State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: RIHUI ZHANG
Division Chief
Local Assistance

Date: June 21, 2016

File: P2710-0047

ORIGINAL SIGNED BY:

From: ALICE LEE, Chief
External Audit - Contracts
Audits and Investigations

Subject: **AUDIT OF CITY OF MANTECA**

Attached is the final audit report setting forth the results of the audit of the City of Manteca's (City) financial management system relative to projects funded by Caltrans using the American Recovery and Reinvestment Act of 2009 (ARRA). The audit was for the period of July 1, 2009, through July 31, 2013. The audit was performed by the State Controller's Office on behalf of Caltrans.

The audit concluded that the City's accounting system and internal controls appear adequate to properly capture costs and segregate reasonable, allocable, allowable project costs as required by Title 2, Code of Federal Regulations, Part 225 and the Caltrans Master Agreement. In addition, the City has a system to accurately report project and job information as required by section 1512 of ARRA. However, the audit disclosed the following finding:

- The City did not provide adequate documentation to support that the job information submitted to the California Recovery Input System was accurate information.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager at (916) 323-7888.

Attachment(s)

c: Fardad Falakfarsa, Chief, Office of Federal Resources, Division of Budgets
Parminder Singh, District 10, Local Assistance Engineer, Division of Local Assistance
Mark Samuelson, Chief, Office of Policy Development and Quality Assurance, Division of Local Assistance
Lai Huynh, Audits and Performance Analyst, Division of Local Assistance
Luisa Ruvalcaba, Audit Manager, Audits & Investigations

CITY OF MANTECA

Audit Report

PROJECTS FUNDED BY CALTRANS WITH AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA) FUNDS

July 1, 2009, through July 31, 2013

BETTY T. YEE

California State Controller

April 2016

BETTY T. YEE
California State Controller

April 27, 2016

MarSue Morrill, Chief
Audits and Investigations
California Department of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the City of Manteca's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The SCO also audited project costs incurred during our audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through July 31, 2013.

The city's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) and the Caltrans Master Agreement. Except for the instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected for testing ARRA-funded construction project ESPL-5242(021) and determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- ARRA project costs reimbursed by Caltrans during the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.
- The city complied with the Buy America requirements of Title 23, United States Code.

Our audit found that the city reported job information to the California Recovery Input System in a timely manner for the contractor used on the ARRA-funded project. However, the city did not provide adequate documentation to support that it was reporting accurate information.

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

Sincerely,

ORIGINAL SIGNED BY:

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

Attachment

cc: Suzanne Mallory, Director
Department of Finance
City of Manteca
Mark Houghton, Director
Public Works Department
City of Manteca
Luisa Ruvalcaba, Audit Manager
Audits and Investigations
California Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Manteca's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The SCO also audited project costs reimbursed by Caltrans during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through July 31, 2013.

The city's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) and the Caltrans Master Agreement. Except for the instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected ARRA-funded construction project ESPL-5242(021) and determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- ARRA project costs reimbursed by Caltrans within our audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.
- The city complied with the Buy America requirements of Title 23, United States Code.

Our audit found that the city reported job information to the California Recovery Input System (CRIS) in a timely manner for the contractor used on the ARRA-funded project. However, the city did not provide adequate documentation to support that it was reporting accurate information.

Background

Caltrans entered into Master Agreement No. 10-5242R with the city. In addition, the city was approved for $1,098,499 in ARRA funding for Caltrans construction project ESPL-5242(021).

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2710-0047). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0033, dated March 29, 2010, between the SCO and Caltrans, which provides that the SCO will perform audits of contracts between Caltrans and private contractors to ensure compliance with ARRA.

- 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."

- Government Code section 12430, which states, "With respect to audits to fulfill the requirements necessary for the receipt of federal funds, the State Auditor shall be primarily responsible for financial audits, and the Director of Finance or the Controller shall be primarily responsible for compliance audits. . . ."

Objectives, Scope, and Methodology

The objectives of our audit were to determine whether:

- The city's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements.

- The city has processes in place to ensure compliance with provisions of ARRA, fiscal provisions of Master Agreement No. 10-5242R between the city and Caltrans, and specific fiscal and funding procedures of Caltrans' Local Assistance Procedures.

- The city has complied with applicable federal competitive bidding and procurement requirements.

- The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

- ARRA project costs incurred within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.

- The city complied with the Buy America requirements of Title 23, United States Code.

The scope of the audit was limited to financial and compliance activities related to projects funded by Caltrans with ARRA funds. The audit was for the period of July 1, 2009 through July 31, 2013. Our review of project costs was limited to costs reimbursed by Caltrans as of July 31, 2013. Schedule 1 of this report is a summary of project costs that were reimbursed by Caltrans as of July 31, 2013.

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

- Reviewed prior financial statements and single audit reports of the city.

- Obtained and reviewed the city's written policies and procedures relating to accounting, construction project management, and contract management.

- Interviewed city employees in order to gain an understanding of the city's internal controls, accounting systems, and billing processes related to Caltrans-funded projects, including ARRA projects.

- Performed limited testing of Caltrans-funded ARRA projects to ensure that the city's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements.

- Interviewed city employees and reviewed supporting documentation to obtain an understanding of the ARRA reporting processes.

