State of California
**DEPARTMENT OF TRANSPORTATION**

California State Transportation Agency

# Memorandum

***Serious drought.***
***Help Save Water!***

**To:** KOME AJISE
Deputy Director
Planning and Modal Programs

**Date:** September 26, 2014

**File:** P1575-0029

**From:** WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

**Subject:** **INCURRED COST AUDIT – TOWN OF MAMMOTH LAKES**

We have audited the costs claimed by and reimbursed to the Town of Mammoth Lakes (Town) totaling $9,457,268 for work performed under three Agreements with the California Department of Transportation (Caltrans). The audit was performed to determine whether the costs were supported and in compliance with the Agreement provisions and state and federal regulations. This audit was performed as a management service to assist Caltrans in fulfilling its fiduciary responsibilities to state and federal regulatory agencies. The audit report, including the Town's response and our analysis of the Town's response, is attached.

Based on our audit, we determined that reimbursed costs totaling $9,230,515 were supported and in compliance with Agreement provisions, and state and federal regulations. However, reimbursed costs totaling $226,752 were not adequately supported and were not in compliance with Agreement provisions, and state and federal regulations.

In accordance with Deputy Directive 100, please provide our office an action plan related to the audit recommendations within 90 days of this memorandum. As a matter of public record, this report and the action plan will be posted on Caltrans website. We thank you and your staff for their assistance provided during this audit. If you have questions or need additional information, please contact me at (916) 323-7122 or Zilan Chen, External Audit Chief, at (916) 323-7877.

Attachments

c: Grady Dutton, Public Works Director, Town of Mammoth Lakes
Michael Tritz, Deputy Secretary for Audits and Performance Improvement, Business, Transportation and Housing Agency
Leslie T. Rogers, Regional Administrator for Region 9, Federal Transportation Administration
Janice Richard, Director of Financial Services, Federal Highway Administration
Andre Boutros, Executive Director, California Transportation Commission
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Clark Paulsen, Chief, Division of Accounting, Department of Transportation

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|---|
| **P1575-0029** |
| **Incurred Cost Audit<br>Town of Mammoth Lakes** |
| **September 2014** |

**Zilan Chen, Chief**
**External Audits – Local Governments**
**Audits and Investigations**
**California Department of Transportation**

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**Summary**

The California Department of Transportation (Caltrans) Audits and Investigations (A&I) audited the costs claimed by the Town of Mammoth Lakes (Town), totaling $9,457,268 from June 10, 2008 through March 28, 2012 (see Attachment I). Based on our audit, we determined that reimbursed costs totaling $9,230,515 were supported and in compliance with Agreement provisions and state and federal regulations. However, reimbursed costs totaling $226,752 were not adequately supported and were not in compliance with Agreement provisions, and state and federal regulations (see Attachment I). In addition, we determined that the Town lacked adequate written policies and procedures related to procurement, contract and grant management, and travel. Further, the Town did not comply with Agreement provisions, state and federal regulations for consultant procurement, contract administration, timekeeping and labor charging practices.

**Objectives**

The audit was performed to determine whether costs claimed and reimbursed were adequately supported, reasonable in nature, and in compliance with the respective Agreement provisions, and state and federal regulations. The audit was performed as a management service to Caltrans to assist in fulfilling its fiduciary responsibility.

The Town is responsible for the claimed costs, compliance with applicable Agreement provisions, state and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable, allocable, and allowable costs.

**Methodology**

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. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the Town. Therefore, we did not audit and are not expressing an opinion on the Town's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation.

**Scope**

The scope of the audit was limited to financial and compliance activities. Our audit of the Town's financial management system included interviews of the Town staff necessary to obtain an understanding of the Town's accounting and internal controls. The audit consisted of an evaluation of compliance with Title 2 Code of Federal Regulations (CFR) Part 225, Title

**Scope (Continued)**

49 CFR Part 18, Title 23 CFR Part 172, the Brooks Act, the California Public Contract Code (PCC), the California Government Code, and Caltrans's Local Assistance Procedures Manual. Our field work was completed on December 3, 2013, and transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not pertain to costs or credits arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our findings and recommendations take into consideration the Town's response dated August 14, 2014 to our July 15, 2014 draft report. Our findings and recommendations, the Town's response, and our analysis of the response are set forth in the Findings and Recommendations of this report. A copy of the Town's full response is included as Attachment VI.

