

Memorandum

*Serious drought.
Help Save Water!*

To: RIHUI ZHANG, Chief
DIVISION OF LOCAL ASSISTANCE

Date: April 21, 2015

File: P1560-0008

From: MARSUE MORRILL, Chief *Marsue*
External Audits – Local Governments
Audits & Investigations

Subject: **Pre-award Audit – Rim of the World Recreation and Park District**

At the request of Caltrans Audits and Investigations, the State Controller's Office (SCO) conducted a preaward audit of the Rim of the World Recreation and Park District (District) to determine if the District's financial management system is adequate to accumulate and segregate reasonable, allowable, and allocable project costs and has procurement policies and procedures in compliance with 49 CFR, Part 18.

Based on audit work performed by the SCO, we determined the District's financial management system is adequate to accumulate and segregate reasonable, allowable and allocable project costs and has procurement policies and procedures in compliance with 49 CFR, Part 18. However, for the purposes of properly managing federal and state funded projects, the District lacked adequate segregation of duties. Please refer to attached audit report for details.

The report is solely for the information of the District, Caltrans Management, Caltrans District 8, the California Transportation Commission and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited. In addition, this report will be placed on the Caltrans website.

If you have any questions, please contact Alice Lee, Audit Manager, at (916) 323-7953.

Enclosure

- c: Karen Reams, General Manager, Rim of the World Recreation and Park District
- Rick DePrisco, Finance Manager, Rim of the World Recreation and Park District
- Janice Richard, Director, Financial Services, Federal Highway Administration
- Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
- Kara Magdaleno, Administrative Program Assistant Planning and Finance,
Federal Highway Administration
- John Hoole, Acting Chief, Bridge Bond and Safety Programs
- Winton Emmett, Chief, Office of Project Implementation-North, Division of Local
Assistance
- Robert Nguyen, Acting Chief, Office of Project Implementation-South, Division of Local
Assistance
- Adam Ambrosini, Senior Transportation Engineer, Caltrans Division of Local
Assistance
- Sean Yeung, Senior Transportation Engineer, Caltrans District 8
- Lai Huynh, Audits and Federal Performance Measures Analyst, Caltrans Division of Local
Assistance
- David Saia, LAPM/LAPG Coordinator, Caltrans Division of Local Assistance



BETTY T. YEE
California State Controller

April 20, 2015

MarSue Morrill, Chief
External Audits-Local Governments
Audits and Investigations, MS 2
California Department of Transportation
1304 O Street, Suite 200, MS 2
Sacramento, CA 95814

Dear Ms. Morrill:

The State Controller's Office (SCO) conducted a preaward audit of Rim of the World Recreation and Park District.

The purpose of the audit was to determine whether the district: 1) was in compliance with the requirements identified in the Caltrans Local Procedures Manual (LPP) 04-10¹; 2) had sufficient accounting controls to properly manage federal and state funded projects; and 3) had procurement policies and procedures that were not in compliance with 49 CFR, Part 18.36.

We found that the district was in compliance with the requirements identified in LPP 04-10¹ and had written procurement policies and procedures that were in compliance with 49 CFR, Part 18.36. However, we determined that, for the purposes of properly managing federal and state funded projects, the district lacked adequate segregation of duties. The district could implement mitigating controls to properly address the lack of segregation of duties; however, the SCO recognizes that controls such as hiring additional staff may not be cost effective for smaller organizations and could affect the district's core activities.

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/lis

¹ The LPP 04-10 was updated in February 2015 and re-named LPP 15-02.

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Audit Report

Summary

The State Controller's Office (SCO) conducted a preaward audit of Rim of the World Recreation and Park District.

The purpose of the audit was to determine whether the district: 1) was in compliance with the requirements identified in the Caltrans Local Procedures Manual (LPP) 04-10¹; 2) had sufficient accounting controls to properly manage federal and state funded projects; and 3) had procurement policies and procedures that were not in compliance with 49 CFR, Part 18.36.

The district was in compliance with the requirements identified in LPP 04-10 and had written procurement policies and procedures that were in compliance with 49 CFR, Part 18.36. However, we determined that, for the purpose of properly managing federal and state funded projects, the district lacked adequate segregation of duties. The district could implement mitigating controls to properly address the lack of segregation of duties; however, the SCO recognizes that controls such as hiring additional staff may not be cost effective for smaller organizations and could affect the district's core activities.

Background

The district was established on December 5, 1985, by the issuance of the Certificate of Completion by the Local Agency Formation Commission (LAFCO). The district is governed by an elected Board of Directors (board), elected by district voters.

The district acquires and manages parks for public use, organizes and manages recreational activities, and assists other groups and organizations with recreational endeavors. Childcare is also available at various locations within the district to provide recreational activities for children and needed daytime child supervision.

