State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: RIHUI ZHANG, Chief
Division of Local Assistance

Date: December 9, 2014

File: P2535-0022

From: MARSUE MORRILL, Chief
External Audits - Contracts
Audits and Investigations

Subject: **PROPOSITION 1B AUDIT REPORT – CITY OF RANCHO CORDOVA**

Caltrans Audits and Investigations (A&I) audited costs claimed and reimbursed to the City of Rancho Cordova (City) totaling $2,724,000. The project audited was funded with Proposition 1B (Prop 1B) State-Local Partnership Program Account (SLPP) funds. The Folsom Boulevard Enhancement Project, Phase II, SLPPFL-11-5482(017), totaled $2,724,000. The audit period was August 1, 2010 through October 4, 2013.

Based on our audit, we determined that reimbursed project costs totaling $2,724,000 were in compliance with the executed project agreement, state and federal regulations, contract provisions, and Caltrans/California Transportation Commission (CTC) program guidelines with the exception of a noted procurement issue.

This report is intended for the information of Caltrans management, the Federal Highway Administration, the CTC, and the City. 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 plan related to the audit recommendation within 90 days of this memorandum. If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

Enclosure

cc: Elizabeth Sparkman, Senior Civil Engineer, City of Rancho Cordova
Stephen Maller, Deputy Director, California Transportation Commission
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Proposition 1B Audit Report

City of Rancho Cordova

P2535-0022

December 2014

Prepared By:

Audits and Investigations

California Department of Transportation

Background, Scope, Methodology, and Conclusion

BACKGROUND

As approved by the voters in the November 2006 general elections, Proposition 1B (Prop 1B) enacted 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.

Some of the Prop 1B funds were used for the State-Local Partnership Program Account (SLPP) for the completion of pedestrian and bicycle connectivity. This project provide both pedestrian and bicycle connectivity along Folsom Boulevard from Rod Beaudry Drive to Mather Field Road which will complete the sidewalk and bicycle lanes on the south side of Folsom Boulevard along with traffic calming and beautification of the corridor. The City of Rancho Cordova (City) performed the Folsom Blvd. Enhancement Phase II project (SLPPFL115482 (017)) funded with $2,724,000 in SLPP funds. We audited several agreements under this project.

SCOPE

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

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

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

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

- Reviewed the City's prior audits and single audit reports;
- Reviewed the City's policies and procedures relating to the job cost system and procurement;
- Interviewed employees, completed a review of the internal control system, and gained an understanding of the City's internal controls, job cost system, timekeeping, accounts payable, and billing processes related to projects funded by Prop 1B.

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

- Reviewed project billing invoices sent to the Caltrans accounting office to ensure that the City properly prepared and/or billed Caltrans for reimbursement of project expenditures;
- Reviewed supporting documentation from the project billing invoices to ensure that project expenditures were supported and in compliance with project agreement, state and federal laws and regulations, contract provisions and Caltrans/CTC Guidelines;
- Obtained procurement records to ensure that the City procured billed agreements in accordance with applicable state and federal procurement requirements;
- Reviewed significant contract change orders to the agreements to ensure that they were properly approved and supported;
- Reviewed and compared project agreements and project final delivery report to ensure that project deliverables and outcomes were met and that variances to the project's scope, schedule, costs and benefits were properly approved and supported.

The City 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 Caltrans/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 City's response dated November 30, 2014, to our November 25, 2014, draft report. Our findings and recommendations, the City response, and our analysis of the response are set forth in the Findings and Recommendations section of this report.

METHODOLOGY

We conducted our 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 City. Therefore, we did not audit, and are not expressing an opinion, on the City'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 City, as well as evaluating the overall presentation.

CONCLUSION

Based on our audit, we determined that reimbursed project costs totaling $2,724,000 were in compliance with the executed project agreement, state and federal regulations, contract provisions, and CTC program guidelines with the exception of a noted procurement issue described in the Findings and Recommendation section of this report.

FINDING 1: Lack of Original Ranking Sheets.

Agreement 63-2011 between the City and Salabar Associates, Inc. was procured through a Request for Proposal (RFP) and the City was required to evaluate each consultant. The City, however, did not retain the original scoring sheets completed by each evaluator to rank the competing consultant's proposals. The original scoring sheets serve as the source documentation. The City thought that a summary of all the evaluators' ranking scores was sufficient source documentation.

49 Code of Federal Regulation (CFR) Part 18 Section 36(b)(9) states "Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

49 CFR Part 18 Section §18.20(6) states "Source documentation. 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.

RECOMMENDATION:

We recommend the City amend its procurement policies and procedure manual to require original ranking sheets be maintained for all RFP procurements.

CITY'S RESPONSE

The City agrees with the audit finding. The City stated that they would amend their procurement methods to require the retention of original documentation.

Audit Team

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Luisa Ruvalcaba, Audit Manager

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