**Background**

The Town of Mammoth Lakes is a region of four square miles, located in the Inyo National Forest, of Mono County. The Town's economy is primarily tourism-based. The Town's Public Works Department (department) is responsible for the operations and maintenance of all town-owned infrastructure, the Town's Capital Improvement Program, facilities, and equipment. The department is composed of four divisions with 26 full-time staff members, and several seasonal workers. The Town filed for Chapter 9 bankruptcy protection on July 3, 2012; however, it settled on August 21, 2012. The case was terminated on December 5, 2012.

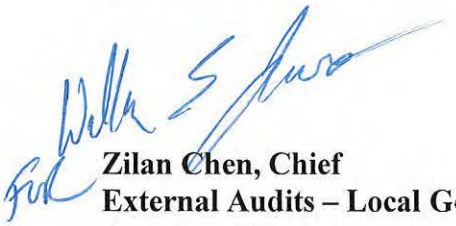
**Conclusion**

Based on our audit, we determined that reimbursed costs totaling $9,230,515 were adequately supported and in compliance with Agreement provisions, and state and federal regulations. However, reimbursed costs totaling $226,752 were not adequately supported and were not in compliance with Agreement provisions, and state and federal regulations. In addition, we determined that the Town lacked adequate written policies and procedures related to procurement, contract and grant management, and travel. Further, the Town did not comply with Agreement provisions, state and federal regulations for consultant procurement, contract administration, timekeeping and labor charging practices.

This report is intended for the information of the Town, Caltrans Management, the California Transportation Commission, and the Federal Highway Administration. This report is a matter of public record and its distribution is not limited. In accordance with A&I disclosure policy, this report will be posted on the Caltrans website.

**Conclusion (continued)**

If you have any questions, please contact Barbara Nolan, Auditor, at (916) 323-7880, or Cliff Vose, Audit Manager, at (916) 323-7917.



**Zilan Chen, Chief**
**External Audits – Local Governments**
**Audits and Investigations**

**September 26, 2014**

## FINDINGS AND RECOMMENDATIONS

**Finding 1 – Lack of Policies and Procedures**

The Town of Mammoth Lakes (Town) does not have written policies and procedures related to procurement, contract management, grant management or employee travel. The lack of adequate policies and procedures that detail proper practices to be followed in the activities performed by staff contributed to the deficiencies and non-compliant actions noted in Findings 2 through 4. Without adequate written policies and procedures, there is an increased risk for errors to occur and not be detected and/or corrected. For criteria, see Attachment V Finding 1 1a – 1i.

**Recommendation**

The Town should establish and maintain written policies and procedures related to procurement, contract management, grant management and travel to ensure compliance with state and federal regulations. These procedures should include:

- Procurement procedures detailing staff roles and responsibilities, competition, selection methods, record retention, contract price estimating and negotiating, and negotiation and establishment of profit or fee as a separate element of contract cost.
- Contract management procedures detailing staff roles and responsibilities, required contract provisions, invoice review and approval steps, as well as agreeing vendor invoices to contract terms.
- Grant management procedures detailing staff roles and responsibilities, invoice preparation, agreeing cost claimed to grant agreement and review and maintenance of grant guidance and regulations.
- Travel procedures detailing eligibility for reimbursement and standardized lodging and per diem rates.

The California Department of Transportation (Caltrans) Division of Local Assistance (DLA) should prepare a Caltrans Action Plan to ensure the Town addresses the audit recommendations.

**Town Response**

The Town agrees with the finding and has started a process to reinforce and/or establish written policies and procedures related to procurement, contract management, grant management and travel. See Attachment VI for the Town's full response.

