

# Memorandum

*Serious drought.  
Help Save Water!*

**To:** RIHUI ZHANG  
Division Chief  
Local Assistance

**Date:** September 23, 2015

**File:** P2710-0049

## **ORIGINAL SIGNED BY:**

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

**Subject:** **AUDIT OF CITY OF SANTA MARIA**

Attached is the final audit report setting forth the results of the audit of the City of Santa Maria's financial management system relative to projects funded by Caltrans using the American Recovery and Reinvestment Act of 2009 (ARRA). The projects selected for testing were ESPL-5138(033), ESPL-5138(035), and ESPL-5138(041). The audit was for the period of July 1, 2009, through July 31, 2013. The audit was performed by the State Controller's Office on behalf of Caltrans.

The audit concluded that the City's accounting system and internal controls appear adequate to properly capture costs and segregate reasonable, allocable, and allowable project costs as required by Title 2, Code of Federal Regulations, Part 225 and the Caltrans Master Agreement. Except for the instance noted below, the City has a system to accurately report project and job information as required by section 1512 of ARRA. The audit disclosed the following findings:

- City employees' hourly rates were overstated due to incorrect fringe benefit amounts.
- Consultant's services and rates were not supported by contracts.
- The employment information reported in the California Recovery Input System for project ESPL-5138(033) was unsupported and overstated.

Please provide A&I a corrective action resolution on the audit findings within 90 days of the audit report date. If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

RIHUI ZHANG  
September 23, 2015  
Page 2 of 2

Attachment

- c: Fardad Falaskfarsa, Chief, Office of Federal Resources, Division of Budgets
- Garin Schneider, District 5 Local Assistance Engineer, Division of Local Assistance
- MarSue Morrill, Chief, External Audits - Local Governments, Audits and Investigations
- Mohammad Maljai, Acting Chief, Office of Policy Development and Quality Assurance,  
Division of Local Assistance
- 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

Audit Report

**PROJECTS FUNDED BY CALTRANS  
WITH AMERICAN RECOVERY AND  
REINVESTMENT ACT OF 2009 (ARRA) FUNDS  
August Request No. P2710-0049**

*July 1, 2009, through July 31, 2013*



**Betty T. Yee**  
California State Controller

August 2015



**BETTY T. YEE**  
California State Controller

August 26, 2015

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

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited the City of Santa Maria's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The SCO also audited project costs incurred during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through July 31, 2013.

The city'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 the Caltrans Master Agreement. Except for one instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected for testing ARRA-funded construction projects ESPL-5138(033), ESPL-5138(035), and ESPL-5138(041) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for two instances of noncompliance noted below, ARRA project costs reimbursed by Caltrans during the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.
- The city complied with the Buy America requirements of Title 23, United States Code.

Our audit found that:

- City employees' hourly rates were overstated due to incorrect fringe benefit amounts.
- Consultants' services and rates were not supported by contracts.
- The employment information reported in the California Recovery Input System for project ESPL-5138(033) was unsupported and overstated.

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

Attachment

cc: Rene Visé, Director  
Department of Administrative Services  
City of Santa Maria  
Mary Harvey, Accounting and Budget Manager  
Department of Administrative Services  
City of Santa Maria  
Rodger A. Olds, P.E., Senior Civil Engineer  
Department of Public Works  
City of Santa Maria  
Luisa Ruvalcaba, Audit Manager  
Audits and Investigations  
California Department of Transportation

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Santa Maria's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The SCO also audited project costs reimbursed by Caltrans during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through July 31, 2013.

The city'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 the Caltrans Master Agreement. Except for one instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected ARRA-funded construction projects ESPL-5138(033), ESPL-5138(035), and ESPL-5138(041) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for two instances of noncompliance noted below, ARRA project costs reimbursed by Caltrans within our audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.
- The city complied with the Buy America requirements of Title 23, United States Code.

Our audit found that:

- City employees' hourly rates were overstated due to incorrect fringe benefit amounts.
- Consultants' services and rates were not supported by contracts.
- The employment information reported in the California Recovery Input System for project ESPL-5138(033) was unsupported and overstated.