The district applied for a \$284,250 non-structure grant from the California Department of Transportation (Caltrans) for the Safe Routes to School program, which aims to enhance safety for students traveling to and from the district's locations. The district has budgeted to spend the grant funding over a three-year period, beginning in fiscal year 2014-15. Safe Routes to School, overseen by the California Transportation Commission (CTC), is one of several transportation programs included in the Active Transportation Program (ATP), which was created to encourage increased use of active modes of transportation, such as biking and walking. Ten percent of ATP funding is distributed to small urban and rural regions with populations of 200,000 or less. With a population of about 28,500, the district is considered a small rural region.

¹ The LPP 04-10 was updated in February 2015 and re-named LPP 15-02.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1560-0008). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0044, dated June 1, 2014, between the SCO and Caltrans, which provides that the SCO will perform audits requested by Caltrans.
- 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.”

Objectives, Scope, and Methodology

The scope of the audit was limited to the select financial and compliance activities. The audit also included tests of individual accounts in the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs and an assessment of the internal control system.

We conducted this performance audit in accordance with the 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.

Our audit was conducted to determine whether the district: 1) was in compliance with the requirements identified in the LPP 04-10; 2) had sufficient accounting controls to properly manage federal and state funded projects; and 3) had procurement policies and procedures that were not in compliance with 49 CFR, Part 18.36.

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

- Reviewed the agency’s prior audit reports;
- Reviewed the agency’s written policies and procedures relating to accounting systems, procurement, and project/contract management;
- Interviewed employees, completed the internal control questionnaire, and performed a system walk-through in order to gain an understanding of the agency’s internal controls, accounting systems, timekeeping and payroll systems, and procurement and billing processes; and
- Performed a limited test of controls on a haphazard sample of transactions to confirm and validate existing documented processes and procedures.

We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the district could properly manage federal and state funded projects. In addition to developing appropriate auditing procedures, our review of internal control was limited to gaining an understanding of the transaction flow, accounting system, and applicable controls to determine the department's ability to accumulate and segregate reasonable, allowable costs.

Conclusion

We determined that the district was in compliance with the requirements identified in LPP 04-10 and had written procurement policies and procedures that were in compliance with 49 CFR, Part 18.36. However, we determined that, for the purposes of properly managing federal and state funded projects, the district lacked adequate segregation of duties. The district could implement mitigating controls to properly address the lack of segregation of duties; however, the SCO recognizes that controls such as hiring additional staff may not be cost effective for smaller organizations and could affect the district's core activities.

We determined that the district has a capable accounting system to accumulate and segregate direct and indirect labor costs by project; however, the district has never had a need to segregate employees into multiple projects for the purposes of reimbursement. Even though the district plans to hire only one full-time employee that will directly work on the Active Transportation Program project funded by Caltrans, processes to segregate all labor costs by direct and indirect projects should be implemented in order to contract with Caltrans.

Views of Responsible Officials

We discussed our audit results with the district's representatives during an exit conference conducted on March 18, 2015. Karen Reams, General Manager; and Rick DePrisco, Finance Manager, agreed with the audit results. Ms. Reams declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of Rim of the World Recreation and Park District; the California Department of Transportation; 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

April 20, 2015

Finding and Recommendation

The Rim of the World Recreation and Park District is a small special district with limited staffing that serves a population of about 28,500. Two district employees, the General Manager and Finance Manager, are responsible for authorizing or approving day-to-day financial and asset related transactions. In addition to performing their own supervisory duties, the General Manager and the Finance Manager are also responsible for performing all duties relating to procurement, accounting and recording of financial transactions, custody of assets, including cash and cash equivalents, and personnel management.

For the purposes of properly managing transportation grants in the future, such as the Safe Routes to School program grant, we determined that the district lacked adequate segregation of duties. However, the SCO recognizes that controls such as hiring additional staff may not be cost effective for smaller organizations and could affect the district's core activities.

Karen Reams, General Manager stated via email on March 26, 2015:

It is the intention of the Rim of the World Recreation and Park District if we do not qualify for our own Locode #, we will partner with SanBAG. The Park District and SanBAG will enter into a MOU agreement with the entire financial responsibility falling on SanBAG.

We acknowledge that the segregation of duties is not financially feasible for a District of our size, so the District at this time does not have any plans to restructure our staffing functions.

If the District decides to work with SanBAG it is a possible solution that should be discussed with Caltrans' Local Assistance Program staff.

Such an arrangement will reduce the risk of undetected error and limit opportunities to misappropriate assets or conceal intentional misstatements in the financial statements.

Recommendation

For the purposes of strengthening accounting controls to properly manage federal and state funded projects, the district could implement mitigating controls to properly address the lack of segregation of the following duties:

- General management; authorizing or approving financial and asset-related transactions, and authorizing or approving key steps of the procurement process
- Financial management; authorizing or approving financial transactions, and accounting and recording of financial transactions

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