DEPARTMENT OF TRANSPORTATION
AUDITS AND INVESTIGATIONS
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Serious drought
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June 5, 2015

Ms. Michelle DeCant
Public Works Manager
Department of Public Works
City of Santa Barbara
P.O. Box 1990
Santa Barbara, CA 93102-1990

Dear Ms. DeCant:

At the request of the California Department of Transportation (Caltrans), Audits and Investigations (A&I), the State Controller's Office (SCO) conducted an audit of the City of Santa Barbara, Department of Public Works, Division of Engineering's (City) indirect cost rate proposals (ICRP) for fiscal years (FY) 2011/2012 and 2012/2013 to determine whether the ICRPs are presented in accordance with Title 2, Code of Federal Regulations (CFR), Part 225.

Based on audit work performed by the SCO, we determined the City's ICRPs are presented in accordance with Title 2 CFR, Part 225. The approved indirect cost rates are as follows:

Rate Type*	Effective Period	Rate	Applicable To
Fixed	FY 11/12	78.61%	Engineering
Fixed	FY 12/13	82.43%	Engineering

* Base: Total Direct Salaries plus Fringe Benefits

The rates above supercede the rates of 83.27 and 83.20 percent accepted by A&I on September 25, 2012 for FYs 2011/2012 and 2012/2013 respectively. Since the audited indirect cost rates are lower than the previously accepted rates, the City is required to reconcile all prior reimbursement claims using the lower audited rates. Any resulting overpayment should be repaid to Caltrans within 30 days or by the next billing cycle, whichever comes first.

The audit found that for FY 2011/2012, indirect salaries were overstated by $52,965 and direct salaries were understated by $52,965. Also, $21,431 and $19,650 in business vehicle replacement costs for FYs 2011/2012 and 2012/2013 respectively were found to be unallowable.

This report is intended solely for the information of the City of Santa Barbara, Caltrans Management, the California Transportation Commission, and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain a copy of this letter with your ICRPs. Copies of this letter were sent to Caltrans' District 5, Caltrans' Division of Accounting, and FHWA. If you have any questions, you may contact Alice Lee, Audit Manager, at (916) 323-7953.

Sincerely,

Alice Lee

for MARSUE MORRILL - Chief
External Audits
Local Governments
Audits and Investigations

Enclosure

Janice Richard, Director, Financial Services, Federal Highway Administration (FHWA)
Jermaine Hannon, Director, Planning and Air Quality, FHWA
Kara Magdaleno, Administrative Program Assistant Planning and Finance, FHWA
Veneshia Smith, Transportation Financial Manager, FHWA
C. Edward Philpot, Jr., Chief, Office of Community Planning,
Division of Transportation Planning, California Department of Transportation
James Ogbonna, Chief, Rural Transit and Intercity Bus Branch,
Division of Mass Transportation, California Department of Transportation
Ezequiel Castro, Associate Transportation Planner, State Transit Grants,
Division of Rail & Mass Transportation, California Department of Transportation
Erin Thompson, Senior Transportation Planner, Regional and Interagency Planning,
Division of Transportation Planning, California Department of Transportation
Sean Yeung, Senior Transportation Engineer, District 8, Office of Local Assistance,
California Department of Transportation
Michael Mock, Audit Manager, State Agency Audit Bureau, State Controller's Office
Sean Tsao, Audit Manager, State Agency Audit Bureau, State Controller's Office
Karen Hunter, Rail Transportation Associate, Division of Rail,
California Department of Transportation
Lisa Gore, Associate Accounting Analyst, Division of Accounting,
California Department of Transportation
David Saia, LAPM/LAPG Coordinator, Division of Local Assistance,
California Department of Transportation
Lai Huynh, Audits & Federal Performance Measures Analyst,
Division of Local Assistance, California Department of Transportation

P1590-0342

CITY OF SANTA BARBARA
DEPARTMENT OF PUBLIC WORKS
DIVISION OF ENGINEERING

Audit Report

INDIRECT COST RATE PROPOSAL AUDIT OF CALTRANS CONTRACT NO. 77A0034 (Audit Request No. P1590-0341 and P1590-0342)

July 1, 2011, through June 30, 2013

BETTY T YEE
California State Controller

May 2015

BETTY T YEE
California State Controller

May 12, 2015

Marsue Morrill, Chief
External Audits–Local Government
Department of Transportation
Audits & Investigations
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of the City of Santa Barbara, Department of Public Works, Division of Engineering. The audit period included ICRPs for fiscal year (FY) 2011-12 and FY 2012-13.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 225, Appendix A-F, and the California Department of Transportation's (Caltrans) Local Program Procedures (LPP) 04-10. The city's management is responsible for fair presentation of the ICRPs.

