

Memorandum

To:

RIHUI ZHANG
Division Chief
Division of Local Assistance

Date: February 6, 2020

File: P1594-0100

From:

MARSUE MORRILL, CPA
AUDIT CHIEF
Planning and Modal Office
Independent Office of Audits and Investigations

Subject: INDIRECT COST RATE PROPOSAL AUDIT – CITY OF SAN DIEGO

We audited six Indirect Cost Rate Proposals (ICRPs) of the City of San Diego for fiscal year (FY) 2017/18 and FY 2018/19. The purpose of the audit was to determine if the FY 2017/18 and FY 2018/19 ICRPs were in compliance with Title 2 Code of Federal Regulations (CFR) Part 200, the Caltrans Local Assistance Procedures Manual Chapter 5 (LAPM), and agreements with Caltrans. In addition, the audit was performed to recalculate the FY 2017/18 and FY 2018/19 rates if unallowable costs were identified. The complete audit report is attached.

Based on our audit, we determined that the City's ICRPs for FY 2017/18 and FY 2018/19 were presented in accordance with 2 CFR Part 200, LAPM and agreements with Caltrans except for some unallowable costs included in the indirect cost pool. The audited rates are as follows:

Fiscal Year	Department	Proposed Rate	Audited Rate*	Variance
2017/18	Transportation & Storm Water Department	93.30%	71.70%	(21.6)
2017/18	Public Works-Engineering & Capital Projects Branch	50.70%	49.10%	(1.6)
2017/18	Public Works – Contracts Branch	40.40%	40.40%	-
2018/19	Transportation & Storm Water Department	74.00%	64.10%	(9.90)
2018/19	Public Works-Engineering & Capital Projects Branch	77.50%	77.50%	-
2018/19	Public Works – Contracts Branch	32.40%	32.40%	-

*Base : Total direct salaries and wages

Please provide our office with a corrective action plan addressing the recommendations in the report, including timelines, by April 6, 2020.

“Provide a safe, sustainable, integrated and efficient transportation system to enhance California’s economy and livability”

RIHUI ZHANG
February 6, 2020
Page 2 of 2

If you have any questions, contact Luisa Ruvalcaba, Audit Manager, at
luisa.ruvalcaba@dot.ca.gov.

Attachment

City of San Diego Indirect Cost Rate Proposal Audit

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P1594-0100

City of San Diego Indirect Cost Rate Proposal Audit



AUDIT REPORT
FEBRUARY 2020

PREPARED BY:

Independent Office of Audits and Investigations – MS 2

Post Office Box 942874

Sacramento, California 94274-0001

<https://ig.dot.ca.gov/>

AUDIT TEAM:

MarSue Morrill, CPA, Audit Chief, Planning and Modal Office

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P1594-0100

TABLE OF CONTENTS

SUMMARY2

OBJECTIVES2

SCOPE.....2

METHODOLOGY3

VIEWS OF RESPONSIBLE OFFICIALS3

FINDINGS AND RECOMMENDATIONS.....4

FINDING 1 – Unallowable Costs Included in the Indirect Cost Pool4

ATTACHMENTS

- 1. Summary of Indirect Cost Rate Proposal Costs**
- 2. Response From City of San Diego**

SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND VIEWS OF RESPONSIBLE OFFICIALS

SUMMARY

The Independent Office of Audits and Investigations (IOAI) audited six Indirect Cost Rate Proposals (ICRPs) of the City of San Diego (City). Based on the audit, we determined unallowable costs were included in the ICRPs.

OBJECTIVES

The audit objectives were to:

- Determine if the fiscal year (FY) 2017/18 and FY 2018/19 ICRPs were in compliance with Title 2 Code of Federal Regulations (CFR) Part 200, the California Department of Transportation (Caltrans) Local Assistance Procedures Manual Chapter 5 (LAPM), and agreements with Caltrans.
- Recalculate the FY 2017/18 and FY 2018/19 rates if unallowable costs are identified.

SCOPE

The audit included a review and test of transactions related to costs incurred and billed to Caltrans in FY 2017/18 and FY 2018/19. The audit was limited to financial and compliance activities. The scope was also limited to the Departments/Branches that billed Caltrans for indirect costs (see below for schedule identifying the audited Departments/Branches). The FY 2017/18 and FY 2018/19 ICRP rates include actual costs incurred and billed to Caltrans during FY 2015/16 and FY 2016/17.