**Finding 2 - Improper Procurement**

The Town did not follow procurement regulations, as required by Title 49 Code of Federal Regulations (CFR) Part 18.36, 23 CFR Part 172, the Brooks Act, the California Public Contract Code (PCC), the California Government Code, and the Master Agreements between the Town and Caltrans. Agreements between the Town and Caltrans require the Town to comply with

**Finding 2 - (Continued)**

49 CFR Part 18, as well as the Caltrans Local Assistance Procedures Manual (LAPM) and 23 CFR Part 172. See Attachment II for details and Attachment V Finding 2 2a – 2n for criteria.

We reviewed five procurement transactions that used the competitive proposals method for procuring professional services. We found that all five had significant exceptions to required procurement regulations. The consultant contracts resulted in direct charges totaling $171,530 to state or federal funds during the audit period (see Attachment II). Without documenting compliance with required procurement regulations, the Town cannot demonstrate that full and open competition was achieved, and risks entering into contracts that may not be fair and reasonable in cost and/or quality. Specifically, we found the following exceptions:

**Federally Funded Contracts**

- **Construction Management Services – Psomas**
  The Town could not provide documentation to show that the contract was awarded in compliance with competitive proposal procedures. Specifically, the Town did not advertise the request for proposals (RFP) as required, did not prepare a required cost estimate for the contract amount, and did not have score sheets from the selection panel members showing the evaluation of proposals received. Also, the Town failed to follow regulations by using cost as a selection criterion for evaluating Architect and Engineering (A&E) consultant proposals.

- **Surveying – Triad/Holmes**
  The Town could not provide documentation to show that the contract was awarded through competitive proposal procedures. Specifically, the Town did not advertise the RFP as required, did not prepare a cost estimate for the contract amount, and could only provide the required score sheets from one of the selection panel members when staff stated there were at least two panel members. Also, the Town failed to follow regulations by using cost as a selection criterion for evaluating A&E consultant proposals and the Town only allowed firms 15 calendar days to submit a proposal instead of the usual four week minimum.

- **Materials Testing – Sierra Geotechnical**
  The Town could not provide documentation to show that the contract was awarded through competitive proposal procedures. Specifically, the Town did not advertise the RFP as required, evaluated only two proposals when regulations require a minimum of three as evidence of competition, and could only provide the required score sheets from one of the selection panel members when staff stated there were at least two panel members. Also, the Town only allowed firms 15

**Finding 2 - (Continued)**

calendar days to submit a proposal instead of the usual four weeks minimum.

**State Funded Contracts – Boyle**

The Town could not provide documentation to show that the two Boyle contracts tested were awarded in compliance with competitive proposal procedures, meeting neither the formal RFP requirements nor the Small Purchase Procedures requirements. Specifically, the Town issued two separate RFPs for the Design Engineering of Main Street Signals and North Main Frontage Road projects. Both contracts were less than $100,000 individually, and could have been procured through the Small Purchase Procedures as per LAPM Chapter 10, but the Town chose to use the formal RFP process. In determining which firm to award the contracts, the Town combined the two projects (although this option was not identified in either RFP) and awarded both contracts to Boyle. Moreover, the Town did not advertise either of the RFPs as required. Although the Town stated that it solicited proposals from four consultants, the Town did not maintain adequate, correlating documentation to show that it solicited from four consultants. In addition, we noted the following in the two procurements:

- **Main Street Signals**
  The Town received two proposals, however, is unable to justify the selection of the winning consultant as they did not maintain any of the score sheets showing the evaluation of proposals received.

  We also noted that the executed contract included work to be performed at locations not mentioned in the RFP. Specifically, improvements to the existing traffic signals at the intersections of Minaret Road/Main Street and Mammoth Road/Main Street were not identified in the RFP.

- **North Main Frontage**
  The Town maintained only a summary schedule of scores rather than individual score sheets of the three panel members. Further, we noted a material error in the scoring summary schedule. Had the error been corrected, a different firm would have had the highest score.