## Background

Caltrans entered into Master Agreement No. 05-5138R with the city. In addition, the city has been approved for ARRA funding for the following Caltrans construction projects:

- \$1,657,050 for Award No. ESPL-5138(033)
- \$1,135,113 for Award No. ESPL-5138(035)
- \$196,001 for Award No. ESPL-5138(036)
- \$301,554 for Award No. ESPL-5138(037)
- \$232,089 for Award No. ESPL-5138(038)
- \$557,519 for Award No. ESPL-5138(041)

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2710-0049). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0033, dated March 29, 2010, between the SCO and Caltrans, which provides that the SCO will perform audits of contracts between Caltrans and private contractors to ensure compliance with the American Recovery and Reinvestment Act of 2009.
- 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 money, for correctness, legality, and for sufficient provisions of law for payment."
- Government Code section 12430, which states, "With respect to audits to fulfill the requirements necessary for the receipt of federal funds, the State Auditor shall be primarily responsible for financial audits, and the Director of Finance or the Controller shall be primarily responsible for compliance audits. . . ."

## Objectives, Scope, and Methodology

The objectives of our audit were to determine whether:

- The city's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements.
- The city has processes in place to ensure compliance with provisions of ARRA, fiscal provisions of Master Agreement No. 05-5138R between the city and Caltrans, and specific fiscal and funding procedures of Caltrans' Local Assistance Procedures.
- The city has complied with applicable federal competitive bidding and procurement requirements.
- The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.
- ARRA project costs incurred within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.
- The city complied with the Buy America requirements of Title 23, United States Code.

The scope of the audit was limited to financial and compliance activities related to projects funded by Caltrans with ARRA funds. The audit was for the period of July 1, 2009, through July 31, 2013. Our review of project costs was limited to costs reimbursed by Caltrans as of July 31, 2013. Schedule 1 of this report is a summary of project costs that were reimbursed by Caltrans as of July 31, 2013. We selected for testing the ARRA-funded construction projects ESPL-5138(033), ESPL-5138(035), and ESPL-5138(041). We did not select for testing and, accordingly, we do not provide any conclusions that the audit objectives were met for any of the other ARRA-funded construction projects listed in Schedule 1.

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

- Reviewed prior financial statements and single audit reports of the city.
- Obtained and reviewed the city's written policies and procedures relating to accounting, construction project management, and contract management.
- Interviewed city employees in order to gain an understanding of the city's internal controls, accounting systems, and billing processes related to Caltrans-funded projects, including ARRA projects.
- Performed limited testing of Caltrans-funded ARRA projects to ensure that the city's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements. This limited testing included reviewing the accounting process for the city's own labor costs billed to Caltrans-funded ARRA construction projects.
- Interviewed city employees and reviewed supporting documentation to obtain an understanding of the ARRA reporting processes.

We selected for testing ARRA-funded construction projects ESPL-5138(033), ESPL-5138(035), and ESPL-5138(041) and, for each project, performed the following audit procedures:

- Reviewed project files to ensure that the city complied with applicable federal competitive bidding and procurement requirements.
- Reviewed project files and supporting documentation to ensure that the city complied with the Buy America requirements of Title 23, United States Code.

- Selected a sample of project expenditures and reviewed supporting documentation to ensure that project expenditures, including the city's own labor costs, were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.
- Reviewed construction contract change orders to ensure that they were properly approved and supported.
- Reviewed the city's billings sent to Caltrans to ensure that the city properly billed Caltrans for reimbursement of project expenditures.
- Reviewed the city's section 1512 reporting data to ensure that data was reported accurately to Caltrans.

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 city'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 city has an accounting system and internal controls to adequately accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225 and the Caltrans Master Agreement. Except for one instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected for testing ARRA-funded construction projects ESPL-5138(033), ESPL-5138(035), and ESPL-5138(041) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for two instances of noncompliance noted below, ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.
- The city complied with the Buy America requirements of Title 23, United States Code.

Our audit found that:

- City employees' hourly rates were overstated due to incorrect fringe benefit amounts.
- Consultants' services and rates were not supported by contracts.
- The employment information reported in the California Recovery Input System for project ESPL-5138(033) was unsupported and overstated.

