



Memorandum

To:
RIHUI ZHANG
CHIEF
DIVISION OF LOCAL ASSISTANCE

Date: January 13, 2020

File: P1594-0102

From:
MARSUE MORRILL, CPA
CHIEF
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS
P.O. BOX 942874, MS-2
PHONE (916) 323-7111
FAX (916) 323-7123
TTY 711
<https://ig.dot.ca.gov>

SUBJECT: INDIRECT COST RATE PROPOSAL AUDIT-GOLDEN GATE BRIDGE, HIGHWAY AND TRANSPORTATION DISTRICT

At the request of the Independent Office of Audits and Investigations the Department of Finance, Office of Audits and Evaluations (Finance) completed an audit of the Golden Gate Bridge Highway and Transportation District's (District) Indirect Cost Rate Proposal (ICRP) for fiscal year (FY) 2018/19. The purpose of the audit was to determine whether the ICRP and District Wide Cost Allocation Plan (DWCAP) were presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 200, and the California Department of Transportation's Local Assistance Procedures Manual (LAPM).

Based on the audit, Finance identified weaknesses in the District's FY 2018/19 ICRP and the DWCAP that were not in compliance with 2 CFR 200 and the LAPM. The finding did not significantly impact the City's accepted ICRP rate; therefore, no changes to the ICRP rate was calculated.

Please provide our office with a corrective action plan, including time lines, by March 13, 2020.

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

Attachment

c: Joe Wire, Chief Financial Officer/Auditor-Controller, Golden Gate Bridge Highway and Transportation District
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Veneshia Smith, Financial Program Manager, Federal Highway Administration
William Lewis, Assistant Director, Independent Office of Audits and Investigations
Tony Tavares, District Director, District 4, California Department of Transportation
Jean-Finney, Deputy District 4 Director, Transportation Planning and Local Assistance, California Department of Transportation
Felicia Haslem, Acting Chief, Office of Guidance and Oversight, Division of Local Assistance, California Department of Transportation
Daniel Burke, Audits Liason, Division of Local Assistance, California Department of Transportation
Paula Bersola, Audit Coordinator, Division of Local Assistance, California Department of Transportation
Lisa Gore, Associate Accounting Analyst, Division of Accounting, California Department of Transportation
Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits & Investigations

PI594-0102



Golden Gate Bridge Highway and Transportation District

Division of Engineering
Indirect Cost Rate Proposal
Fiscal Year 2018-19

Report No. 19-2660-081
December 2019

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Sherry Ma, CRP, Manager
Kylie L. Oltmann, CPA, Supervisor
Amanda Voie, Lead
Mathew Rios
Thong Thao

Final reports are available on our website at <http://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 31, 2019

Ms. 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

Dear Ms. Morrill:

Final Report—Golden Gate Bridge, Highway and Transportation District, Indirect Cost Rate Proposal Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Golden Gate Bridge Highway and Transportation District's (District) Indirect Cost Rate Proposal for fiscal year 2018-19, Caltrans Audit Number P1594-0102.

The enclosed report is for your information and use. The District'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 Sherry Ma, Manager, or Kylie Oltmann, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

cc: Ms. Luisa Ruvalcaba, Audit Manager, 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) Local Assistance Program oversees more than \$1 billion dollars 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 Golden Gate Bridge, Highway and Transportation District (District) was incorporated in 1928 by the California State Legislature as the sole entity responsible for the final design, construction, and financing of the Golden Gate Bridge.² The District's mission is to provide safe and reliable operation, maintenance, and enhancement of the Golden Gate Bridge and to provide transportation services, as resources allow, for customers within the United States Highway 101 Golden Gate Corridor.³

At the discretion of local governmental 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' 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 (2 CFR 200), and Caltrans' Local Assistance Procedures Manual Chapter 5 (LAPM).

Included in the District's Department of Engineering ICRP is a cost component called, District Wide Cost Allocation Plan (DWCAP). The DWCAP uses the double step down cost allocation methodology to allocate overhead costs from twelve service departments to other service and operating departments. The double step down cost allocation method is a sequential process. It begins with the allocation of cost of the service department that provides the greatest amount of service to other service departments and ends with the allocation of cost of the service department that provides the least amount of service to other service departments. Costs allocated through the DWCAP to the Department of Engineering are included in the indirect costs pool in the ICRP.

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

² Golden Gate Bridge, Highway and Transportation District website <http://goldengatebridge.org/research/ConstructionBldgGGB.php>.

³ Golden Gate Bridge, Highway and Transportation District website <http://goldengate.org/organization/mission.php>.

SCOPE

At the request of IOAI, the California Department of Finance, Office of State Audits and Evaluations, audited the District's ICRP and the DWCAP for fiscal year 2018-19.

