State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: RIHUI ZHANG
Division Chief
Local Assistance

Date: October 2, 2014

File: P2535-0011

ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF CITY OF HANFORD**

Attached is the audit report pertaining to the audit performed on City of Hanford relative to funding received from Caltrans using Proposition 1B (Prop 1B) State-Local Partnership Program Funds. The name of the project audited is "12th Avenue Widening between Grangeville Boulevard to Fargo Avenue," Project ID No. 0600020675. The Prop 1B programmed amount was $750,000. The audit was for the period of October 1, 2010, through February 28, 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 audit report disclosed that the implementing agency did not maintain complete files for a number of contract change orders.

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
Rachel Falsetti, Division Chief, Transportation Programming
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
Sharon Ropp, Prop 1B Coordinator, Division of Local Assistance
Jim Perrault, District Local Assistance Engineer, District 6
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

CITY OF HANFORD

Audit Report

STATE LOCAL PARTNERSHIP PROGRAM PROPOSITION 1B BOND-FUNDED PROJECT Adv. Project ID No. 0600020675/P2535-0011

October 1, 2010, through February 28, 2014

JOHN CHIANG
California State Controller

September 2014

JOHN CHIANG
California State Controller

September 30, 2014

MarSue Morrill, Chief
Audits and Investigations
California Department of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the City of Hanford's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of October 1, 2010, through February 28, 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 "12th Avenue Widening between Grangeville Boulevard to Fargo Avenue" 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 not 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.

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

Our audit found that the City of Hanford did not maintain complete files for a number of contract change orders.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: Jan Goto, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Kaitlin Hiuga, 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 Hanford's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of October 1, 2010, through February 28, 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 "12th Avenue widening between Grangeville Boulevard to Fargo Avenue" 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 not 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.

Our audit found that the City of Hanford did not maintain complete files for a number of contract change orders.

Background

In accordance with Caltrans and Commission-executed project agreement(s) or approved amendments, the project, "12th Avenue widening between Grangeville Boulevard to Fargo Avenue," was programmed and approved to receive $750,000.00 in Proposition 1B bond funds, for one or more phases of work, under the State Local Partnership program.

The implementing agency is responsible for implementation and successful completion of each project component and activities as defined in the project's agreement(s). The project's completion date was February 8, 2013.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2535-0011). 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 October 1, 2010, through February 28, 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 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(s) 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, 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, "12th Avenue widening between Grangeville Boulevard to Fargo Avenue" 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 not 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.

Our audit found that the City of Hanford did not maintain complete files for a number of contract change orders.

Views of Responsible Official

We issued a draft audit report on July 15, 2014. Lisa Dock, Deputy City Engineer, responded by letter dated July 22, 2014 (Attachment), agreeing with the audit results. This final audit report includes the city's response.

Restricted Use

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

September 30, 2014

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
October 1, 2010, through February 28, 2014

Project No./Adv. Project ID No.: 5091(047)/0600020675

Project Information: 12th Avenue widening between Grangeville Boulevard to Fargo Avenue

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited	Variance	Finding(s)[1]
Construction	$ 750,000	$ 750,000	$ 750,000	$ —	$ —
Total	$ 750,000	$ 750,000	$ 750,000	$ —	—

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual
Beginning Construction	08/01/11	03/05/11	07/30/12
End Construction	12/01/11	08/06/12	02/08/13
Beginning Closeout	12/15/11	08/06/12	02/08/13
End Closeout	01/01/12	02/06/13	09/26/13

[1] See the Finding and Recommendation section.

Finding and Recommendation

FINDING—
Incomplete project files for Contract Change Orders

For the project under review, Advanced Project ID No. 0600020675/P2535-0011, the City of Hanford did not maintain complete files for a number of contract change orders. There was lack of supporting documentation for Contract Change Order Nos. 2.3, 3.2, 3.4-3.6, 3.8-3.10, 3.12, and 3.13. Contract Change Order Nos. 2.3, 3.2, 3.4, 3.5, and 3.10 were missing invoices from the subcontractors, and Contract Change Order Nos. 3.6, 3.8, 3.9, 3.12, and 3.13 were missing daily extra work reports.

Caltrans Construction Manual, Chapter 5, Section 3 states that:

> The change order must be clear, concise, and explicit. When appropriate, it must include the following: what is to be done, location and limits of proposed work, any applicable specification changes and references to specifications, the proposed change order's affect on time of completion, and method and amount of compensation...
>
> The following describes the [change order] format:
>
> - Describe work paid for by other methods in the appropriate sections of the change order. The intent is that the change order clearly specifies the work paid for by each payment method...

Caltrans Local Assistance Procedure Manual, Chapter 16.8 states that:

> The project file shall contain all data pertinent to the work and to the requirements of the specifications. In general, project files should support: 1) adequacy of filed control, 2) conformance to contract specifications, and 3) contract payments to the contractor. The file must be complete, available at a single location, and organized and maintained in a manner that permits inspection by Caltrans and FHWA personnel during process reviews or random checks. Generally, whenever the local agency is unable to produce requested data or information, it shall be assumed by reviewing personnel the required actions were either never performed or not properly recorded.

Recommendation:

We recommend that the City of Hanford maintain a complete file for every contract change order (invoices, daily work reports, etc.) as stated in the Caltrans Construction Manual and the Caltrans Local Assistance Procedure Manual.

City's Response

> In response to these findings, the City of Hanford has changed policies for archiving and maintaining original documentation of projects for an extended period. The City will continue to electronically scan and archive files; however, there have been new checks and verifications put in place that will not allow original hard copy documentation to be destroyed for any Federal or State funded projects. The City will store and maintain these files for extended periods as the State mandates.

SCO's Comment

The SCO acknowledges that the City of Hanford will, for future projects, maintain complete project files by changing policies for archiving and retaining original documentation.

Attachment—
City's Response to
Draft Audit Report

CITY OF HANFORD
Department of Public Work
Focused On Our Community 24/7
900 South 10th Avenue • HANFORD, CA 93230-5234 • (559) 585-2550

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

July 22, 2014

RE: Audit request No. P2535-0011

Dear Mr. Finlayson,

This letter is in response to the State Controller's Office audit performed on the City of Hanford Proposition 1B bond-funded project "12th Avenue Widening between Grangeville Boulevard to Fargo Avenue". The findings of the audit state that incomplete files were maintained for Contract Change Orders No. 2 and No. 3.

The 12th Avenue Widening project was constructed between July 2012 and February 2013, and the Project Closeout was completed in September 2013. All project requirements and deliverables were met and the project was a success. In June 2013, the City of Hanford lost the responsible Project Manager, Steven Weatherly, to other employment. In March 2014, the City was notified that the project was to be audited. Lisa Dock, Deputy City Engineer, became the responsible project manager and it was found that the project documents had been scanned for archiving per the City of Hanford policies and the original hard copy papers had been shredded. It was further determined that the archiving of the documents had not been completed per City protocol and there was documentation missing for project change orders. The City is very meticulous in maintaining documentation and ensuring that they follow Caltrans guidelines for extra work as is noted in other audit findings.

In response to these findings, the City of Hanford has changed policies for archiving and maintaining original documentation of projects for an extended period. The City will continue to electronically scan and archive files, however, there have been new checks and verifications put in place that will not allow original hard copy documentation to be destroyed for any Federal or State funded projects. The City will store and maintain these files for extended periods as the State mandates.

We appreciate your understanding and the opportunity to respond to these findings.
Sincerely,

Lisa Dock

Lisa Dock, Deputy City Engineer

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov

S14-BAU-025