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 17, 2015

File: P2535-0023

ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF CITY OF SANTA MARIA, PUBLIC WORKS DEPARTMENT**

Attached is the audit report pertaining to the audit performed on the City of Santa Maria's Public Works Department, relative to funding received from Caltrans using Proposition 1B (Prop 1B) State-Local Partnership Program Funds. The name of the project audited is "Union Valley Parkway Arterial - Phase III," Project No. SLPP-5138 (046). The Prop 1B programmed amount was $ 2,163,000. The audit was for the period of July 1, 2011, through June 30, 2014.

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the State Controller's Office on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed.

The attached report includes one audit finding related to the City's failure to submit the final delivery report within the required time period. Please provide A&I a corrective action plan on the audit finding within 90 days of the audit report date.

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

Attachment(s)

c: Stephen Maller, Deputy Director, California Transportation Commission
Teresa Favila, Assistant Deputy Director, California Transportation Commission
Bruce De Terra, Acting Division Chief, Transportation Programming
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
Mohammad Maljai, Acting Chief, Office of Policy Development and Quality Assurance, Division of Local Assistance
Sharon Ropp, Prop 1B Coordinator, Division of Local Assistance
Garin Schneider, District 5 Local Assistance Engineer
Luisa Ruvalcaba, Audit Manager, Audits and Investigations
Annette Goudeau, Audits and Performance Analyst, Office of Policy Development and Quality Assurance, Division of Local Assistance

CITY OF SANTA MARIA, PUBLIC WORKS DEPARTMENT

Final Audit Report

STATE-LOCAL PARTNERSHIP PROGRAM (SLPP) PROPOSITION 1B BOND-FUNDED PROJECT EA No. 0513000053/P2535-0023

July 1, 2011, through June 30, 2014

BETTY T. YEE

California State Controller

November 2015

BETTY T. YEE
California State Controller

November 10, 2015

Laurine Bohamera, Chief
Audits and Investigations
California Department of Transporation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited the City of Santa Maria's Public Works Department (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of July 1, 2011, through June 30, 2014.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency'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, and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines and agreements.

We audited the Proposition 1B bond-funded project, Union Valley Parkway Arterial (Phase III) Project, and determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18, and/or California Public Contract Code sections 10140–10141.

- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.

- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

However, our audit found that the city failed to submit the completed Final Delivery Report to the Commission within six months of the project becoming operable (January 2, 2014). The final delivery report should be provided to the Commission within six months of the project's completion/accepted date (January 2, 2014), in accordance with the Commission's State-Local Partnership Program (SLPP) Accountability Implementation Plan and as required by Government Code section 8879.50(f)(2).

Schedule 1 of this report is a summary of project costs programmed, approved, expended, and audited during the audit period.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Jan Goto, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Betty Wong, Auditor-in-Charge
Division of Audits – Bond Unit
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Santa Maria's Public Works Department (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of July 1, 2011, through June 30, 2014.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency'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 California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines, procedures, agreements, or approved amendments.

We audited the Proposition 1B bond-funded project, Union Valley Parkway Arterial (Phase III), and determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18 (49 CFR 18), and/or California Public Contract Code sections 10140–10141.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

However, our audit found that the city failed to submit the completed Final Delivery Report to the Commission within six months of the project becoming operable (January 2, 2014). The final delivery report should be provided to the Commission within six months of the project's completion/accepted date (January 2, 2014), in accordance with the Commission's State-Local Partnership Program Accountability Implementation Plan and as required by Government Code section 8879.50(f)(2).

Background

In accordance with Caltrans and Commission-executed project agreement(s) or approved amendments, the project Union Valley Arterial (Phase III), was programmed and approved to receive $2,163,000 in Proposition 1B bond funds, for one or more phases of work, under the State-Local Partnership Program (SLPP).