The audit objectives were to:

1. Determine if the 2018-19 ICRP and DWCAP were in compliance with 2 CFR 200 and the LAPM.
2. Recalculate the 2018-19 ICRP rate if unallowable costs are identified.⁴

The 2018-19 ICRP includes transactions related to actual costs incurred and billed to Caltrans in 2016-17.

The District is responsible for preparing its ICRP and DWCAP 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 the District's operations, and identified relevant ICRP requirements by reviewing 2 CFR 200, the LAPM, and applicable District policies and procedures, and interviewing IOAI and District personnel.

We conducted a risk assessment, including evaluating whether key internal controls relevant to our audit objectives such as reviews and approvals, separation of duties, reconciliations, knowledge of tasks, and separation of indirect and direct costs, were properly designed, implemented, and operating effectively. Our assessment included observing processes and testing transactions related to accounts payable and time keeping/payroll 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 the District's financial management system, Integrated Financial Accounting System, and the District's invoice routing and approval system, OnBase. 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 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 on the following page.

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 ICRP and DWCAP are in compliance with 2 CFR 200 and the LAPM.</p>	<ul style="list-style-type: none"> • Selected 2016-17 significant and high-risk cost categories to verify compliance with 2 CFR 200 and the LAPM. Significant indirect costs pool categories were determined based on change analysis from 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 their 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, percentage of time charged to direct and indirect activities, and employee job classification. ○ Selection of indirect costs pool costs were based on quantitative and qualitative factors such as dollar amount of transactions and the timing and type (i.e. description) of costs. • Determined if direct and indirect salaries and fringe benefits were allowable, supported, segregated, and allocated, by tracing amounts and task codes to general ledger reports, reviewing timesheets and payroll registers, interviewing key staff, and reviewing project description codes and invoices. • Determined if indirect costs pool were allowable, supported, authorized, segregated, and allocated, by interviewing staff, reviewing invoices for descriptions and accurate coding, comparing travel expense claims to California Department of Human Resources (CalHR) per diem and lodging rates, agreeing costs to cleared checks or electronic fund transfers, and reviewing general ledger reports. • Determined if costs in the DWCAP were allowable, supported, and equitably allocated, by interviewing staff, gaining an understanding of the allocation methodology, tracing amounts and task codes to general ledger reports, reviewing timesheets and payroll registers, reviewing invoices for descriptions and accurate coding, and agreeing costs to cleared checks or electronic fund transfers. • Verified the actual indirect costs recovered by the District were billed at the IOAI approved indirect cost rate by reviewing invoices, verifying support for direct labor hours, and recalculating the indirect cost billed to Caltrans.
<p>Objective 2: Recalculate the 2018-19 ICRP rate if unallowable costs are identified.⁵</p>	<ul style="list-style-type: none"> • Determined the identified unallowable costs did not impact the rate by one percent when removing ineligible indirect costs from the indirect costs pool and recalculating the carryforward adjustment based on 2016-17 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 the District's 2018-19 ICRP is not in compliance with 2 CFR 200 and the LAPM. We identified weaknesses in the District's review process when preparing the DWCAP and ICRP as noted in Finding 1. However, the District's finding did not significantly impact the proposed indirect cost rate; therefore, there are no changes to the District's accepted rate.

Table 1 – Accepted and Audited 2018-19 ICRP Rate⁶

Fiscal Year	Rate Type	Accepted Rate	Audited Rate	Difference
2018-19	ICRP	67.88%	67.88%	0.00%

Finding 1: Review Process for Preparation of Cost Allocation Plans Needs Improvement

An adequate review process was not established to identify unallowable or misclassified costs used to calculate the DWCAP and ICRP. The District outsources the preparation of the DWCAP and ICRP. The consultant who prepared the DWCAP and ICRP did not perform a detailed review of the cost categories in determining whether costs are allowable. Instead, the determination was based on how indirect costs were classified in prior years. Further, the District was not aware it had to adhere to CalHR's travel policies, rather the District followed its own internal policy, which aligns with the United States General Services Administration's travel policy.

The District's ICRP included \$13,615 of unallowable costs related to water for personal consumption in the Administrative Supplies cost category, direct costs that were misclassified as indirect costs in the Fees and Maintenance-Facility cost categories, and per diem and hotel rates in excess of CalHR allowable amounts in the Travel (Non Training and Training Related) cost categories. In addition, the DWCAP included \$46,597 of unallowable costs related to food, water, party supplies, and employee service awards. These unallowable costs from the DWCAP were subsequently allocated to all operating departments resulting in an over allocation of \$4,875 to the Department of Engineering in the DWCAP cost category.

As a result of not performing a comprehensive review of costs, the District over claimed \$32,105 (\$4,875 + \$13,615 + 13,615⁷) from the indirect costs pool. The District asserted these costs were allowable. Although these unallowable costs did not result in a change to the accepted ICRP rate, the costs should be excluded from future calculation of the DWCAP and ICRP submission. For details of the disallowed costs, see Table 2 on the following page.

