

Memorandum

*Serious drought.
Help Save Water!*

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: June 29, 2016

File: P1560-0012

From: MARSUE MORRILL, CPA *Marsue*
Chief, External Audits – Local Governments
Audits & Investigations

Subject: **PRE-AWARD AUDIT – CALIFORNIA TAHOE CONSERVANCY**

We performed a pre-award audit of the California Tahoe Conservancy (CTC) to determine whether CTC's financial management system is adequate to accumulate and segregate reasonable, allowable, and allocable project costs. The audit period covered expenditures from July 1, 2014 through December 17, 2015. The final audit report, along with CTC's full response, is attached.

Based on our audit, we determined CTC's financial management system is adequate to accumulate, segregate, and allocate reasonable and allowable project labor costs. CTC does not, however, identify and segregate direct and indirect labor costs or direct labor costs by project.

This report is intended as information for Caltrans management, the California Transportation Commission, the Federal Highway Administration, and CTC. This report is a matter of public record and will be placed on the Caltrans website.

Please provide our office with a corrective action plan addressing the recommendations in the report, including time lines, by August 15, 2016.

If you have any questions, please contact Yung Jo Ryoo, Auditor, at (916) 323-7950, or me, at (916) 323-7105.

Attachment

RIHUI ZHANG

June 29, 2016

Page 2 of 2

- c: Patrick Wright, Executive Director, California Tahoe Conservancy
- Kevin Prior, Chief Administrative Officer, California Tahoe Conservancy
- Janice Richard, Director, Financial Services, Federal Highway Administration
- Jack Lord, Planning and Air Quality Team Leader, Federal Highway Administration
- Veneshia Smith, Financial Program Manager, Federal Highway Administration
- Kara Magdaleno, Administrative Program Assistant Planning and Finance,
Federal Highway Administration
- John Hoole, Chief, Project Implementation South, Division of Local Assistance, Caltrans
- Winton Emmett, Chief, Project Implementation North, Division of Local Assistance,
Caltrans
- Darlene Wulff, Chief, Office of Local Assistance, Division of Planning and Local
Assistance, District 3, Caltrans
- David Saia, LAPM/LAPG Coordinator, Division of Local Assistance, Caltrans
- Lai Huynh, Audits and Federal Performance Measures Analyst, Division of Local
Assistance, Caltrans
- MarSue Morrill, CPA, Chief, External Audits - Local Governments, Audits &
Investigations, Caltrans
- Alice Lee, Senior Management Auditor, External Audits - Local Governments,
Audits & Investigations, Caltrans

AUDIT REPORT

California Tahoe Conservancy

Pre-award Audit

P1560-0012

June 2016

Prepared By:

Audits and Investigations

California Department of Transportation

EXECUTIVE SUMMARY, BACKGROUND, SCOPE, METHODOLOGY, AND CONCLUSION

EXECUTIVE SUMMARY

The California Department of Transportation (Caltrans), Audits and Investigations (A&I) performed a pre-award audit of the California Tahoe Conservancy (CTC) and found CTC is not currently accumulating and segregating direct labor costs by project.

BACKGROUND

Caltrans A&I conducts pre-award audits on local government agencies (LGAs) receiving state and federal funds to determine if LGAs are complying with state and federal requirements, and to determine if financial management systems are adequate to accumulate, segregate, and allocate reasonable and allowable project costs. Caltrans requires pre-award audits to be performed by A&I prior to establishing a Master Agreement with LGAs for state and federal funded projects.

SCOPE

The scope of the audit was limited to reviewing and testing CTC's financial management system, including internal controls, and its ability to accumulate and segregate reasonable, allocable, and allowable project costs. The audit also covered the review of CTC's contract procurement practices. The audit consisted of inquiries of CTC's personnel, a review of the California State Single Audit Report for fiscal year ended June 30, 2014 and other audits performed by the Department of Finance. The audit also included tests of individual accounts traced to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system. The audit period covered expenditures from July 1, 2014 through December 17, 2015. Financial management system changes subsequent to December 17, 2015 were not tested and, accordingly, our conclusion does not pertain to changes arising after this date.

CTC is responsible for ensuring compliance with state and federal regulations and that the financial management system maintained by CTC is adequate to accumulate and segregate reasonable, allowable and allocable project costs. Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of CTC. Therefore, we did not audit and are not expressing an opinion on CTC's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made by the auditee, as well as evaluating the overall presentation.

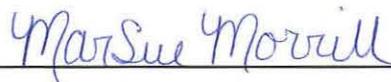
CONCLUSION

Based on our audit we determined CTC's financial management system is adequate to accumulate and segregate reasonable, allowable, and allocable project costs. CTC does not, however, identify and segregate direct and indirect labor costs or direct labor costs by project.