We found that the city double-counted an employee's salary in its ICRP computation due to a change in the employee's surname. We disallowed the double-counted salary, which impacted the allocated percentage of direct and indirect costs, such that indirect salaries decreased by $52,965 and direct salaries increased by $52,965 for FY 2011-12.

We also noted that the city overstated business vehicle replacement set-aside costs in both fiscal years. It is evident that $21,431 and $19,650 were deemed unallowable, in accordance with 2 CFR 225, for FY 2011-12 and FY 2012-13, respectively. These costs were contributions to a contingency reserve account for future car replacements.

The two findings resulted in the indirect cost rate decreasing from 83.27% to 78.61% for FY 2011-12, and from 83.20% to 82.43% for FY 2012-13.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/gj

cc: Alice M. Lee, Audit Manager
California Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the indirect cost rate proposals (ICRPs) of the City of Santa Barbara, Department of Public Works, Division of Engineering. The audit period included ICRPs for fiscal year (FY) 2011-12 and FY 2012-13.

The purpose of the audit was to determine whether the ICRPs were presented in accordance with Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix A-F, and the California Department of Transportation's (Caltrans) Local Program Procedures (LPP) 04-10. The city's management is responsible for fair presentation of the ICRPs.

The indirect cost rates were adjusted in FY 2011-12 because the city double-counted an employee's salary in its ICRP computation due to a change in the employee's surname. We also noted that the city overstated business vehicle replacement set-aside costs in both fiscal years. These costs were contributions to a contingency reserve account for future car replacements. The two findings resulted in the indirect cost rate decreasing from 83.27% to 78.61% for FY 2011-12, and from 83.20% to 82.43% for FY 2012-13 (see Schedules 1 and 2).

Background

The city was incorporated on August 26, 1850. The city is a charter city under the laws of the State of California and operates under a Council-Administrator form of government. The Council consists of six council members and a mayor, all of whom are elected at-large. The current City Charter was adopted on May 2, 1967, and provides for the following services: public safety (police and fire), construction and maintenance of highways and streets, sanitation, culture and recreation, public improvements, planning, zoning, and general administration.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1590-0341 and P1590-0342). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0034, dated March 31, 2010, between the SCO and Caltrans, which provides that the SCO will perform audits of proposed ICRPs submitted to Caltrans from local government agencies to ensure compliance with 2 CFR 225 (formerly Office of Management and Budget Circular A-87) and LPP 04-10.

- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state and may audit the disbursement of any money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The scope of the audit was limited to the select financial and compliance activities. The audit consisted of recalculating the ICRPs and making inquiries of department personnel. The audit also included tests of individual accounts in the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs and an assessment of the internal control system related to the ICRPs for FY 2011-12 and FY 2012-13. Changes to the financial management system subsequent to FY 2012-13 were not tested and, accordingly, our conclusion does not pertain to changes arising after this fiscal year.

We conducted this performance audit in accordance with the 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.

Our audit was conducted to determine whether (1) the city's ICRPs were presented in compliance with the cost principles prescribed in 2 CFR 225; (2) the ICRPs were in compliance with the requirements for ICRP preparation and application identified in the Caltrans LPP 04-10; and (3) the accounting system is accumulating and segregating reasonable, allowable, and allocable costs.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed the city's prior audit reports;
- Reviewed the city's written policies and procedures relating to accounting systems, procurement, and project/contract management;
- Interviewed employees, completed an internal control questionnaire, and performed a system walk-through in order to gain an understanding of the city's internal controls, accounting systems, timekeeping and payroll systems, and procurement and billing processes;
- Performed a limited test of controls on a judgemental sample of transactions to confirm and validate existing documented processes and procedures;
- Recalculated and/or tested the mathematical accuracy of the ICRPs and supporting worksheets; and
- Tested selected individual accounts and transactions, including their supporting documentation.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the proposed ICRPs were in accordance with the 2 CFR 225 and LPP 04-10. In addition to developing appropriate auditing procedures, our review of internal control was limited to gaining an understanding of the transaction flow, accounting system, and applicable controls to determine the department's ability to accumulate and segregate reasonable, allowable, and allocable indirect and direct costs.

Conclusion

We determined that the city double-counted an employee's salary in its ICRP computation due to a change in the employee's surname. We disallowed the double-counted salary, which impacted the allocated percentage of direct and indirect costs, such that indirect salaries decreased by $52,965 and direct salaries increased by $52,965 for FY 2011-12.

