State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought. Help Save Water!

To: AMARJEET S. BENIPAL
District 3 Director

Date: September 2, 2015

File: P2505-0056
P2505-0057

ORIGINAL SIGNED BY:

From: LAURINE BOHAMERA, Chief
External Audits - Contracts
Audits and Investigations

Subject: **PROPOSITION 1B AUDIT REPORT – COUNTY OF EL DORADO**

Caltrans Audits and Investigations audited costs claimed and reimbursed to the County of El Dorado (County) through two Cooperative Agreements totaling $25,595,403. Both projects were funded with Proposition 1B Corridor Mobility Improvement Account (CMIA) funds. The US 50 High-Occupancy Vehicle Lanes Corridor Project phase 1 was partially funded with $20,000,000 and phase 2A with $5,595,403 of CMIA funds. The audit period was from May 1, 2008, through June 26, 2014.

Based on our audit, we determined that reimbursed project costs totaling $25,595,403 were in compliance with the executed project agreement, state and federal regulations, contract provisions, and California Transportation Commission (CTC) program guidelines except for $20,593 that was not supported and did not comply with respective agreement provisions, state and federal regulations, and CTC program guidelines.

This report is intended for the information of Caltrans management, the Federal Highway Administration, the CTC, and the County. This report is a matter of public record, however, and its distribution is not limited. In addition, this report will be placed on Caltrans website.

Please provide A&I a corrective action resolution related to the audit recommendations within 90 days of this memorandum. If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

Enclosure

cc: Kate Sampson, Assistant Director, Administration and Finance, County of El Dorado
Stephen Maller, Deputy Director, California Transportation Commission
Teresa Favila, Assistant Deputy Director, California Transportation Commission
Tom Brannon, Deputy District 3 Director, Program/Project Management, Caltrans
Matt Bailey, Prop 1B Program Coordinator, Project Management, Caltrans
Luisa Ruvalcaba, Audit Manager, Audits and Investigations, Caltrans

AUDIT REPORT

County of El Dorado
Proposition 1B Audit
P2505-0056 and P2505-0057
August 2015

Prepared By:
Audits and Investigations
California Department of Transportation

"Provide a safe, sustainable, integrated and efficient transportation system to enhance California's economy and livability"

Background, Scope, Methodology, and Conclusion

BACKGROUND

As approved by the voters in the November 2006 general elections, Proposition 1B (Prop 1B) enacts the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 to authorize $19.925 billion of state general obligation bonds for specified purposes, including high-priority transportation corridor improvements, State Route 99 corridor enhancements, trade infrastructure and port security projects, school bus retrofit and replacement purposes, state transportation improvement program augmentation, transit and passenger rail improvements, state-local partnership transportation projects, transit security projects, local bridge seismic retrofit projects, highway-railroad grade separation and crossing improvement projects, state highway safety and rehabilitation projects, and local street and road improvement, congestion relief, and traffic safety.

Prop 1B funds were used from the Corridor Mobility Improvement Account (CMIA) for the completion of the US 50 High Occupancy Vehicle (HOV) Lanes Corridor projects phase 1 and 2A. Phase 1 was performed under Cooperative Agreement (Agreement) 03-0351 and 2A under Agreement 03-0488 both between the County of El Dorado (County) and the Department of Transportation (Caltrans). The County was the implementing agency for the two projects and was reimbursed $20,000,000 in CMIA funds for phase 1 and $5,615,996 in CMIA funds for phase 2A. The audit period was from May 1, 2008, through June 26, 2014.

SCOPE

The scope of the audit was limited to financial and compliance activities related to the above-referenced projects. We performed our limited scope audit to specifically determine whether:

- The project costs incurred and reimbursed were in compliance with the executed project agreements, state and federal regulations, contract provisions, and California Transportation Commission (CTC) program guidelines.

- The project deliverables and outcomes were consistent with the projects scope, schedule, and benefits described in the executed projects agreements or approved amendments.

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

- Reviewed the County's prior audits and single audit reports;

- Reviewed the County's policies and procedures related to the job cost system and procurement;

- Interviewed employees, completed a review of the internal control system, and gained an understanding of the County's internal controls, job cost system, timekeeping, accounts payable, and billing processes related to projects funded by Prop 1B.

For the projects under review, we performed the following audit procedures:

- Reviewed project billing invoices sent to Caltrans' accounting office to ensure that the County properly prepared and/or billed Caltrans for reimbursement of project expenditures;

- Selected a sample of charges funded by Prop 1B from the project billing invoices, and reviewed supporting documentation to ensure that project expenditures were supported and in compliance with project agreements, state and federal laws and regulations, contract provisions and CTC Guidelines;

- Obtained procurement records to ensure that the County procured contracts billed to Caltrans in accordance with applicable state and federal procurement requirements;

- Reviewed significant contract change orders to ensure that they were properly approved and supported;

- Reviewed and compared project agreements and project final delivery reports to ensure that project deliverables (outputs) and outcomes were met, and that any variances to project scope, schedule, costs and benefits were properly approved and supported.

The County is responsible for the fair presentation of incurred costs, ensuring compliance with contract provisions, state and federal regulations, CTC program guidelines, and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable costs. Our responsibility, based on our audit, is to issue a conclusion on the allowability of the reimbursed costs in accordance with the applicable agreements, contract provisions, state and federal regulations, and CTC guidelines.

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.

Our findings and recommendations take into consideration the County's response dated September 1, 2015, to our August 31, 2015 draft report. Our findings, recommendations and the County's response are set forth in the Findings and Recommendations section of this report.

METHODOLOGY

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. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the County. Therefore, we did not audit, and are not expressing an opinion, on the County'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 County, as well as evaluating the overall presentation.