Based on interviews with staff, review of procurement files, and identification of numerous exceptions on the five procurements tested, we determined that the Town did not demonstrate routine adherence to state and federal procurement regulations. Therefore, A&I cannot determine whether similar procurement transactions that were not tested were in material compliance with regulations.

**Finding 2 (continued)**

We found no material exception to the Town's procurement procedures when using the sealed bid method for construction services.

**Recommendation**

The Town should take the following corrective actions:

- Ensure proper procurement procedures are followed in accordance with 49 CFR Part 18.36, 23 CFR Part 172, the Brooks Act, the PCC, California Government Code and Master Agreements between the Town and Caltrans.
- Seek training for management and staff in proper procurement practices.
- Maintain adequate documentation to demonstrate proper procurement procedures were used in the selection of consultant(s).
- Review billing records to determine the consultant costs, associated with the contracts identified in Attachment II, billed outside our audit period.
- Provide Caltrans with a plan for and the results of the review within a reasonable amount of time.

Caltrans should take the following corrective actions:

- Assess the state-funded transactions relating to the $137,263 of questioned costs and any amount identified by the Town and determine if Caltrans should seek reimbursement from the Town. The assessment should include developing an action plan to collect all questioned costs or identify Caltrans rationale for acceptance of these costs.
- Consult with the Federal Highway Administration (FHWA) to determine if Caltrans should seek reimbursement from the Town for $34,267 of questioned costs claimed and any other amount identified by the Town associated with federally funded procurements.

**Town Response**

The Town agrees with the finding and has designated a Consultant Selection Coordinator to implement appropriate processes to ensure proper procurement procedures are followed in the future, including the maintenance of adequate documentation. Town staff will also participate in training, review its billing records and provide a response by October 15, 2014. See Attachment VI for the Town's full response.

**Finding 3 - Contract Administration Needs Improvement**

The Town did not maintain a contract administration system to ensure consultants perform in accordance with the terms, conditions and specifications of their contracts or purchase orders. As a result, the Town risks over or under billing Caltrans or other funding sources. See Attachment III for details. For criteria, see attachment V Finding 3 3a – 3h.

**Finding 3 - (Continued)**

We reviewed various payment transactions and noted inadequate contract administration practices related to five contracts. The exceptions included failure to include certain provisions in executed contracts, reimbursement for services not covered by the contract, and payment for costs not supported by the contract. As a result, the Town executed inadequate contracts and approved unallowable costs. Specifically, we found the following:

None of the five contracts reviewed contained required contract provisions. Specifically, the following provisions were missing from one or more of the contracts:

- Compliance with 49 CFR Part 18 and applicable cost principles
- Travel costs limited to the state rates
- Accurate identification of record retention period
- Remedies for breach of contract
- Require conformance with Generally Accepted Accounting Principles

**Federally Funded Contracts**

- **Construction Staking – Triad/Holmes**
  The Town executed the original contract in the amount of $190,000, exceeding the Town Council approved amount of $173,945. Further, the Town reimbursed the consultant for drafting, design and engineering services that were outside of the original scope of the construction staking contract. Town staff later realized the error and amended the original contract to include the additional work and increased the contract by $50,000. However, the Town did not evaluate Triad/Holmes on its professional qualifications for design and engineering; nor consider other consultants for the design and engineering services. All costs are questioned in Finding 2 due to improper procurement.

- **Construction Management Services – Psomas**
  Paragraph 2 of the contract states that compensation will be made pursuant to the "conditions and schedule contained in Exhibit B..." Exhibit B lists the hours per week and hourly wages for staff by name and position for the 2008 construction season, along with other direct costs, such as accommodation, per diem and travel costs. Psomas billed accommodation and per diem costs for staff whose names were not listed in the contract and whose positions were not identified on the invoice. Therefore, we were unable to determine if these staff billed labor or whether the accommodation and per diem costs were appropriate. Further, the accommodation costs billed were in excess of the state rates, and in some instances, over the contract lodging limit. – All costs are questioned in Finding 2 due to improper procurement.