VIEWS OF RESPONSIBLE OFFICIALS

Our finding and recommendation consider CTC's response dated June 28, 2016 to our draft report. Our finding and recommendation, CTC's response, and our analysis of their response are set forth in the Findings and Recommendation section of this report. A complete copy of CTC's response is included in Attachment I.

This report is intended as information for Caltrans management, the California Transportation Commission, the Federal Highway Administration, and CTC. This report is a matter of public record and will be posted on Caltrans A&I website.



MARSUE MORRILL, CPA
Chief, External Audits-Local Governments
June 29, 2016

FINDINGS AND RECOMMENDATIONS

FINDING 1

CTC uses estimated hourly rates instead of actual hourly rates to charge labor costs to projects and to bill funding agencies. CTC does not currently have a job cost system in place to bill actual hourly rates. By not using actual hourly rates CTC may overbill Caltrans labor costs.

Title 2 Code of Federal Regulation (CFR) 200 Subpart E Section 200.430 i(1) states in part “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocate.”

The California Department of Transportation Local Assistance Draft Master Agreement states that payments to an administering agency can only be released by the state as reimbursement of actual allowable project costs already incurred and paid for by the administering agency.

RECOMMENDATION

We recommend CTC use actual hourly rates to charge labor costs to projects and when billing other funding agencies.

AUDITEE’S RESPONSE

CTC responded that they concur with the recommendation. CTC implemented a new statewide accounting system (FI\$Cal) during fiscal year 2015/16. The new accounting system enabled CTC to change billing procedures to actual hourly rates during the fourth quarter of fiscal year 2015/2016.

AUDITOR’S ANALYSIS

We reviewed the supporting documentation provided by CTC and determine that this finding was resolved.

FINDING 2

CTC does not currently accumulate and segregate direct labor costs by project. CTC is, however, currently developing a job costing system that will allow them to properly accumulate and segregate costs. By not properly accumulating and segregating project costs CTC is unable to support project costs billed to Caltrans.

Title 2 CFR 200 Subpart E Section 200.430 i(1)(vii) states in part “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award, an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.”

RECOMMENDATION

We recommend CTC accumulate and segregate direct labor costs by project.

AUDITEE’S RESPONSE

CTC responded that they concur with the recommendation. The FI\$Cal project costing module was implemented during the fourth quarter of fiscal year 2015/2016. The project costing module now enables CTC to properly accumulate and segregate operating costs. The procedure for accumulation and segregation of direct labor costs is still in the testing phase.

MarSue Morrill, Chief, External Audits-Local Governments

Alice Lee, Audit Manager

Yung Jo Ryoo, Auditor/Specialist



June 28, 2016

To: **Marsue Morrill, CPA**
Chief, External Audits – Local Governments
Audits & Investigations
Department of Transportation

FINDING 1

The California Tahoe Conservancy (Conservancy) uses estimated hourly rates instead of actual hourly rates to charge labor costs to projects and to bill funding agencies. The Conservancy does not currently have a job cost system in place to bill actual hourly rates. By not using actual hourly rates the Conservancy may overbill Caltrans labor costs.

BOARD MEMBERS

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PATRICK WRIGHT
Executive Director

Title 2 Code of Federal Regulation (CFR) 200 Subpart E Section 200.430 i(1) states in part “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocate.”

The California Department of Transportation Local Assistance Draft Master Agreement states that payments to an administering agency can only be released by the state as reimbursement of actual allowable project costs already incurred and paid for by the administering agency.

RECOMMENDATION

We recommend the Conservancy use actual hourly rates to charge labor costs to projects and when billing other funding agencies.

AUDITEE’S RESPONSE

The Conservancy concurs with the recommendation. The Conservancy implemented a new statewide accounting system (Fi\$cal) during fiscal year 2015/2016. The new accounting system enabled the Conservancy to change billing procedures to actual hourly rates during the fourth quarter of fiscal year 2015/2016.

FINDING 2

The Conservancy does not currently accumulate and segregate direct labor costs by project. The Conservancy is, however, developing a job costing system that will allow them to properly accumulate and segregate costs. By not properly accumulating and segregating project costs the Conservancy is unable to support project costs billed to Caltrans.

Title 2 CFR 200 Subpart E Section 200.430 i(1)(vii) states in part "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award, an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."

RECOMMENDATION

We recommend the Conservancy accumulate and segregate direct labor costs by project.

AUDITEE'S RESPONSE

The Conservancy concurs with the recommendation. The Fi\$cal project costing module was implemented during the fourth quarter of fiscal year 2015/2016. The project costing module now enables the Conservancy to properly accumulate and segregate operating costs. The procedure for accumulation and segregation of direct labor costs is still in the testing phase.



Kevin Prior – Chief Administrative Officer



Signature and Date