Fiscal Year	City's Department/Branch
2017/18	Transportation & Storm Water Department
2017/18	Public Works-Engineering & Capital Projects Branch
2017/18	Public Works – Contracts Branch
2018/19	Transportation & Storm Water Department
2018/19	Public Works-Engineering & Capital Projects Branch
2018/19	Public Works – Contracts Branch

The City's management is responsible for preparing the ICRPs in accordance with state and federal requirements, which includes implementing internal controls and maintaining an adequate financial management system to accumulate and segregate reasonable, and allowable costs that can be allocated to projects.

METHODOLOGY

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, and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit included interviews with City staff to obtain an understanding of the City's financial management system and policies and procedures. The audit also included tests of selected accounts and supporting documentation to assess allowability, allocability, and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICRPs for FY 2017/18 and FY 2018/19. Audit fieldwork was completed on September 16, 2019.

We also assessed the reliability of data from the City's financial management system used in developing the indirect cost rates. Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, recalculating labor billing rates, and determining if costs were separately categorized by tracing to the accounting records, vendor invoices, purchase orders, and employee timesheets. We determined the data was sufficiently reliable to address the audit objectives.

VIEWS OF RESPONSIBLE OFFICIALS

Our finding and recommendations take into consideration the City's response dated January 31, 2020 to our January 24, 2020 draft report. Our finding and recommendations, the City's response, and our analysis of the response are set forth in the Findings and Recommendations section of this report. A copy of the City's full written response is included as Attachment 2.

This report is a matter of public record and will be placed on the IOAI webpage, which can be viewed at: < <https://ig.dot.ca.gov/>>.

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

CONCLUSION

We determined that the City of San Diego's (City) Indirect Cost Rate Proposals (ICRP) for fiscal years (FY) 2017/18 and FY 2018/19 were presented in accordance with 2 Code of Federal Regulations (CFR) Part 200, The California Department of Transportation (Caltrans), Local Assistance Procedures Manual (LAPM), and agreements with Caltrans except for some unallowable costs included in the indirect cost pool.

The audited rates for FY 2017/18 and FY 2018/19 are included in Table 1 below.

Table 1. Summary of Audited Rates

Fiscal Year	Department	Proposed Rate	Audited Rate*	Variance
2017/18	Transportation & Storm Water Department	93.30%	71.70%	(21.6)
2017/18	Public Works-Engineering & Capital Projects Branch	50.70%	49.10%	(1.6)
2017/18	Public Works – Contracts Branch	40.40%	40.40%	-
2018/19	Transportation & Storm Water Department	74.00%	64.10%	(9.90)
2018/19	Public Works-Engineering & Capital Projects Branch	77.50%	77.50%	-
2018/19	Public Works – Contracts Branch	32.40%	32.40%	-

Note (1): The variance of (.40) is below the materiality threshold for this audit so the variance will not be reported.

Findings and Recommendations

FINDING 1 – Unallowable Costs Included in the Indirect Cost Pool

The City 's Transportation and Storm Water Department (TSWD) and Public Works Department, the Engineering and Capital Projects Branch (PWD-ECP), included unallowable costs in their indirect cost pools, see summary of unallowable costs in Table 2 below, and used unapproved rates in their ICRP calculations.

Table 2. Summary of Unallowable Costs in Indirect Cost Pool

Unallowable Cost Items	Department	Fiscal Year	Unallowable Costs
Capital Expenditure	-	-	-
Purchase of Enterprise Asset Mgmt. Solution	TSWD	17/18	\$3,892,837
Chollas Security System Upgrade	TSWD	18/19	\$236,738
Purchase of Enterprise Asset Mgmt. Solution	PWD-ECP	17/18	\$189,724
Indirect Costs Applicable to Other Departments	TWSD	17/18	\$461,228
Indirect Costs Applicable to Other Departments	TWSD	18/19	\$532,753
Direct Project Costs	-	-	-
Utilities Undergrounding Program Master Plan	TWSD	17/18	\$174,860
Utilities Undergrounding Program Master Plan	TWSD	18/19	\$327,753
Auburn Creek Restoration Project	TWSD	18/19	\$139,993
Construction Management Service	TWSD	18/19	\$110,094
Overhead Costs Not Based on Approved Rate	TWSD	17/18	\$12,501
Overhead Costs Not Based on Approved Rate	TWSD	18/19	\$96,640
Overhead Costs Not Based on Approved Rate	PWD-ECP	17/18	\$48,081
Overhead Costs Not Based on Approved Rate	PWD-ECP	18/19	\$63,576

