by the IOAI were in compliance with 2 CFR 200 and the Caltrans' Local Assistance Procedures Manual Chapter 5 (LAPM). Additionally, a recalculation of the 2018-19 and 2019-20 ICAP would be completed if unallowable costs were determined to impact the calculated indirect rates.

I am pleased that based on the procedures performed and the evidence gathered that there are no changes recommended to the indirect rates in place and your review resulted in one finding. As requested, our response to finding 1 "Unallowable Costs in the indirect Cost Pool" is below.

Finding 1:

SBCAG included \$1,107 of unallowable costs within the Office Expense and Transportation and Travel categories. Specifically, the unallowable costs were related to food purchased for a staff lunch meeting, and travel costs for hotels and meals in excess of per diem rates allowed by CalHR. Since SBCAG was not aware it had to adhere to CalHR travel policies, and SBCAG does not perform a review to verify costs are correctly coded, SBCAG followed its own internal travel policies resulting in the unallowable costs.

Although these unallowable costs did not result in a change to the accepted ICAP rates, the costs should be excluded from future calculations of the ICAP submission to reduce the risk of overstating ICAP rates and overbilling indirect costs

Recommendations:

- A. Review all ICAP indirect costs pool accounts to ensure costs are in compliance with 2 CFR 200 and applicable CalHR policies.
- B. Update and implement policies and procedures to comply with 2 CFR and applicable CalHR Policies.

SBCAG Response

Your finding #1 states that SBCAG included \$1,107 of unallowable costs as shown on the table below.

Fiscal Year⁷	Costs Categories	Unallowable Costs
2016-17	Transportation and Travel	\$ 394
2017-18	Office Expense	573
2017-18	Transportation and Travel	140
Total Unallowable Costs		\$ 1,107

SBCAG is in agreement with the findings for the items identified in regard to Transportation and Travel expenditures for hotel accommodations and will ensure that CalHR allowable rates are in place when applied to the calculation of the indirect cost pool. We would like to add, that it is often difficult to find accommodations in many of the cities we travel to that fall within the CalHR allowed amounts without incurring additional costs for transportation, but we do make every effort to make cost effective choices. With regard to Transportation and Travel Expenditures for meals, the items identified in your finding only represent the individual meal rates and not the daily per diem rates allowed. In each case, the staff persons' cumulative allowed per diem for those days did not exceed IRS published amounts for that year. It is our position that these amounts should be allowable costs for indirect rate calculation purposes.

In review of your finding in fiscal year 2017-18 under the cost category Office Expense, we would like to clarify that the costs associated with the purchase of food was not for a staff lunch meeting as the description states. The cost associated with this finding were for a Senate Bill 1 workshop that consisted of twenty-five (25) participants, primarily our partner agencies and six (6) SBCAG staff. The attendance by SBCAG staff was integral to the workshop and therefore SBCAG believes this cost associated with the workshop should be an allowed expense as per SBCAG's Employee handbook, Section 13, Reimbursements.

If you have any questions regarding our response or would like to discuss this further please reach out to SBCAG's Chief Financial Officer, Martha Gibbs at mgibbs@sbcag.org or 1-805-961-8916.

Thank you,

Original Signed By

Marjie Kirn
Executive Director
Santa Barbara County Association of Governments

SBCAG's response to the draft report has been reviewed and incorporated into the final report. We acknowledge SBCAG's willingness to implement our recommendations specific to the hotel rates. In evaluating SBCAG's response to meals and food purchases, we provide the following comments:

Finding 1: Unallowable Costs in the Indirect Costs Pool

SBCAG indicates the Transportation and Travel meal costs represents individual meal rates, and not the daily per diem rates allowed by the Internal Revenue Service (IRS). In addition, SBCAG states the costs associated with the purchase of food under the Office Expense category was for a Senate Bill 1 (SB1) workshop. Therefore, SBCAG believes the meals in excess of per diem rates and purchase of food for a SB1 workshop are allowable costs for the indirect cost pool. However, SBCAG must use the CalHR per diem rates per the MFTA to determine allowable costs. In addition, SBCAG did not provide documentation to support the purchase of food for the SB1 workshop was eligible under 2 CFR 200.432. As a result, the Finding and Recommendations will remain unchanged.