We selected for testing ARRA-funded construction project ESPL-5242(021) and performed the following audit procedures:

- Reviewed project files to ensure that the city complied with applicable federal competitive bidding and procurement requirements.

- Reviewed project files and supporting documentation to ensure that the city complied with the Buy America requirements of Title 23, United States Code.

- Selected a sample of project expenditures and reviewed supporting documentation to ensure that project expenditures were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

- Reviewed construction contract change orders to ensure that they were properly approved and supported.

- Reviewed the city's billings sent to Caltrans to ensure that the city properly billed Caltrans for reimbursement of project expenditures.

- Reviewed the city's section 1512 reporting data to ensure that data was reported accurately to Caltrans.

The city did not bill any of its own labor costs to the Caltrans-funded ARRA project or any other recent Caltrans-funded construction projects. As a result, we did not audit the city's financial accounting system related to the city's own labor costs.

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.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

Conclusion

We determined that the city has an accounting system and internal controls to adequately accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225 and the Caltrans Master Agreement. Except for the instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected for testing ARRA-funded construction project ESPL-5242(021) and determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.
- The city complied with the Buy America requirements of Title 23, United States Code.

Our audit found that the city reported job information to CRIS in a timely manner for the contractor used on the ARRA-funded project. However, the city did not provide adequate documentation to support that it was reporting accurate information.

Views of Responsible Official

We issued a draft report on September 22, 2015. Suzanne Mallory, Director, Department of Finance, City of Manteca responded by email on April 4, 2016. The city understands the finding and will preserve documents on future awards.

Restricted Use

This report is solely for the information and use of the City of Manteca, Caltrans, 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.

ORIGINAL SIGNED BY:

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

April 27, 2016

Schedule 1—
Summary of Project Costs Reimbursed by Caltrans
July 1, 2009, through July 31, 2013

Federal Award	Award Amount	Costs Reimbursed by Caltrans
Award # ESPL-5242(021)	$ 1,098,499	$ 1,098,499 [1]

[1] Award selected for testing to determine that ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

Finding and Recommendation

FINDING—
Job information submitted to Caltrans pursuant to Section 1512 of ARRA lacked supporting documentation

Although the city reported job information to the California Recovery Input System (CRIS) in a timely manner for the contractor used on the ARRA-funded project, the city did not provide adequate documentation to support that it was reporting accurate information. Specifically, CRIS indicated that the contractor had 3,616 labor hours, costing $128,509, for project ESPL-5242(021) from November 2009 through January 2010. However, the city did not provide the certified monthly employment reports that show the contractor's job information.

Sections 1201 and 1512 of ARRA require Caltrans to provide monthly updates to Federal Highway Administration (FHWA) on projects funded and jobs created by ARRA. The city, as a sub-recipient, shares responsibility with Caltrans for the quality of data submitted to FHWA.

Additionally, the Department of Transportation, Division of Local Assistance, Office of Project Delivery & Accountability: American Recovery and Reinvestment Act (Recovery Act) – Local Assistance – Online Data Information System (LA-ODIS) Step-by-Step User Guide, Version 1.3, states:

> . . . all state agencies receiving RA funding will be responsible for ensuring the necessary system are in place to provide proper oversight, accounting, reporting, and project management controls to ensure all RA funds are used efficiently and for the intended purpose . . . Local agencies are to submit monthly project updates via the LA-ODIS reporting tool . . . Local agencies are responsible for submitting current and accurate data...Failure to submit monthly reports or reporting after the due date is cause for potential suspension and/or revocation of project 'Recovery Act' funds.

Recommendation

The city should develop procedures to ensure that project and job information submitted to Caltrans or other appropriate agencies is properly supported with adequate documentation.

City's Response

> Staff complied with the requirements to report on all items necessary for compliance with ARRA requirements. Staff was unaware of the need to preserve the files for five years after project completion. On future awards, staff will reviewed [sic] retention requirements in order to ensure full compliance.

SCO's Response

The finding remains unchanged.

Attachment—
City's Response to
Draft Audit Report

Goto, Jan

From: Mallory, Suzanne <[redacted]>
Sent: Monday, April 04, 2016 5:37 PM
To: Goto, Jan
Subject: RE: City of Manteca Draft Audit Report
Attachments: SCO Audit.docx

Jan,

Thank you for your patience. Attached please find the City's response.

Best regards,

Suzanne

From: [redacted] [mailto:[redacted]
Sent: Thursday, March 24, 2016 12:23 PM
To: Madison, Tracie <[redacted]>; Mallory, Suzanne <[redacted]>
Subject: City of Manteca Draft Audit Report

Good afternoon Tracy and Suzanne,

When can I expect your response to the draft audit report on the ARRA program?

Thank you.

-Jan

SCO Audit
American Recover and Reinvestment Act 2009
July 1, 2009 – July 31, 2013

Finding: Our audit found that the city was able to report job information to CRIS in a timely manner for the contractor used on the ARRA-funded project. However, the city could not provide adequate documentation to support that it was reporting accurate information.

Response: Staff complied with the requirements to report on all items necessary for compliance with ARRA requirements. Staff was unaware of the need to preserve the files for five years after project completion. On future awards, staff will reviewed retention requirements in order to ensure full compliance.