- **Capital Expenditures:** TSWD included expenses of \$3,892,837 for the implementation of Enterprise Asset Management Solution and \$236,738 for the Chollas security system upgrade in the indirect costs pool. PWD-ECP also included the expense of \$189,724 paid for Enterprise Asset Management Solution in the indirect costs pool. These payments were used to purchase the capital assets and, as such, the payments should be classified as 'capital expenditures.'

2 CFR 200, Section 439 (b) (7) states "Equipment and other capital expenditures are unallowable as indirect costs."

- **Indirect Costs Applicable to Other Departments:** TSWD included Transit Pass Subsidy Costs of \$532,753 and \$461,228 in its indirect costs pool of FY 2017/18 and FY 2018/19 respectively. The costs were not incurred for just TSWD employees but rather for all City employees and as such, costs should have been allocated to all benefiting departments.

- Direct Project Costs: TSWD included the following direct costs incurred for the specific projects or programs in the indirect costs pool.
 - ▶ Consulting Services of \$139,993 for Auburn Creek Restoration Project.
 - ▶ Engineering Services of \$110,094 for the construction management services of Utilities Undergrounding Program.
 - ▶ Miscellaneous Professional/Technical Services of \$327,753 and \$174,860 for Utilities Undergrounding Program Master Plan.

Neither the Auburn Creek Restoration Project or the Utilities Undergrounding Program are considered necessary to the overall operation of the City and as such, are direct costs that are not assignable to other cost objectives as indirect costs.

2 CFR 200.405 (a) states in part "a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or costs objective in accordance with relative benefits received. This standard is met if the costs:...(3) is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart."

2 CFR 200. 413(a) defines the direct costs as those costs that can be identified specifically with a particular cost objective, such as a Federal award, or other internally or externally funded activity, or that can directly be assigned to such activities relatively easily with a high degree of accuracy

- Overhead Costs Not Based on Approved Rate: The City's various departments were using City overhead rates that were developed for the inter-departmental overhead charges. TSWD and PWD-ECP included overhead charges in their indirect costs pool using these rates. Since the rates were not approved by the City's cognizant or pass-through agency, the associated costs are disallowed. The California Department of Transportation (Caltrans) is the City's pass-through entity.

Caltrans Local Assistance Procedure Manual Chapter 5.3 states in part "any department, division or other organization unit within the local agency must receive an Approval/Acceptance Letter of the local agency's Indirect Cost Rate Proposal (ICRP)/Indirect Cost Allocation Plan (ICAP) for the fiscal year(s) involved from the Independent Office of Audits and Investigations prior to billing for any indirect costs."

The City did not apply or incorrectly applied Internal Orders, the controlling component used by the City to record and monitor short term project costs, in segregating direct and indirect costs. Also, when the Internal Orders were not used, Cost Center information was used in segregating costs, which resulted in incorrect classifications of direct costs as indirect costs. See Attachment I for a summary of the revised ICRP schedules.

RECOMMENDATIONS

- A. Apply the proper usage of Internal Orders and Cost Centers to accurately identify all costs as direct or indirect costs.
- B. Reconcile FYs 2017/18 and 2018/19 billings applying the audited rates and reimburse Caltrans the over payments.

SUMMARY OF AUDITEE'S RESPONSE

The City responded that they will continue to provide annual training to departments on the indirect cost rate development process to reinforce the importance of the proper usage of internal orders and cost centers to accurately identify all cost as direct or indirect.

The City also responded that they will reconcile the FY 2017/18 and FY 2018/19 billings, applying the audited rates. They will work with Caltrans on a method of reimbursement.