⁶ The ICRP submitted by the District was accepted by IOAI on December 10, 2018.

⁷ The 2016-17 carryforward adjustment of \$13,615 is included in the total disallowed amount twice because the District based the current year (2018-19) indirect costs on actuals from two-years prior (2016-17).

Table 2 – Unallowable Indirect Costs Pool Costs

2016-17 Costs Categories	Unallowable Costs
Maintenance-Facility	\$ 5,057
Administrative Supplies	461
Fees	6,144
Travel (Non Training)	1,083
Travel (Training Related)	870
2 CFR Part 200 Cost Allocation Plan ⁸	4,875
Carryforward Adjustment	13,615
Total Unallowable Costs	\$ 32,105

2 CFR 200.445 (a) states that goods or services for personal use are unallowable.

2 CFR 200.413 (a) states direct costs are those costs that can be identified specifically with a particular final cost objective, or that can be directly assigned to such activities relatively easily with a high degree of accuracy, must be treated consistently as either direct or indirect costs.

Additionally, Article IV, Paragraph 17 of the Master Agreement, executed on May 18, 2007 states that payments for travel expenses are not to exceed rates under current CalHR policies.

Recommendations:

- A. Develop and implement a process to ensure that only eligible costs are included in the DWCAP.
- B. Review all ICRP indirect costs pool accounts to ensure costs are in compliance with 2 CFR 200, and properly segregated between direct, indirect, and unallowable costs.
- C. Ensure the District's travel policies and procedures adhere to the Master Agreement's travel provisions.

⁸ The DWCAP is identified as the 2 CFR Part 200 Cost Allocation Plan in the ICRP.

December 17th, 2019
Transmitted via e-mail

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street
Sacramento, CA 95814-3706



Dear Mrs. McCormick,

Response to Finding 1: Review Process for Preparation of Cost Allocation Plans Needs Improvement

California's Department of Finance, Office of State Audits and Evaluations, completed its audit of the Golden Gate Bridge, Highway & Transportation District's (District) District-wide Cost Allocation Plan (DWCAP) and the Engineering Department's Indirect Cost Rate Plan (ICRP). The audit resulted in *Finding 1: Review Process for Preparation of Cost Allocation Plans Needs Improvement* (Finding).

The District agrees with a portion of the Finding and is implementing a more robust review process regarding the following disallowed and misclassified costs:

1. Direct charges misclassified as indirect in the "Fees" & "Maintenance-Facility" cost categories.
2. Inclusion of General Services Administration (GSA) per diem and hotel rates in excess of CalHR's per diem and hotel rates.

Expenses categorized as "Fees" and "Maintenance-Facility" charges will be vigorously reviewed before classifying as direct or indirect moving forward. The District is also implementing systems to ensure only CalHR per diem and hotel reimbursement rates are utilized when crafting the ICRP & DWCAP.

The District does not agree with the aspect of the Finding categorizing water, service awards, food and party supplies purchases as "personal use" and unallowable under 2 CFR 200 Subpart E, Section 200.445. Instead, the District reasons the aforementioned costs are allowable per 2 CFR 200 Subpart E, Section 200.437 and ought to be classified as "employee health and welfare costs:"

***§ 200.437 Employee health and welfare costs.** (a) Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable.*

The District's documented policies clearly delineate water, food, service awards and party supplies costs are "*for the improvement of working conditions, employer-employee relations, employee health, and employee performance.*" Thus, based on 2 CFR 200 Subpart E, Section 200.437, these costs are allowable and should not be identified otherwise.

Despite the objection, should the California Department of Finance, Office of State Audits and Evaluations, deny the District's rebuttal, the District will ensure water costs (for those employees who have access to potable water), food, service awards and party supplies are removed from the calculation of the ICRP & DWCAP henceforth.

Original signed by:
Joe Wire, CFO/Auditor-Controller

Original signed by:
Cody Smith, Director of Accounting

The District's response to the draft report has been reviewed and incorporated into the final report. We acknowledge the District's willingness to implement our recommendations specific to misclassified direct costs, and per diem and hotel rates in excess of CalHR's rates. In evaluating the District's response, we provide the following comments:

Finding 1: Review Process for Preparation of Cost Allocation Plans Needs Improvement

The District disagrees with categorizing costs related to water, service awards, food, and party supplies purchases as personal use and unallowable under 2 CFR 200.445 but reasons these costs are allowable as employee health and welfare costs under 2 CFR 200.437. The majority of costs identified relate to food for interview panel members, manager meetings, and holiday parties as well as service awards to employees such as Bulova, Movado, and Citizen watches, gold rings, and the framing and engraving of prints and plates. These costs are personal use and excessive in nature to be considered day-to-day health and welfare costs. We acknowledge the District's willingness to exclude these costs from future ICRP and DWCAP calculations. The finding and recommendations will remain unchanged.