CONCLUSION

Based on our audit, we determined that reimbursed project costs totaling $25,595,403 ($20,000,000 for phase 1 and $5,595,403 for phase 2A) were in compliance with the executed project agreements, state and federal regulations, contract provisions; the project deliverables and outcomes were consistent with the project scope, schedule, and benefits described in the executed project agreements. Reimbursed costs totaling $20,593 for phase 2A of the project were not supported and not in compliance with respective agreement provisions, state and federal regulations and CTC program guidelines, as noted in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS

FINDING 1: Incorrectly Billed California Highway Patrol (CHP) Personnel Costs

The County incorrectly billed for CHP personnel costs on Agreement No. 03-0488. The incorrect billed amount was $37,970 of which the County was reimbursed 54.24 percent in CMIA funds for a total overbilling of $20,593. Per Ruth Young, the County's Chief Fiscal Officer, Caltrans was incorrectly billed in error.

Article 39 of Cooperative Agreement No. 03-0488, states, "Partners will comply with the appropriate federal cost principles and administrative requirements outlined in the applicable cost principles and administrative requirements (2 CFR Part 225 and 49 CFR Part 18)".

49 Code of Federal Regulations (CFR) Part 18.20, Section (b)(6), states, "Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

Article 72 of Cooperative Agreement No. 03-0488, states, "If Caltrans reimburses County for any costs later determined to be unallowable, County will reimburse those costs".

RECOMMENDATION:
We recommend that the County reimburse Caltrans $20,593 for the incorrectly billed costs.

COUNTY'S RESPONSE:
The County agreed to the finding.

FINDING 2: Reimbursement Request Before Vendor Payments

For Agreement No. 03-0351, the County requested reimbursement from Caltrans before paying the vendor invoices. We found 3 invoices where the billing dates were earlier than the date the County made payment. This occurred because the County included pay estimates on billings to the state that were still in process of payment, but where checks had not yet been issued to the vendor. Specifically, this was noted on:

- Invoice 3 was billed to Caltrans on May 5, 2009 and the vendor was paid by the County on May 14, 2009.
- Invoice 5 was billed to Caltrans on July 13, 2009 and the vendor was paid by the County on July 16, 2009.
- Invoice 11 was billed to Caltrans on May 13, 2010 and the vendor was paid by the County on May 19, 2010.

Article 25 Section 1 of Cooperative Agreement No. 03-0351, states, "Contract administration procedures shall conform to State's Construction Manual, Local Assistance Procedures Manual, and Project Encroachment Permits."

The Local Assistance Procedures Manual, Chapter 5, Accounting/Invoices, Invoice Submittal states "The local agency may submit monthly invoices for reimbursement of participating costs (costs eligible for federal and/or state reimbursement). Amounts claimed must reflect the cost of completed work, which has been paid for".

RECOMMENDATION:
We recommend that the County implement policies and procedures to ensure that when billing under reimbursement agreements, vendors be paid by the County prior to requesting reimbursement from Caltrans.

COUNTY'S RESPONSE:
The County agreed to the finding.

FINDING 3: Lack of Written Procurement Policies for Construction and Consultant Service Contracts

The County does not have written procurement policies and procedures for construction and consultant service contracts that are in compliance with state and federal regulations. The County's procurement policy stipulates that state and federal selection criteria may apply to agreements using state or federal funds; and that state and federal regulations must be consulted for competitive bidding requirements and specific contract provisions when state or federal funding is involved. However, County staff may not know what specific procedures to follow when state and federal contracts are involved since there are no written procedures. In addition, the County's procurement policy did not mention the required adherence to the Caltrans Local Assistance Procedures Manual and 49 CFR Part 18, as required by the Agreements with Caltrans. As a result, the County's procurement policy is not in compliance with the required state and federal regulations.

Section 1 Article 25 of Agreement No. 03-0351, states, "Contract administration procedures shall conform to State's Construction Manual, Local Assistance Procedures Manual, and the Project Encroachment Permits."

Article 39 of Agreement No. 03-0488, states, "Partners will comply with the appropriate federal cost principles and administrative requirements outlined in the applicable cost principles and administrative requirements (2 CFR Part 225 and 49 CFR Part 18)."

49 CFR, Part 18.36(b)(1), states, "Grantees and subgrantees will use their own procurement procedures which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section".

RECOMMENDATION:
We recommend that the County ensure that written policies and procedures for the procurement of construction and consultant service contracts funded with state or federal funds are in compliance with state and federal regulations.

COUNTY'S RESPONSE:
The County agreed to the finding.

FINDING 4: Unsubmitted Quarterly Delivery Reports (QDR) and Untimely Final Delivery Report (FDR)

The County did not submit the QDRs for phases 1 and 2A to Caltrans in accordance with the CTC program guidelines. In addition, the County did not submit the FDRs for the projects in a timely manner. The construction phases of the projects ended in May 1, 2012 and in June 1, 2013 for phase 1 and phase 2A, respectively. The FDRs for both phases were submitted on November 13, 2014.

The CMIA guidelines state "Commission staff, in cooperation with Caltrans, regional agencies and local implementing agencies, will report to the Commission each quarter on the status of each project in the CMIA program. The report will identify progress against delivery milestones and any changes in project costs or schedules that may require amendment of the CMIA program".

The Prop 1B project closeout-process procedures state "The Project Manager/agency sponsor will prepare the FDR and submit to the Program Coordinator within 6 months of the project becoming operable (end of construction phase)".

RECOMMENDATION:
We recommend that the County submit QDRs and FDRs as required by the CTC program guidelines.

COUNTY'S RESPONSE:
The County agreed to the finding.

Laurine Bohamera, Chief, External Audits–Contracts

Luisa Ruvalcaba, Audit Manager

Eugene Ezimora, Auditor