ATTACHMENT 1

- 1. Summary of Indirect Cost Rate Proposal Costs
- 2. Audit Response from the City of San Diego

ATTACHMENT 1
SUMMARY OF INDIRECT COST RATE PROPOSAL COSTS
Transportation and Storm Water Department's FY 2017/18 ICRP

Direct Expenses	Proposed Amount	Audit Adjustment	Audited Amount
Salaries	25,132,922	-	25,132,922
Fringe Benefits	16,660,368	-	16,660,368
Total Direct Expenses	41,793,29	-	41,793,290
Indirect Expenses	Proposed Amount	Audit Adjustment	Audited Amount
Salaries	4,239,656	-	4,239,656
Fringe Benefits	2,698,208	-	2,698,208
Cost Categories	Proposed Amount	Audit Adjustment	Audited Amount
Energy/Utilities	138,748	-	138,748
Supplies/Services	8,655,772	(4,541,426)(1)	4,114,346
IT/Expenses	1,691,355	-	1,691,355
Capital Expenses	496,974	-	496,974
Other Costs	-	-	-
Capital Expense Re-class	(496,974)	-	(496,974)
Depreciation of Equipment	238,974	-	238,974
Opn/maint/rent of buildings	696,441	-	696,441
Services furnished but not billed by other dept.	5,098,224	-	5,098,224
Totals	23,457,378	(4,541,426)	18,915,952
-	Proposed Amount	Audit Adjustment	Audited Amount
Carryforward	-	-	(907,474)
Total Indirect Cost	23,457,378	-	18,008,478
Indirect Cost Rate	93.3%	-	71.7%

	Proposed Amount	Audit Adjustment	Audited Amount
-			
Approved Rate for FY 15/16	70%	-	70%
Beginning Carryforward (FY 13/14)	(2,129,848)		(2,129,848)
Actual Indirect Costs	23,457,378	(4,541,426)	18,915,952
Total Indirect Costs	21,327,529	-	16,786,103
Actual Direct Salaries & Wages	25,132,922	-	25,132,922
Recovered Indirect Costs	17,693,577	-	17,693,577
Ending Carryforward	3,633,952	-	(907,474)
(1)	Costs		
Overhead Costs in City Service Billed	12,501		
Utilities Undergrounding Program	174,860		
Capital Expenditure	3,892,837		
Transit Pass Subsidy	461,228		
Total	4,541,426		

Transportation and Storm Water Department's FY 2018/19 ICRP

Direct Expenses	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Salaries	29,198,860	-	29,198,860
Fringe Benefits	18,931,204	-	18,931,204
Total Direct Expenses	48,130,064	-	48,130,064
Indirect Expenses	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Salaries	3,900,282	-	3,900,282
Fringe Benefits	2,695,064	-	2,695,064
Cost Categories	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Energy/Utilities	213,211	-	213,211
Supplies/Services	7,295,662	(1,443,971) (1)	5,851,691
IT/Expenses	1,951,174	-	1,951,174
Capital Expenses	172,712	-	172,712
Other Costs	-	-	-
Capital Expense Re-class	(172,712)	-	(172,712)
Depreciation of Equipment	281,768	-	281,768
Depreciation of Buildings	-	-	-
Opn/maint/rent of buildings	792,440	-	792,440
Services furnished but not billed by other dept.	5,215,975	-	5,215,975
Totals	22,345,576	(1,443,971)	20,901,605
-	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Carryforward	(728,039)	-	(2,172,010)
Total Indirect Cost	21,617,537	-	18,729,595
Indirect Cost Rate	74.0%	-	64.1%

-	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Approved Rate for FY 16/17	73.1%	-	73.1%
Beginning Carryforward (FY 14/15)	(1,729,248)	-	(1,729,248)
Actual Indirect Costs	22,345,576	(1,443,971)	20,901,605
Total Indirect Costs	20,616,328	-	19,172,357
Actual Direct Salaries & Wages	29,198,860	-	29,198,860
Recovered Indirect Costs	21,344,367	-	21,344,367
Ending Carryforward	(728,039)	-	(2,172,010)

(1)	Costs
Overhead Costs in City Service Billed	96,640
Auburn Creek Restoration Project	139,993
Construction Management Service	110,094
Utilities Undergrounding Program Master Plan	327,753
Capital Expenditure	236,738
Transit Pass Subsidy	532,753
Total	1,443,971