The implementing agency is responsible for implementation and successful completion of each project component and activities as defined in the project's baseline agreement. The project's completion date was January 2, 2014.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2535-0023). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0027, dated December 1, 2007, between the SCO and Caltrans, which provides that the SCO will perform audits of project expenditures that were funded and reimbursed by the Proposition 1B Bond Fund to ensure compliance with Caltrans and Commission Proposition 1B program guidelines.
- 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 state money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The SCO audited the implementing agency's financial management system relative to projects funded and reimbursed by the Proposition 1B Bond Fund during the audit period of July 1, 2011, through June 30, 2014.

The objectives of our audit were to determine whether:

- The implementing agency's accounting system and internal controls were adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines, procedures, project agreements, or approved amendments.
- The implementing agency complied with applicable federal and state procurement requirements as required by 49 CFR 18, California Public Contract Code sections 10140–10141, and/or provisions stated in the contract.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

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

- Reviewed the implementing agency's prior audits and single audit reports;
- Reviewed the implementing agency's written policies and procedures relating to accounting systems, construction project management, and contract management; and

- Interviewed employees, completed the internal control questionnaire, and performed a limited system walk-through in order to gain an understanding of the implementing agency's internal controls, accounting systems, timekeeping and payroll systems, and billing processes related to transportation projects; specifically, projects funded by Proposition 1B.

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

- Obtained project files and reviewed preliminary information to ensure that the implementing agency complied with applicable state and federal procurement requirements;
- Obtained project expenditure reports, judgmentally selected a sample of activities that were funded by Proposition 1B, and obtained and reviewed supporting documentation to ensure that project expenditures were reasonable, allocable, and allowable in accordance with Caltrans and Commission program guidelines, procedures, agreements, and applicable state and federal requirements;
- Reviewed significant contract change orders to ensure that they were properly approved and supported;
- Reviewed project final reports, close-out documents, finance letters, and baseline agreements to ensure that variances or changes to the project's scope, schedule, costs, and benefits were properly approved and supported; and
- Reviewed the project payment history file and/or invoices sent to the Caltrans accounting office to ensure that the implementing agency properly prepared and/or billed Caltrans for reimbursement of project expenditures as required by Caltrans' local assistance procedures.

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 implementing agency'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 implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines and agreements.

We audited the Proposition 1B bond-funded project, Union Valley Arterial (Phase III), and determined that:

- The implementing agency complied with applicable federal and state procurement requirements required by 49 CFR 18, California Public Contract Code sections 10140–10141, and/or provisions stated in the contract.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

However, our audit found that the city failed to submit the completed Final Delivery Report to the Commission within six months of the project becoming operable (January 2, 2014). The final delivery report should be provided to the Commission within six months of the project's completion/accepted date, in accordance with the Commission's State-Local Partnership Program Accountability Implementation Plan and as required by Government Code section 8879.50(f)(2).

Views of Responsible Official

We issued a draft audit report on June 24, 2015. Steven B. Kahn, P.E. Director of Public Works, responded by letter dated July 20, 2015, (Attachment), explaining the delay in submission of the FDR and plans to comply with timely reporting in the future. This final audit report includes the city's response.

Restricted Use

This report is solely for the information and use of City of Santa Maria, Public Works Department, 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

November 10, 2015

Schedule 1—
Summary of Project Costs Approved, Expended, and Audited July 1, 2011, through June 30, 2014

Project No./EA No.: Union Valley Parkway Arterial (Phase III), Project No. SLPP-5138(046), EA No. 0513000053, Agreement No. 0039S, PSA L73

Project Information: The purpose of the project is to connect the Santa Maria airport and the community of Orcutt with U.S. 101 at a new interchange.

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited	Variance
Construction and Construction support	$ 2,163,000	$ 2,039,131	$2,039,131	$ 123,869
Total	$ 2,163,000	$ 2,039,131	$2,039,131	$ 123,869[1]

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual	Audited
Beginning construction	03/01/13	03/01/13	03/25/13	03/25/13
End construction	11/01/13	11/01/13	01/02/14	01/02/14
Beginning close-out	12/01/13	12/01/13	03/05/14	03/05/14
End close-out	11/01/14	11/01/14	02/13/15	02/13/15

[1] Programmed and approved remaining balance of $123,869 has been de-obligated and disencumbered.

