

# Memorandum

*Serious drought.  
Help Save Water!*

**To:** WILLIAM E. LEWIS  
Assistant Director  
Audits and Investigations

**Date:** October 24, 2014

**File:** P1575-0021

**From:**   
COCO BRISENO  
Acting Deputy Director  
Planning and Modal Programs

**Subject:** DEPARTMENT ACTION PLAN TO INCURRED COST AUDIT—CITY OF LINDSAY

This memorandum serves as California Department of Transportation's (Caltrans) action plan for Audits and Investigations' (A&I's) Incurred Cost Audit of the city of Lindsay (City) dated July 16, 2014.

## Finding 1—Inadequate Financial Management System and Procedures:

The Division of Local Assistance (DLA) concurs with the finding. As a result, the City will maintain its "high risk" designation pursuant to 49 CFR 18.12, and these restrictive conditions will remain in place until there is substantial compliance, as determined by Caltrans:

- Caltrans will not authorize federal/State funds for subsequent phases of work, such as Right of Way and Construction.
- Caltrans will not enter into new project funding agreements with the City.
- For recently awarded contracts, Caltrans will not place additional funds under agreement. The City may proceed at the risk of not being reimbursed.
- For existing projects, Caltrans will only reimburse the City's direct labor costs that are supported by timesheets, third party invoices (from consultants, contractors and other vendors), and/or canceled checks.
- Caltrans will not reimburse the City for indirect costs (since no approved Indirect Cost Allocation Plan is in place).

## Finding 2—Inadequate Procurement Procedures and Practices:

Consistent with the handling of similar local agency incurred cost audit findings, DLA recommends that no funds be recovered at this time for inadequate procurement practices. Rather, DLA has received Federal Highway Administration and Caltrans Directorate concurrence on a programmatic solution to include increased oversight, enhanced guidance, and training. Increased oversight is currently in place, enhanced guidance will be issued by December 2014, and training will occur by March 2015.

Finding 3—Improper Construction Contract Change Orders, Finding 4—Unsupported Labor Costs and Finding 5—Inadequate Grant Management:

The District 6 Local Assistance Engineer and Construction Oversight Engineer will be meeting with the City November 13, 2014, to assess the questioned contract change orders, unsupported labor costs, and inappropriate billing findings identified in the audit. A final determination on cost recovery will be made by February 28, 2015.

Finding 6—Poor Contract Management:

DLA concurs with the finding and will recover \$11,443 in questioned contract management costs along with any other costs to be recovered from the Findings 3, 4, and 5 determinations by February 28, 2015.

If you have any questions, please contact Lai Huynh in the Division of Local Assistance at 916-653-3990.

c: Rich Wilkinson, City Manager, City of Lindsay  
Michael Tritz, Deputy Secretary for Audits and Performance Improvements, Business, Transportation and Housing Agency  
Janice Richard, Director of Financial Services, Federal Highway Administration  
Andre Boutros, Executive Director, California Transportation Commission  
Malcolm Dougherty, Director, Caltrans  
Kome Ajise, Chief Deputy Director, Caltrans  
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Clark Paulsen, Chief, Division of Accounting, Caltrans  
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