**Views of  
Responsible  
Officials**

We issued a draft audit report on December 8, 2014. Rene Visé, Director of Administrative Services, responded by letter dated December 23, 2014 (Attachment). This final audit report includes the city's response.

**Restricted Use**

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

August 26, 2015

**Schedule 1—  
Summary of Project Costs Reimbursed by Caltrans  
July 1, 2009, through July 31, 2013**

<u>Federal Award</u>	<u>Award Amount</u>	<u>Costs Reimbursed by Caltrans</u>
Award #ESPL-5138(033)	\$ 1,657,050	\$ 1,657,050 <sup>1,2</sup>
Award #ESPL-5138(035)	1,135,113	1,135,113 <sup>1,2</sup>
Award #ESPL-5138(036)	196,001	196,001
Award #ESPL-5138(037)	301,554	301,554
Award #ESPL-5138(038)	232,089	232,089
Award #ESPL-5138(041)	557,519	557,519 <sup>1,2</sup>
Total	<u>\$ 4,079,326</u>	<u>\$ 4,079,326</u>

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Awards selected for testing to determine that ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

# Findings and Recommendations

## **FINDING 1— City employees’ hourly rates were overstated due to incorrect fringe benefit amounts**

The City of Santa Maria billed Caltrans for reimbursement of salaries and fringe benefits of city employees who worked on Caltrans-funded projects. Fringe benefits include the city’s contribution for employee benefits such as insurance and pension. The city determined these costs using each employee’s hourly rate multiplied by hours charged to Caltrans-funded projects. The hourly rate was calculated by dividing the employee’s annual salaries and fringe benefits by the total work hours in the year. We found that the hourly rates used to bill Caltrans for ARRA-funded projects were overstated because the city factored in incorrect amounts for the California Public Employees’ Retirement System (CalPERS) contribution. These incorrect amounts resulted from using rates for the CalPERS contribution that were approximately three percentage points higher than actual. For the three employees selected for review, the hourly rates were overstated by approximately 2%. Additionally, one of the three employees’ hourly rate also was overstated by approximately 6% when the city’s calculation factored in the cost of health benefits that the employee was no longer receiving.

2 CFR 225, Appendix B, subsection 8.a. states:

General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits.

Master Agreement No. 05-5138R, Article IV, Paragraph 7 states:

Payments to ADMINISTERING AGENCY can only be released by STATE as reimbursed of actual allowable PROJECT costs already incurred and paid for by ADMINISTERING AGENCY.

### Recommendation:

The city should discontinue using the inaccurate hourly rates to request reimbursement for Caltrans-funded projects. The city also should review prior reimbursement requests submitted to Caltrans to determine whether the city has been over-reimbursed by Caltrans and, if necessary, to reimburse Caltrans for the over-reimbursement.

### City’s Response

The city has corrected these errors and incorporated an additional validation process to use when grant billing rates are calculated to help prevent these types of errors from occurring in the future.

In addition, the city recalculated employee rates, and noted that although the city used incorrect employee rates which resulted in overstatement of reimbursement requests. . . the amount is very small (the city estimated that the net impact was \$624.80) compared to the overall project costs and the city funded project costs that exceeded the amount awarded on these grants. Therefore, had the billing rate error not occurred, the city would have applied other project costs to the extent funding was available on each grant.

See Attachment for the city's full response to this finding.

#### SCO's Comments

The city agreed with the finding and indicated that it has implemented improvements to prevent this error from recurring.

The city did not provide adequate documentation to support its recalculation of employee rates and the impact of recalculated rates on projects funded by Caltrans with ARRA. Therefore, we cannot provide any conclusion on the assertions made by city in its response.

We also cannot provide any conclusion on the city's assertion regarding the impact of recalculated rates on projects that were not funded by ARRA because these projects were outside the scope of our audit.

The finding remains as stated.