**Recommendation**

The Town should take the following corrective actions:

- Ensure its third party consultant contracts contain the required provisions and service terms.
- Ensure that services provided and costs billed by third party consultants are in agreement with contract provisions and terms.
- Seek training for management and staff in proper contract administration.

Caltrans DLA should prepare a Caltrans Action Plan to ensure the Town addresses the audit recommendations.

**Town Response**

The Town agrees with the finding and is reviewing its consultant service agreements to ensure they contain the required provisions. The Town is also formalizing its invoice review and approval process, which will include requiring invoices that reflect the work completed and that tie to the consultant agreement. Outside training is being sought, and in-house training will be planned. See Attachment VI for the Town's full response.

**Finding 4 – Grant Management Practices Need Improvement**

The Town did not perform adequate grant management which resulted in the Town erroneously billing Caltrans. Specifically, we found the Town billed for non-allocable and/or ineligible costs, applied an incorrect reimbursement ratio, and billed for indirect costs without prior approval, resulting in unsupported costs totaling $55,222. See Attachment IV for details. For criteria, see Attachment V Finding 4 4a – 4g.

**Main Street Traffic Signal Project [RPL-5439(019)]:**

- $23,868 of costs associated with the North Main Frontage Road project were moved via journal entry and charged to this project due to funding expiring on the North Main Frontage Road project.
- $10,400 of costs billed by Boyle Engineering, associated with the North Main Frontage Road project were improperly coded and charged to this project.
- $1,436 of costs associated with the 2-Bay Corp Yard Addition project were improperly coded and charged to this project. Moreover, these costs were incurred prior to the project authorization date of December 13, 2007.
- The Town billed other consultant costs incurred prior to the project authorization date of December 13, 2007, including $1,040 from Summit Envirosolutions and $905 of Town labor and labor-related costs.
- The Town billed $8,500 of consultant costs from Eastern Sierra Land Surveys incurred prior to the Plans, Specifications and Estimates phase authorization date of April 10, 2008.

**Finding 4 - (Continued)**

- $8,207 of indirect cost was billed without prior approval from Caltrans, including $1,724 of costs incurred prior to the project authorization date of December 13, 2007.
- The Town did not apply credit adjustments prior to billing Caltrans.

**Lake Mary Bike Path Project [RPSTPL-5439(006)]:**

- The Town billed $185,723 of indirect cost without prior approval from Caltrans. These costs were later reversed on a subsequent billing to Caltrans.
- The Town used an incorrect participation factor in its requests for reimbursement. Instead of using the federal reimbursement rate of 20.63 percent for the construction phase, and 23.40 percent for construction engineering as identified in the finance letter, the Town calculated and applied a 22.96 percent reimbursement rate for both phases.
- The Town charged travel costs of a Town Council member without prior approval as required by 2 CFR Part 225. Additionally, the Town reimbursed staff per diem rates in excess of the state-approved rates.

**Recommendation**

The Town should take the following corrective actions:

- Reimburse Caltrans $55,222 of unsupported costs.
- Review and train staff in the applicable state and federal requirements of the Town's grants and projects.
- Ensure only allowable and allocable costs are billed to projects.
- Ensure correct federal reimbursement rates are used on each phase when billing Caltrans.

Caltrans DLA should determine whether there is an exception to the ineligibility of costs incurred prior to phase authorization. Caltrans should also prepare a Caltrans Action Plan to ensure the Town addresses the audit recommendations.

**Town Response**

The Town agrees with the finding in general, but requests additional time to review the backup in more detail. The Town requests Caltrans' to consider whether surveying services in support of preliminary engineering in advance of the phase authorization is appropriate, and upon completion of the audit, the Town will work with Caltrans to reimburse a final agreed upon amount. The Town is also planning to overhaul its financial management system, which will include a project management component, staff training and procedures to prevent the use of incorrect participation factors or travel rates in the future. See Attachment VI for the Town's full response.

