State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: RIHUI ZHANG
Division Chief
Local Assistance

Date: September 30, 2014

File: P2535-0010

ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF CITY OF PLACERVILLE, DEVELOPMENT SERVICES DEPARTMENT**

Attached is the audit report pertaining to the audit performed on the City of Placerville, Development Services Department relative to funding received from Caltrans using Proposition 1B (Prop 1B) State-Local Partnership Program Funds. The name of the project audited is "Point View Drive Extension." The Prop 1B programmed amount was $750,000. The audit was for the period of March 1, 2010, through December 31, 2013.

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. However, as this audit report did not disclose any deficiencies there is no subsequent action required on your part.

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
, District Local Assistance Engineer, District 3
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

CITY OF PLACERVILLE, DEVELOPMENT SERVICES DEPARTMENT

Audit Report

STATE-LOCAL PARTNERSHIP PROGRAM PROPOSITION 1B BOND-FUNDED PROJECT EA No. 03-OL2154L/P2535-0010

March 1, 2010, through December 31, 2013

JOHN CHIANG
California State Controller

September 2014

JOHN CHIANG
California State Controller

September 5, 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 Placerville's Development Services Department (implementing agency) financial management system relative to a project funded and reimbursed by Proposition 1B bond funds during the audit period of March 1, 2010, through December 31, 2013.

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, Point View Drive Extension, Project No. SLPPCL09-5015(015) 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 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 implementing agency did not maintain sufficient source documentation (i.e., Quantity Calculation Sheets) for tracking pay quantities; thus, the auditors were not able to verify how the implementing agency determined the pay quantities for each contract item on a payment-by-payment basis (Finding 1); and, the implementing agency was unable to provide or locate the labor compliance files for the project under review. Therefore, the auditors could not verify whether the implementing agency had satisfied all of the labor compliance requirements (Finding 2).

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/kw

Attachment

cc: Jan Goto, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Sofia Lopez-Guerrero, 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 Placerville, Development Services Department's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of March 1, 2010, through December 31, 2013.

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, Point View Drive Extension, Project No. SLPPCL09-5015(015) 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 agreements or approved amendments thereof.

Our audit found that the implementing agency did not maintain sufficient source documentation (i.e., Quantity Calculation Sheets) for tracking pay quantities; thus, the auditors were not able to verify how the implementing agency determined the pay quantities for each contract item on a payment-by-payment basis (Finding 1); and the implementing agency was unable to provide or locate the labor compliance files for the project under review. Therefore, the auditors could not verify whether the implementing agency had satisfied all of the labor compliance requirements (Finding 2).

Background

In accordance with California Department of Transportation (Caltrans) and Transportation Commission (Commission) executed project agreement(s) or approved amendments, the project Point View Drive Extension, Project No. SLPPCL 09-5015(015), was programmed and approved to receive $750,000 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 agreements. The project's completion date was January 10, 2012.

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 March 1, 2010, through December 31, 2013.

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 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 flow charts relating to accounting systems, 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 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, Point View Drive Extension, Project No. SLPPCL09-5015(015) 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 agreements or approved amendments thereof.

Our audit found that the implementing agency did not maintain sufficient source documentation (i.e., Quantity Calculation Sheets) for tracking pay quantities; thus, the auditors were not able to verify how the implementing agency determined the pay quantities for each contract item on a payment-by-payment basis (Finding 1); and, the implementing agency was unable to provide or locate the labor compliance files for the project under review. Therefore, the auditors could not verify whether the implementing agency had satisfied all of the labor compliance requirements (Finding 2).

Views of Responsible Officials

We issued a draft audit report on June 11, 2014. We contacted Nathan Stong, Project Manager, by email on August 5, 2014. Mr. Stong declined to respond to the draft report.

Restricted Use

This report is solely for the information and use of the City of Placerville Development Services 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

September 5, 2014

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
March 1, 2010, through December 31, 2013

Project No./EA No.: OL2154L

Project Information: Point View Drive Extension, Project No. SLPPCL09-5015(015)

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited
Construction	$ 750,000	$ 750,000	$ 750,000
Total	$ 750,000	$ 750,000	$ 750,000

Project Delivery:

Project Phase(s):	Approved	Actual
Beginning construction	04/05/11	06/01/11
End construction	10/15/11	01/10/12
Beginning close-out	11/01/11	01/10/12
End close-out	01/15/12	04/12/12

Findings and Recommendations

FINDING 1—Insufficient source documentation for tracking pay quantities

Our audit found that the implementing agency did not maintain sufficient source documentation (i.e., Quantity Calculation Sheets) for tracking pay quantities; thus, the auditors were not able to verify how the implementing agency determined the pay quantities for each contract item on a payment-by-payment basis.

Chapter 3, Section 9 of the Caltrans Construction Manual, Measurement and Payment, states:

> Enter measurements and calculations for contract item quantities on permanent record sheets that are commonly referred to as "source documents,"...Whenever possible, measure, calculate, and check contract item quantities as the work on a contract item is completed. Resident engineers must assign responsibility for checking calculations to assistant resident engineers in the same manner that other project responsibilities are assigned.
>
> State the source of any figure, calculation, or quantity shown on the source document. For instance, a quantity may be the result of a field measurement, scale weights, a count, or a calculation based on planned dimensions. Create a clear and easily followed trail for the total pay quantity in the proposed final estimate back to the first measurement or calculation for each contract item.

Recommendation

The city should develop and implement procedures to ensure that its resident engineer(s) complete source documentation such as Quantity Calculation Sheets to support the quantities and calculations as indicated in the Construction Manual. The source documentation should be properly filed in the project construction files to support progress payments made.

FINDING 2—Labor compliance files unavailable

Our audit found that the implementing agency was unable to provide or locate the labor compliance files for the project under review. Therefore, the auditors could not verify whether the implementing agency had satisfied all of the labor compliance requirements.

Chapter 16.11 of Local Assistance Procedures Manual, Labor Compliance, states:

> The administering agency... is responsible to designate a labor compliance officer to enforce the contract provisions and ensure that all labor compliance requirements are performed and documented in the project file....
>
> The administering agency must maintain sufficient records to ensure contractor/subcontractor compliance with wage and apprenticeship sections of the contract. Specific actions required, include but are not limited to.... Conducting spot interviews with employees on the project..., and... Maintaining written evidence of apprentices employed on the project.

Recommendation

The city should develop and implement procedures to ensure that its resident engineer(s) conduct a minimum of three prime contractor interviews and at least one interview for each subcontractor each month to enforce the labor requirements as stated in the Local Assistance Procedures Manual. The written records of the interviews should be kept as documentation with the project construction files.

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S14-BAU-016