#### **FINDING 2— Consultants' services and rates were not supported by contracts**

The City of Santa Maria billed Caltrans for reimbursement of construction engineering costs incurred on Caltrans-funded projects. These costs included expenditures for services provided by consultants. We reviewed two selected consultants' invoices for projects ESPL-5138(033) and ESPL-5138(035). As summarized in Table 1, our review found that one consultant was paid for services and rates that were not included in the agreement fee schedule, and another consultant was paid at rates that were greater than the rates specified in the agreement fee schedule. The city could not provide any supporting documentation for the changes in consultants' services and rates. Accordingly, we questioned \$4,003 in construction engineering costs paid to the two consultants. In addition, considering that our review of consultant invoices was performed only on limited selections, we are concerned that the amount of unsupported costs billed by the consultants may be even higher.

**Table 1 – Questioned Costs Due to Unsupported Consultants' Services and Rates**

Project Number	Service/Classification	Billed Rate	Allowable Rate	Difference	Billed Units	Questioned Costs <sup>a</sup>
ESPL- 5138(035)	Technician (Night)	\$ 91	\$ –	\$ 91	14	\$ 1,274
	Stability (Hveem)	95	–	95	12	1,140
	Compaction of AC	60	–	60	14	840
	Density of AC	30	–	30	10	300
	Supplies	12	–	12	–	12
ESPL- 5138(033)	Construction	105	100	5	51.75	259
	Administrator					
	Project Analyst IV	126	116 <sup>b</sup>	10	17.75	178
Total						<u>\$4,003</u>

Source: Our review of records obtained from the City of Santa Maria.

<sup>a</sup> Amounts are rounded to the nearest dollar.

<sup>b</sup> The agreement fee schedule did not include the rate of compensation for Project Analyst IV. For comparison, the maximum rate specified in the fee schedule for Project Analysts I – III was used.

Title 49, *Code of Federal Regulations*, Part 18.36, section (b)(2) states:

Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

Title 2, *Code of Federal Regulations*, Part 225, Appendix B, subpart 32.b. states, in part:

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant: . . . Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

*Local Assistance Procedures Manual* section 10.7 states, in part:

Contract amendments, sometimes called Supplemental Agreements, are required to modify the terms of the original agreement for changes such as extra time, added work, or increased costs. . . . All contract amendments must be in writing and fully executed by the consultant and local agency before reimbursable work begins on the amendment. . . . Failure to fully comply with this section may result in the loss of local agency funding.

### Recommendation

The city should properly document a consultant's rate of compensation, including changes, if any. It also should ensure that the staff assigned to contract management have knowledge of contract terms, and that the costs billed by consultants are in accordance with state and federal regulations, and the terms, conditions, and specifications of contracts.

### City's Response

The billing rates for materials testing were neither negotiated nor determined prior to the beginning of the project. The engineering consultant services rendered were through a pre-existing agreement and the increases in fees were not documented by a revised contract. These were unintentional oversights and will be corrected on future federal aid projects.

The costs submitted for reimbursement were not necessarily overstated, just not negotiated and agreed to prior to the project. Again, this oversight will be corrected on future federal aid projects. If the involved expenses were to be considered non-participatory, the city would have applied other project costs to the extent funding was available on each grant.

See Attachment for the city's full response to this finding.

### SCO's Comments

The city indicated that it agreed with the finding. However, the city also stated that the costs submitted for reimbursement were not necessarily overstated. The city did not provide additional documentation to support this assertion. Accordingly, we cannot provide any conclusion.

The city requested reimbursement for all construction engineering costs incurred for the projects described in the finding. Therefore, the city would have no other construction engineering costs to replace the questioned costs.

The finding remains as stated.

### **FINDING 3— Employment information in CRIS for Project ESPL- 5138(041) was unsupported and overstated**

Although the City of Santa Maria was able to report employment information to the California Recovery Input System (CRIS) for contractors used on the projects funded by the American Recovery and Reinvestment Act (ARRA), the city could not provide the supporting documentation for 1,053 contractor labor hours, costing approximately \$35,136, reported for Project ESPL-5138(041) in June 2012. It is worth noting, however, that these numbers matched the total contractor labor hours and related costs for all of the other months (i.e., July 2011 through January 2012) for which the city reported the project's employment information to CRIS. Accordingly, the employment information for Project ESPL-5138(041) was entered twice in CRIS.

