




THE CITY OF SAN DIEGO

DATE: August 28, 2008

TO: Mary Lewis, Chief Financial Officer
Nader Tirandazi, Financial Management Director

FROM: Eduardo Luna, City Auditor 

SUBJECT: **User Fee Study – Best Practices for Indirect Cost Calculation**

With the assistance of City Auditor Intern, Farhat Popal, we provided Financial Management staff with a User Fee Study with information regarding the best practices, methodologies, and guidelines for indirect cost calculation. The purpose of the study was to provide Financial Management with a general overview of indirect cost guidelines pursuant to Federal procedures and the City's Cost Allocation Policy, as well as information regarding other jurisdictions' methodologies, in an effort to assist in the City's comprehensive user fee review.

In order to determine the full cost of services, direct and indirect costs must be identified and accurately calculated. The information we provided includes:

- Background on OMB Circular A-87 and costing principles
- San Diego's indirect cost calculation methodology
- Other cities' methodologies

OMB Circular A-87 and the City's Cost Allocation Policy serve as the primary sources of indirect cost calculation and cost allocation guidelines. While the Office of the City Comptroller follows a detailed process in determining indirect costs, it is unclear whether this process is consistent with OMB Circular A-87 and the City's Cost Allocation Policy because of a lack of written procedures. From the information available, it seems that the methodology is generally consistent with the methodologies used by other jurisdictions.

Please contact me at (619) 533-3026 if you have any questions.