Public Works Department-Engineering and Capital Projects' FY 2017/18 ICRP

Direct Expenses	Proposed Amount (Based on FY 15/16 Actual)	Audit Adjustment	Audited Amount
Salaries	28,966,101	-	28,966,101
Fringe Benefits	17,285,518	-	17,285,518
Total Direct Expenses	46,251,616	-	46,251,616
Indirect Expenses	Proposed Amount (Based on FY 15/16 Actual)	Audit Adjustment	Audited Amount
Salaries	7,716,499	-	7,716,499
Fringe Benefits	5,334,320	-	5,334,320
Cost Categories	Proposed Amount (Based on FY 15/16 Actual)	Audit Adjustment	Audited Amount
Energy/Utilities	333,640	-	333,640
Supplies/Services	4,369,395	(237,805)(1)	4,131,590
IT/Expenses	2,087,646	-	2,087,646
Capital Expenses	29,117	-	29,117
Other Costs	-	-	-
Recovered through CS Allocation	-	-	-
Capital Expense Re-class	(29,117)	-	(29,117)
Depreciation of Equipment	117,135	-	117,135
Depreciation of Buildings	-	-	-
Opn/maint/rent of buildings	2,562	-	2,562
Services furnished but not billed by other dept.	-	-	-
Totals	19,961,197	(237,805)	19,723,392
-	Proposed Amount (Based on FY 15/16 Actual)	Audit Adjustment	Audited Amount
Carryforward	(5,269,213)	-	(5,507,018)
Total Indirect Cost	14,691,984	-	14,216,373
Indirect Cost Rate	50.7%	-	49.1%

-	Proposed Amount (Based on FY 15/16 Actual)	Audit Adjustment	Audited Amount
Approved Rate for FY 15/16	89.1%	-	89.1%
Beginning Carryforward (FY 13/14)	578,386	-	578,386
Actual Indirect Costs	19,961,197	(237,805)	19,723,392
Total Indirect Costs	20,539,583	-	20,301,778
Actual Direct Salaries & Wages	28,966,101	-	25,808,796
Recovered Indirect Costs	25,808,796	-	25,808,796
Ending Carryforward	(5,269,213)	-	(5,507,018)

(1)	Costs
Overhead Costs in City Service Billed	48,081
Capital Expenditure	189,724
Total	<u>237,805</u>

Public Works Department-Engineering and Capital Projects' FY 2018/19 ICRP

Direct Expenses	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Salaries	31,806,042	-	31,806,042
Fringe Benefits	18,915,488	-	18,915,488
Total Direct Expenses	50,721,530	-	50,721,530
Indirect Expenses	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Salaries	8,911,871	-	8,911,871
Fringe Benefits	6,447,237	-	6,447,237
Cost Categories	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Energy/Utilities	352,392	-	352,392
Supplies/Services	4,321,956	(63,576)	4,258,380
IT/Expenses	3,300,858	-	3,300,858
Capital Expenses	1,195,593	-	1,195,593
Other Costs	-	-	-
Recovered Through CS Allocation	-	-	-
Capital Expense Re-class	1,195,593	-	1,195,593
Depreciation of Equipment	187,558	-	187,558
Depreciation of Buildings	-	-	-
Opn/maint/rent of buildings	2,144	-	2,144
Services furnished but not billed by other dept.	-	-	-
Totals	23,524,016	(63,576)	23,460,440
-	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Carryforward	1,131,591	-	1,068,015
Total Indirect Cost	24,665,607	-	24,528,455
Indirect Cost Rate	77.5%	-	77.1%

-	Proposed Amount (Based on FY 16/17 Actual)	Audit Adjustment	Audited Amount
Approved Rate for FY 15/16	66.0%	-	66.0%
Beginning Carryforward (FY 13/14)	(1,400,437)	-	(1,400,437)
Actual Indirect Costs	23,524,016	(63,576)	23,460,440
Total Indirect Costs	22,123,579	-	22,060,003
Actual Direct Salaries & Wages	31,806,042	-	31,806,042
Recovered Indirect Costs	20,991,988	-	20,991,988
Ending Carryforward	1,131,591	-	1,068,015
(1)	Costs		
Overhead Costs in City Service Billed	63,576		
Total	63,576		