We also noted that the city overstated business vehicle replacement set-aside costs in both fiscal years. It is evident that $21,431 and $19,650 were deemed unallowable, in accordance with 2 CFR 225, for FYs 2011-12 and 2012-13, respectively. These costs were contributions to a contingency reserve account for future car replacements.

The two findings resulted in the indirect cost rate decreasing from 83.27% to 78.61% for FY 2011-12, and from 83.20% to 82.43% for FY 2012-13.

Views of Responsible Officials

We conducted a telephone exit conference on April 27, 2015. Michele DeCant, Public Works Business Manager; and Brian D'Amour, Principal Civil Engineer agreed with the audit results. Ms. DeCant and Mr. D'Amour declined a draft audit report and agreed that we could issue the audit report as final.

On April 27, 2015, we provided the city with a copy of the audit findings. On April 28, 2015, Michele DeCant, Public Works Business Manager responded by email agreeing with the audit results.

Restricted Use

This report is solely for the information and use of the City of Santa Barbara, Department of Public Works; the California Department of Transportation; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

May 12, 2015

Schedule 1
Summary of ICRP Costs
City of Santa Barbara, Department of Public Works
Division of Engineering
for FY 2011-2012

Description	Proposed Amounts	Audit Adjustments	Audited Amounts	
Direct Costs:				
Salaries	$ 1,826,901	$ 52,965	$ 1,879,866	
Fringe Benefits	667,795		667,795	
Total Direct Costs	$ 2,494,969	$ 52,965	$ 2,547,661	Finding 1
Indirect Costs:				
Salaries	$ 1,044,779	$ (52,965)	$ 991,814	
Fringe Benefits	381,902		381,902	
Total Indirect Salaries And Fringe Benefits	$ 1,426,681	$ (52,965)	$ 1,373,716	Finding 1
Indirect Services and Supplies				
Office Supplies And Expense	2,552	—	2,552	
Uniform Allowance And Maintenance	3,793	—	3,793	
Minor Tools	28	—	28	
Special Supplies And Expenses	20,374	—	20,374	
Equipment Repair	180	—	180	
Non-Contractual Services	2,800	—	2,800	
Meetings And Travel	348	—	348	
Dues, Memberships, And Licenses	—	—	—	
Publications	—	—	—	
Training	6,142	—	6,142	
Postage/Delivery	4,054	—	4,054	
Duplicating	—	—	—	
Telephone	8,082	—	8,082	
Vehicle Fuel	11,801	—	11,801	
Equipment Rental	2,112	—	2,112	
Desktop Information Systems	107,005	—	107,005	
GIS Allocations	71,952	—	71,952	
Building Maintenance	12,998	—	12,998	
Planned Maintenance Program	59,186	—	59,186	
Vehicle Replacement	21,431	(21,431)	—	Finding 2
Vehicle Maintenance	28,637	—	28,637	
Telephone Allocated	9,701	—	9,701	
Custodial	19,902	—	19,902	
Liability Insurance	32,405	—	32,405	
Allocated Facilities Rent	80,244	—	80,244	
Special Projects	—	—	—	
Equipment	—	—	—	
Computer Software Under $5,000	10,155	—	10,155	
Map Vault Archival	543	—	543	
Total Indirect Services and Supplies	$ 516,425	$ (21,431)	$ 494,994	

Schedule 1 (continued)

Description	Proposed Amounts	Audit Adjustments	Audited Amounts
Other Indirect Charges			
Central Service Costs A-87	$ 134,131	—	$ 134,131
Carry-Forward Adjustment	—	—	—
Total Indirect Costs (Adjusted)	$ 2,077,237	$ —	$ 2,002,841
Direct Salaries & Fringe Benefits Base	2,494,696	—	2,547,661
Indirect Cost Rate	83.27%		78.61%

Schedule 2
Summary of ICRP Costs
City of Santa Barbara, Department of Public Works
Division of Engineering
for FY 2012-13

