



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

October 21, 2022

Tony Tavares
Director
California Department of Transportation

Final Report — City of Santa Barbara, Indirect Cost Rate Proposal Audit

On behalf of the Independent Office of Audits and Investigations, the Department of Finance, Office of State Audits and Evaluations, completed its audit of the City of Santa Barbara's (City) Indirect Cost Rate Proposal (ICRP) for fiscal year 2021-22. The audit was performed to determine whether the ICRP complied with Title 2 Code of Federal Regulations Part 200 (2 CFR 200) and the Local Assistance Procedures Manual, Chapter 5 (Caltrans' procedures manual).

Enclosed is the final audit report, which determined the ICRP complied with 2 CFR 200 and the Caltrans' procedures manual. The final audit report is a matter of public record and will be posted on our website.

If you have any questions, please contact Fabiola Torres, Audit Chief, at (916) 323-7111.

Sincerely,

Diana Antony

Diana Antony, CPA, CIG
Chief Deputy Inspector General

Gavin Newsom, Governor

Independent Office of Audits and Investigations

P.O. Box 942874, MS-2
Sacramento, CA 94274-0001

(916) 323-7111
<https://oig.dot.ca.gov>

Tony Tavares
October 21, 2022
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cc: Tim Gubbins, District 5 Director, California Department of Transportation
Ben Shelton, Chief, Internal Audits, California Department of Transportation
DLA.audits@dot.ca.gov
DRMT.audit@dot.ca.gov
DOTP.audits@dot.ca.gov
Clifford Maurer, Director of Public Works, City of Santa Barbara
Rodney Whitfield, Director, Financial Services, Federal Highway Administration
Grace Regidor, Transportation Finance Specialist, Financial Services, Federal Highway
Administration

22A.ICAP06



City of Santa Barbara, Department of Public Works

Indirect Cost Rate Proposal
Fiscal Year 2021-22

Report No. 22-2660-044
October 2022

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Humberto E. Cervantes, CPA, Manager
Mindy Patterson, Supervisor
Jeffrey Neller

Final reports are available on our website at <https://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



October 11, 2022

Fabiola Torres, 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—City of Santa Barbara, Department of Public Works Indirect Cost Rate Proposal Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Santa Barbara's Indirect Cost Rate Proposal (ICRP) for fiscal year 2021-22, California Department of Transportation Audit Number 22A.ICAP06.

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

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

Sincerely,

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

cc: Jonathan Cox, 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, METHODOLOGY, AND RESULTS

BACKGROUND

The California Department of Transportation's (Caltrans) Local Assistance Program oversees more than \$1 billion annually available to over 600 cities, counties, and regional agencies for the purpose of improving their transportation infrastructure or providing transportation services. This funding comes from various federal and state programs specifically designed to assist the transportation needs of local agencies.¹

The City of Santa Barbara, Department of Public Works (City) is responsible for maintaining the City's Public Right of Ways, infrastructure facilities, and managing the water and wastewater infrastructure and system.²

At the discretion of local government agencies (LGA), 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 Rate Proposal (ICRP), which may also include a fringe benefit rate, to Caltrans. Caltrans 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 Caltrans's Independent Office of Audits and Investigations (IOAI) may audit for compliance with Title 2 Code of Federal Regulations Part 200 (2 CFR 200), and Caltrans's Local Assistance Procedures Manual Chapter 5 (LAPM). Effective July 1, 2022, the ICRP review and acceptance process was transferred from IOAI to Caltrans's Internal Audits Office.

SCOPE

At the request of IOAI, the California Department of Finance, Office of State Audits and Evaluations, audited the City's ICRP for fiscal year 2021-22.

The audit objectives were to:

1. Determine whether the 2021-22 ICRP was in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the 2021-22 ICRP rate if unallowable costs are identified.

The 2021-22 ICRP includes transactions related to actual costs incurred and billed to Caltrans in 2019-20.

The City is responsible for preparing its ICRP in accordance with state and federal requirements, which includes implementing internal controls and maintaining an

¹ Excerpts obtained from Caltrans's, Division of Local Assistance website: <http://www.dot.ca.gov/localassistance/index.html>.

² Excerpts obtained from the City's website: <https://santabarbaraca.gov/government/departments/public-works>.

adequate financial management system to accumulate and segregate reasonable, allowable, and allocable costs.

METHODOLOGY

In planning the audit, we gained an understanding of the City's operations and identified relevant ICRP requirements by interviewing Caltrans and City personnel and reviewing 2 CFR 200, the LAPM, and applicable City 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 internal controls evaluated focused on the separation of indirect and direct labor costs, including timekeeping. Our assessment included interviewing staff about processes, and testing transactions related to timekeeping for the effectiveness of existing processes and procedures. During our audit, we did not identify deficiencies in internal control significant within the context of our audit objectives or that warranted the attention of those charged with governance.

Additionally, we assessed the reliability of data from the City's financial management system, Munis, and their timekeeping system, Replicon. Our assessment included reviewing prior interviews, prior selected system controls, and the results of past electronic testing from our performance audit report dated June 4, 2019. We verified that there were no changes to Munis or Replicon and 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.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: Determine whether the 2021-22 ICRP was in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> • Selected 2019-20 significant and high-risk cost categories to verify compliance with 2 CFR 200 and the LAPM. Direct and indirect salaries were considered significant and high-risk categories based on the impact to the rate. <ul style="list-style-type: none"> ○ Selection of direct and indirect salaries were based on qualitative and quantitative factors such as total hours charged, percentage of time charged to direct and indirect activities, and employee job classification. <ul style="list-style-type: none"> ▪ Determined if direct and indirect salaries were allowable, supported, segregated, and equitably allocated, by tracing the direct and indirect salaries to accounting records, payroll registers, and timesheets. • Determined the carry forward calculations³ were supported by: <ul style="list-style-type: none"> ○ Verifying the 2019-20 rate was supported by the approved ICRP submissions. ○ Verifying the 2019-20 actual costs were supported by accounting records and reconciled to audited financial data. ○ Recalculating the 2019-20 recovered indirect costs, carry forward, and the 2021-22 adjusted indirect costs.
<p>Objective 2: Recalculate the 2021-22 ICRP rate if unallowable costs are identified.</p>	<ul style="list-style-type: none"> • Unallowable costs were not identified and the ICRP recalculation was not performed.

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.

RESULTS

Based on the procedures performed and evidence gathered, we determined the City's 2021-22 ICRP is in compliance with 2 CFR 200 and the LAPM.

Table 1: Accepted and Audited 2021-22 ICRP Rate⁴

Fiscal Year	Rate Type	Accepted Rate (a)	Audited Rate (b)	Difference (a)-(b)
2021-22	ICRP	118.23%	118.23%	0.00%

³ The City uses a schedule of estimated direct and indirect costs to determine the annual indirect cost rate. These estimates are reconciled to actual costs. The difference between the actual costs and the estimated costs is carried forward and is included in the calculation of a future ICRP. This is referred to as the carry forward calculation.

⁴ The ICRP submitted by the City was accepted by IOAI on December 31, 2021.