ATTACHMENT 2
RESPONSE FROM CITY OF SAN DIEGO

January 31, 2020

Ms. MarSue Morrill, Audit Chief
Independent Office of Audits and Investigations - MS2
Post Office Box 942874
Sacramento, California 94274-0001

Subject: Fiscal Year 2018 and 2019 Indirect Cost Rate Proposal Audit - City of San Diego Response

Dear Ms. Morrill,

On January 24, 2020, the City of San Diego (City) received a draft audit report from the California State Department of Transportation (Caltrans) documenting a finding on the audit of the City's indirect cost rate proposals for three departments for fiscal year 2018 and 2019. Caltrans requested that the City review and comment on the accuracy of the audit finding. We have reviewed the audit report and agree with the findings and recommendations.

Finding 1 - Unallowable Costs Included in the Indirect Cost Pool

- Capital Expenditures

The transportation and Storm Water Department and Public Works departments included capital expenditures for the implementation of Enterprise Asset Management Solution in the indirect cost pool. Specifically, these costs were included in the SAP Support Allocation, a non-discretionary expenditure that is determined outside of the two audited department's direct control. Non-discretionary budget, allotments are developed by provider departments that either provide the service, process the expenditures payments or are experts in the non-discretionary account.

The City's Department of Finance is responsible for reviewing all non-discretionary budget allotments submitted from the provider departments. For the FY21 budget process, the Department of Finance implemented an additional control in the review process, requiring provider departments

- Indirect Costs Applicable to Other Departments

The fiscal year 2021 indirect cost rate proposal for the Transportation and Storm Water Department the excluded the Transportation Pass Subsidies from indirect costs. In fiscal year 2020, the Risk Management Department assumed responsibility of the Transportation Alternative Program and the Transit Pass Subsidies began to be processed via payroll and allocated to the benefiting department.

- Direct Project Costs

Beginning with the fiscal year 2021 indirect cost rate proposal for the Transportation and Storm Water Department, all the costs of the Utilities Undergrounding Program, excluding depreciation, are classified as direct. An excel formula was implemented to ensure the expenditures of the Underground Surcharge Fund are classified as direct.

Page 2

Ms. MarSue Morrill, Audit Chief

January 31, 2020

- Overhead Costs Not Based on Approved Rate

Annually, the City prepares two indirect cost rate proposals:

- ▶ The Federal indirect cost rate proposal is prepared in accordance with 2 CFR Part 200 and is used when billing federal grant funding sources.
- ▶ The City indirect cost rate proposal is used when billing non-grant funding sources, such as City inter-departmental billings.

Beginning with the fiscal year 2020 indirect cost rate proposals, overhead charges related to inter-departmental billings are classified as unallowable costs. An Excel formula was implemented to ensure the document types generated for overhead expenditures are classified as unallowable.

As described above, the City has enhanced controls over the indirect cost rate development process to ensure unallowable costs are not included in the indirect cost pool. These enhanced controls address and remedy the finding identified in the audit report to conform with the provisions of Uniform Guidance, 2 CFR Part 200.

The Audit Report Made Two Recommendations:

- A. Apply the proper usage of internal orders and cost centers to accurately identify all costs as direct or indirect.
- B. Reconcile the fiscal year 2018 and 2019 billings applying the audited rates and reimburse Caltrans the over payments.

The Department of Finance will continue to provide annual training to departments on the indirect cost rate development process to reinforce the importance of the proper usage of internal orders and cost centers to accurately identify all costs as direct or indirect.

The City will reconcile the fiscal year 2018 and 2019 billings, applying the audited rates, to determine if an overpayment was made and work with Caltrans on a method of reimbursement.

Sarah Mayen

Assistant Department Director, Department of Finance

SM/cm

cc: Ronald H. Villa, Assistant Chief Operating Officer

Rolando Charvel, Chief Financial Officer

Tracy McCraner, Director and City Comptroller, Department of Finance

Kris McFadden, Director, Transportation and Storm Water Department

James Nagelvoort, Director, Public Works Department

Jaylia Vang, Principal Accountant, Department of Finance