Finding and Recommendation

**FINDING—
Final Delivery Report not submitted to Commission within the required time frame**

The city failed to submit the completed Final Delivery Report to the Commission within six months of the project becoming operable (January 2, 2014). The Final Delivery Report should be provided to the Commission within six months of the project's completed/accepted date.

California Transportation Commission (Commission) State-Local Partnership Program (SLPP) Accountability Implementation Plan, Follow-up Accountability Plan, A. Final Delivery Report, states:

> Within six months of the project becoming operable (i.e., when the construction contract is accepted), the implementing agency shall provide a final delivery report to the Commission on the scope of the completed project, its final costs as compared to the approved project budget, its duration as compared to the project schedule in the project baseline agreement, and performance outcome derived from the project, as compared to those described in the project baseline agreement. The Commission shall forward this report to the Department of Finance as required by Government Code section 8879.50(f)(2).

Recommendation

The city should complete and submit the Final Delivery Report to the Commission within the required time frame of six months of the project becoming operable (i.e., after construction contract acceptance), in accordance with the Commission's SLPP Accountability Implementation Plan, and as required by Government Code section 8879.50(f)(2).

City's Response

> The reason for the delay was a misunderstanding with regard to the timing of the report submittal. This project had a unique nature in that multiple agencies were involved with the funding, project delivery, and project close-out. The final billings for the close-out on this project were not received until several months after the construction was complete.
>
> In the future, the City will complete and submit the initial Project Delivery Report as soon as the construction contract is complete and accepted. Then, should the close-out billings result in changes to the final project delivery costs, a Supplemental Project Delivery Report will be provided with the final invoice and project close-out submittal.

SCO's Response

The finding remains unchanged. The city stated that in the future it will comply by submitting the Final Delivery Report as soon as the construction contract is complete and accepted.

Attachment—
City's Response to
Draft Audit Report

Santa Maria
All-America City

CITY OF SANTA MARIA
ENGINEERING DIVISION

110 S. PINE ST. #101 (ON HERITAGE WALK) • SANTA MARIA, CA 93458-5082 • 805-925-0951, EXT. 225 • FAX 805-928-4995 • TDD 800-735-2929

DEPARTMENT OF PUBLIC WORKS

July 20, 2015

Andrew Finlayson, Chief
State Agency Audits Bureau
State Controller's Office –
Division of Audits
P. O. Box 942850
Sacramento, CA 94250-5874

SUBJECT: **UNION VALLEY PARKWAY ARTERIAL (PHASE III) PROJECT PROPOSITION 1B FINANCIAL MANAGEMENT SYSTEM**

Thank you for allowing the City of Santa Maria to respond to the findings from the Draft Audit Report for the Union Valley Parkway Phase III project.

The audit had one finding for this project. That finding was that the City failed to complete the Project Delivery Report within six (6) months of the project becoming operable/accepted. The contractor completed all work on January 2, 2014, and the project was accepted by City Council on March 4th 2014. This would indicate that the Final Delivery Report should have been submitted by September 4, 2014 at the latest. Our records indicate that the Final Delivery Report was not submitted until January 22, 2015.

The reason for the delay was a misunderstanding with regard to the timing of the report submittal. This project had a unique nature in that multiple agencies were involved with the funding, project delivery, and project close-out. The final billings for the close-out on this project were not received until several months after the construction was complete.

In the future, the City will complete and submit the initial Project Delivery Report as soon as the construction contract is complete and accepted. Then, should the close-out billings result in changes to the final project delivery costs, a Supplemental Project Delivery Report will be provided with the final invoice and project close-out submittal.

Steven B. Kahn

P.E. STEVEN B. KAHN, P.E.
Director of Public Works/City Engineer

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http://www.sco.ca.gov

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