Description	Proposed Amounts	Audit Adjustments	Audited Amounts	
Direct Costs:				
Salaries	$ 1,876,844	$ —	$ 1,876,844	
Fringe Benefits	672,450	—	672,450	
Total Direct Costs	$ 2,549,294	$ —	$ 2,549,294	
Indirect Costs:				
Salaries	$ 1,087,494	$ —	$ 1,087,494	
Fringe Benefits	389,636	—	389,636	
Total Indirect Salaries And Fringe Benefits	$ 1,477,130	$ —	$ 1,477,130	
Indirect Services and Supplies				
Office Supplies And Expense	3,662	—	3,662	
Uniform Allowance And Maintenance	3,242	—	3,242	
Minor Tools	—	—	—	
Special Supplies And Expenses	9,984	—	9,984	
Equipment Repair	1,299	—	1,299	
Non-Contractual Services	11,241	—	11,241	
Meetings And Travel	1,569	—	1,569	
Dues, Memberships, And Licenses	—	—	—	
Publications	—	—	—	
Training	5,566	—	5,566	
Postage/Delivery	4,650	—	4,650	
Duplicating	511	—	511	
Telephone	9,978	—	9,978	
Vehicle Fuel	10,535	—	10,535	
Equipment Rental	5,683	—	5,683	
Desktop Information Systems	100,253	—	100,253	
GIS Allocations	71,484	—	71,484	
Building Maintenance	14,605	—	14,605	
Planned Maintenance Program	20,206	—	20,206	
Vehicle Replacement	19,650	(19,650)	—	Finding 2
Vehicle Maintenance	26,482	—	26,482	
Telephone Allocated	8,572	—	8,572	
Custodial	39,935	—	39,935	
Communications	18,282	—	18,282	
Liability Insurance	28,762	—	28,762	
Allocated Facilities Rent	91,509	—	91,509	
Special Projects	—	—	—	
Equipment	—	—	—	
Computer Hardware	—	—	—	
Computer Software Under $5,000	2,191	—	2,191	
Map Vault Archival	—	—	—	
Total Indirect Services and Supplies	$ 516,425	$ (21,431)	$ 494,994	

Schedule 2 (continued)

Description	Proposed Amounts	Audit Adjustments	Audited Amounts
Other Indirect Charges			
Central Service Costs A-87	$ 134,131	$ —	$ 134,131
Carry-Forward Adjustment	—	—	—
Total Indirect Costs (Adjusted)	$ 2,121,112	$ —	$ 2,101,462
Direct Salaries & Fringe Benefits Base	2,549,294	—	2,549,294
Indirect Cost Rate	83.20%		82.43%

Findings and Recommendations

FINDING 1—Unallowable double-counted salary in FY 2011-12

The city proposed an indirect cost rate of 83.27% for FY 2011-12, which is calculated by dividing $2,077,237 of indirect costs by $2,494,696 of direct costs. Our objective was to verify the accuracy of the costs included in the indirect and direct cost pools. One of the largest accounts in the cost pools was staff salaries and benefit costs. SCO judgmentally selected multiple pay periods and supporting documents for detailed testing.

We found that an employee's salary was counted twice in the ICRP computation worksheet due to a change of employee's surname. In the city's multiple allocation based ICRP calculation, we disallowed the double-counted salary, which impacted the allocated percentage of direct and indirect costs spread. We determined that the indirect salaries decreased by $52,965 and the direct salaries increased by $52,965. As a result, the overall indirect cost rate for FY 2011-12 decreased by approximately 3.80%.

According to 2 CFR 225, Appendix A, Section C, part 1 (j), "Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented."

Recommendation

We recommend that the city review salaries and benefit costs that flow into the ICRP to ensure that all relevant employees are included, and that irrelevant employees are excluded in the cost pools.

City's Response

> The city agrees that all salaries and benefit costs should flow into the ICRP to ensure all relevant employees are included, and irrelevant employees are excluded from the cost pools, and will review our internal controls to prevent future errors.

SCO's Comments

The city agrees with the Finding and Recommendation.

FINDING 2—Business vehicle replacement set-aside accounts were overstated in both fiscal years

SCO performed tests to determine whether vehicle replacement indirect costs, presented in the ICRPs, were allocable, allowable, and reasonable, in accordance with 2 CFR 225. We found that vehicle replacement set-aside costs were contributions to a contingency reserve account for future car replacements. The city included $21,431 and $19,650 of indirect costs that were considered vehicle replacement costs for FY 2011-12 and FY 2012-13, respectively. These costs were deemed unallowable

According to 2 CFR 225, Appendix B, 15 (5), "Equipment and other capital expenditures are unallowable as indirect costs." In addition, 2 CFR 225, Appendix B, 9, states that "Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainly as to time, intensity, or with an assurance of their happening, are unallowable."

Recommendation

We recommend that the City perform a comprehensive review of all indirect costs included in its ICRP and ensure that they comply with 2 CFR 225 before submitting to Caltrans.

City's Response

> The city is committed to ensuring the ICRP is submitted correctly and all costs are categorized correctly and they comply with the 2 CFR 225 before submitting to Caltrans and will work with our internal controls to ensure no future errors occur.

SCO's Comments

The city agrees with the Finding and Recommendation.

State Controller's Office
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S13-CAP-010