Sections 1201 and 1512 of ARRA require Caltrans to provide monthly updates to the Federal Highway Administration (FHWA) on projects funded and jobs created by ARRA. The city, as a sub-recipient, shares responsibility with Caltrans for the quality of data submitted to FHWA.

Additionally, Department of Transportation, Division of Local Assistance, Office of Project Delivery & Accountability: American Recovery & Reinvestment Act (Recovery Act) – Local Assistance - Online Data Information System (LA-ODIS) Step-by-Step User Guide, Version 1.3, states:

. . . all state agencies receiving RA funding will be responsible for ensuring the necessary systems are in place to provide proper oversight, accounting, reporting, and project management controls to ensure all RA funds are used efficiently and for the intended purposes. . . . Local agencies are to submit monthly project updates via the LA-ODIS reporting tool. . . . Local agencies are responsible for submitting current and accurate data. . . . Failure to submit monthly reports or reporting after the due date is cause for potential suspension and/or revocation of project 'Recovery Act' funds.

Recommendation

If employment reporting be required for future federal construction projects, the city must improve its procedures to ensure that current and accurate information is submitted to the appropriate agencies.

City's Response

The over-reporting of employment was not intentional, and really was caused by the city's and consultant's lack of familiarity with these unique reporting requirements. As recommended, the city will implement a reporting procedure to avoid inaccurate or duplicate reporting should future federal aid projects require employment reporting. See Attachment for the city's full response to this finding.

SCO's Comments

The city agreed with the finding and recommendation.

**Attachment—  
City's Response to  
Draft Audit Report**

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CITY OF SANTA MARIA  
DEPARTMENT OF ADMINISTRATIVE SERVICES

Admin/Finance, Room 6, Ext. 215  
Utility Billing, Room 9, Ext. 217/218  
Information Technology, Room 7, Ext. 236  
Special Projects, Room 2, Ext. 118  
Risk Management, Room 2, Ext. 421  
Business License, Room 5, Ext. 422  
Purchasing, Room 6, Ext. 215

110 EAST COOK STREET • SANTA MARIA, CALIFORNIA 93454-5190 • (805) 925-0951 • FAX (805) 925-2243

City of Santa Maria  
110 East Cook St Rm 6  
Santa Maria, CA 93454  
December 23, 2014

Andrew Finlayson  
Chief, State Agency Audits Bureau  
State Controller's Office  
3301 C Street, Ste 700  
Sacramento, CA 95816

Dear Mr. Finlayson:

Please find the attached responses to the Audit Findings for ARRA Projects ESPL 5138  
33, 035 and 041 for the City of Santa Maria.

If you have questions, please feel free to contact me at (805) 925-0951 extension 210.

Sincerely,

Rene Visé  
Director of Administrative Services

Enclosure

City of Santa Maria Response to Audit Findings for ARRA Projects ESPL 5138 33, 035 and 041

RESPONSE TO FINDING NO. 1:

The City uses Crystal Reports (CR) to calculate grant and outside billing rates. The CR is designed to pull data from our payroll system and contains formulas to calculate the value of salaries and benefits for each employee.

During this audit the City discovered that two errors occurred in the calculation of the grant billing rates billed to these grants. First, the wrong PERS rates were used in the CR formula for that benefit. Second, an error in a different formula caused employees who formerly had health cash option pay (in lieu of health insurance) to be included in billing rates even though the employee was no longer receiving that pay (because the employee enrolled in the City's health insurance program).

The City has corrected these errors and incorporated an additional validation process to use when grant billing rates are calculated to help prevent these types of errors from occurring in the future. In addition, the City recalculated employee rates that should have been used for all Caltrans ARRA funded projects and determined the combined net impact is \$624.80.