**Auditor's Analysis of Town Response**

We added recommendations for clarification.

**Finding 5 – Timekeeping and Labor Reporting Needs Improvement**

The Town inconsistently treated its direct labor costs, did not maintain adequate support for the allocation of part-time wages and, in some instances, did not maintain adequate support for overtime charges. For criteria, see Attachment V Finding 5 5a – 5c.

Through interviews with Town staff, we found that indirect labor costs are recorded to an employee's "home account." The home account may be adjusted down to account for payment of the overtime premium (i.e. cost for hours paid at one and half times the employee's regular hourly rate). We noted that in some instances, overtime premiums were charged to the project and home accounts were adjusted. However, in other instances, overtime premium was not charged to the project or home account was not adjusted.

We found that the Town did not require employees to record sufficient detail on their timesheets to enable us to determine to which projects the overtime or part-time employee labor costs should be allocated.

**Recommendation**

The Town should take the following corrective actions:

- Establish procedures for the recording and treatment of overtime hours and part-time labor hours.
- Ensure all labor costs are treated consistently in like circumstances.
- Ensure that timesheets provide sufficient detail to determine where the employee's overtime should be charged and to which projects part-time employees' labor costs should be allocated.

Caltrans DLA should also prepare a Caltrans Action Plan to ensure the Town addresses the audit recommendations.

**Town Response**

The Town agrees with the finding and it will formalize procedures for recording and treating overtime and part-time labor hours. The planned changes to the financial management system will help prevent miscoding and ensure consistency in timekeeping and billing procedures. See Attachment VI for the Town's full response.

**Audit Team**

Zilan Chen, Chief, External Audits – Local Governments
Clifford R. Vose, Audit Manager
Barbara Nolan, Auditor
Fifie King, Auditor

**ATTACHMENT 1**
**Audit Universe and Questioned / Unsupported Costs**

| Project | Lake Mary Bike Path | Main Street Signals | Lake Mary Bike Path Enhancements | Total |
|---|---|---|---|---|
| | RPSTPL-5439(006) | RPL-5439(019) | ESPL-5439(023) | |
| Federal or State | Federal & State | State | Federal | |
| Total Costs billed | $9,210,938 | $101,769 | $144,560 | $9,457,268 |

**Audit Findings by Project and Finding:**

| Project Detail | Finding 2 Inadequate Procurement Attachment II | Finding 3 Contract Administration Attachment III | Finding 4 Inadequate Grant Mgmt Attachment IV | Total Questioned / Unsupported | Federal Share (22.96%) | State Share (77.04%) |
|---|---|---|---|---|---|---|
| Lake Mary Bike Path RPSTPL-5439(006) | $149,248 | Same costs as in finding 1 | $732 | $149,980 | $34,435 | $115,545 |
| | | | | | | State Share (100%) |
| Main Street Signals RPL-5439(019) | $22,282 | | $54,490 | $76,772 | - | $76,772 |
| Total | $171,530 | | $55,222 | $226,752 | $34,435 | $192,317 |

We also reviewed contracts related to the North Main Frontage Road project (RPL-5439(017)) but individual costs were not audited.