Award Number	Award Amount	Salaries & Benefits Billings		
		Original	Corrected	Difference
ESPL-5138 (033)	\$ 1,657,050	\$ 9,379.65	\$ 9,129.17	\$(250.48)
ESPL-5138 (035)	1,135,113	12,561.31	12,556.93	(4.38)
ESPL-5138 (041)	557,519	14,561.72	14,322.94	(238.78)
Sub-Total - ARRA Projects Audited	3,349,682	36,502.68	36,009.04	(493.64)
ESPL-5138 (036)	196,001	2,423.63	2,397.79	(25.84)
ESPL-5138 (037)	301,554	7,384.95	7,408.76	23.81
ESPL-5138 (038)	232,089	6,935.49	6,806.36	(129.13)
Total - ARRA Funded Projects	\$ 4,079,326	\$ 53,247	\$ 52,622	\$(624.80)

The City also reviewed and calculated billing impacts for other grants awarded to the City by Caltrans and other ARRA grants awarded through different agencies and found relatively small impacts.

It is important to note that although the City used incorrect employee rates which resulted in overstatement of reimbursement requests, the overbilling was unintentional, the amount is very small compared to the overall project costs and the City funded project costs that exceeded the amount awarded on these grants. Therefore, had the billing rate error not occurred, the City would have applied other project costs to the extent funding was available on each grant.

RESPONSE TO FINDING NO. 2:

During the construction phase of this project, City engineering staff utilized consultant forces with pre-existing consultant services agreements.

The existing contract for materials testing included a scope of work consistent with City Standards for typical asphalt paving. However, at the time of construction there was a new Caltrans paving standard and it was recommended both by consultant staff and Caltrans Local Assistance that a more robust testing regime be implemented for the project, which involved testing procedures not previously included in the consultant contract. Furthermore, a portion of the work was performed

at night, which required nighttime oversight and materials testing. The night rate for testing staff was understandably different than standard daytime billing rates. The costs for the testing services rendered and overtime during night work were reviewed at the time of payment and were considered fair and consistent general engineering and construction practices. The billing rates were neither negotiated nor determined prior to the beginning of the project. This was an unintentional oversight and will be corrected on future federal aid projects.

Regarding the fees for engineering consultant services, Project Administrator and Project Analyst IV. The services rendered were through a pre-existing agreement and fees for these services had increased over time. The increases were not documented by a revised contract. This again was an unintentional oversight, which will be corrected on future federal aid projects.

It is important to note that although the City did utilize and pay consultant staff for work outside of the scope and terms of the pre-existing consultant services agreements during construction, the high City workload at the time necessitated the use of consultant staff, and the stringent quality control and intensive documentation required by the ARRA grant, created the need for materials testing and consultant project administration outside the services typically needed by the City. Also, these were real costs incurred by the City, utilizing local firms, providing work and supporting local jobs, which was the intent of the ARRA grant program. In short, the costs submitted for reimbursement were not necessarily overstated, just not negotiated and agreed to prior to the project. Again this oversight will be corrected on future federal aid projects.

As stated in the City's response to Finding No. 1, the amount of funds involved with this oversight is very small compared to the overall project costs and the City-funded project costs that exceeded the amount awarded on these grants. Therefore, even if the involved expenses were to be considered non-participatory, the City would have applied other project costs to the extent funding was available on each grant.

#### RESPONSE TO FINDING NO. 3:

The specialized employment reporting for the ARRA grant funding was new and unique to the grant. As required, employment data was received from the contractor and subcontractors. The data was then entered into the reporting system by a consultant hired to assist the City with the unique documentation and reporting requirements of the grant.

To complicate matters, the project in question included two very different scopes of work, chip seal and streetlight replacement. The prime contractor self-performed the chip seal portion of the work quickly, soon after the contract was executed. They were able to move quickly because the labor and material was on hand. The streetlight scope of work, however, involved a long lead time to acquire materials before the subcontractor could employ labor to complete the work and thus complete the employment reporting. Upon the completion of the entire project, the prime contractor was asked to complete a project close-out form for all employment throughout the project. This report compiled all employment data for the project, and was subsequently entered into the reporting system by the City's consultant. This resulted in all employment data being entered twice, once when it originally occurred, and again after the entire project was completed.

The over-reporting of employment was not intentional, and really was caused by the City's and consultant's lack of familiarity with these unique reporting requirements. As recommended by the audit report, should future federal aid projects require employment reporting, the City will implement a reporting procedure to avoid inaccurate or duplicate reporting.

It should be noted that this overstatement of the employment impact of the project did not affect the cost of the project, and therefore had no impact to the amount of reimbursement requested by the City.

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