**ATTACHMENT II**
**Improper Procurement**

| Contract Awardee | | Psomas | Triad/Holmes | Sierra Geotechnical | Boyle (aka AECOM) | Boyle (aka AECOM) |
|---|---|---|---|---|---|---|
| Contract Amount(s)/Amendment Amounts | | $95,000; $243,000 | $190,000; $50,000 | $180,000 | $64,000; $15,000 | $42,000 |
| Description | | Construction Management | Surveying | Materials Testing | Design Engineering (Main Street Signals) | Design Engineering (North Main) |
| Issues | Criteria | | | | | |
| Independent estimate prepared prior to solicitation | 49 CFR 18.36(f); 23 CFR 172.9 | N | N | N | - | - |
| Solicitation publicized or advertised in newspapers or trade journals | 49 CFR 18.36(d)(3)(i); 23 CFR 172(a)(1); PCC 10302; GC 4527(a); LAPM Chapter 10 | N | N | N | N | N |
| Relative Importance of Evaluation Criteria identified in solicitation | 49 CFR 18.36(d)(3)(i); PCC 10344(c) | N | N | N | N | N |
| Cost not to be used as an evaluation criteria | 49 CFR 18.36(d)(3)(v); 23 CFR 172.5(a)(1) | N | N | n/a | N | N |
| Adequate response time (usual four weeks minimum) | LAPM Chapter 10 | N | N | N | N | N |
| Calendar days between RFP* and due date | | 25 | 15 | 15 | 21 | 27 |
| Individual Evaluation score sheets maintained | 49 CFR 18.36(b)(9); PCC 10111(a); PCC 1032(a) | N | N | N | N | N |
| Evidence that profit negotiated separately | 49 CFR 18.36(f)(2) | N | N | N | - | - |
| Scope of work expanded after competitive bidding | 49 CFR 18.36(c)(3); 23 CFR 172.9(a); PCC 10344(a) | | N | | N | |
| Funding source(s) Charged | | RPSTPL-5439(006) | RPSTPL-5439(006) | RPSTPL-5439(006) | RPL-5439(019) | |
| Federally Funded | | yes | yes | yes | no | |
| State Funded | | yes | yes | yes | yes | |
| | | $ 87,045 | $ 41,490 | $ 20,713 | $ 22,282 | Total $ 171,530 |

| | | |
|---|---|---|
| Total cost tested and questioned | $ 171,530.49 | |
| Less State only | $ (22,282.11) | |
| Subtotal | $ 149,248.38 | |
| Federal reimbursement (ratio billed 22.96%) | $ 34,267 | (federal fund share) |
| State Funded Share (77.04%) | $ 114,981 | (state fund share) |
| | $ 22,282 | (state only) |
| Total cost tested and questioned | $ 171,530 | |

N = Not in compliance with criterion
n/a = Not applicable (services are not A/E related)
- = Criterion not reviewed during substantive testing
* = Some RFPs were undated, but staff deduced issue date

**ATTACHMENT III**
**Contract Management**

| Contract Awardee | Psomas | Triad / Holmes | Sierra Geotechnical | Boyle (aka AECOM) | Boyle (aka AECOM) |
|---|---|---|---|---|---|
| **Missing contract provisions:** | | | | | |
| Compliance with 49 CFR 18 | N | N | N | N | N |
| Compliance with applicable Cost Principles | N | N | N | N | N |
| Travel rates limited to state rate | N | N | N | N | N |
| Accurate identification of record retention period | N | N | N | N | N |
| Breach of Contract | n/a | N | N | n/a | n/a |
| Compliance with GAAP | N | N | N | N | N |
| **Other Issues:** | | | | | |
| Consitency between Board action and contract | | N | | | |
| Contract did not include all services to be procured | N | | | | |

N = Provision not included in contract; Exception noted
n/a = not applicable, contract amount less than $100,000

**ATTACHMENT IV**
**GRANT MANAGEMENT**

| | Main Street Traffic Signals RPL-5439(019) | | | | | | | | | | | Lake Mary Bike Path Project RPSTPL-5439(006) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Adjustment Due to funding Expiration $23,868 | | Coded Incorrectly $10,400 | | Coded Incorrectly $1,436 | Prior to Authorization Date $1,945 | | Prior to Authorization Date $8,500 | Indirect Costs without prior Approval $8,206 | | Credit not Applied $135 | Improper Billing - Invoices 27 and 28 $732 | |
| | Labor | Consultant payment | Boyle (Dec 2009) | Boyle (Jan 2010) | Harthorn | Labor | Summit Envirosolutions | Eastern Sierra Land Survey | Indirect | | Credits | Board Member Travel | Excess Per Diem |
| Invoice number/refernece | JE 267 | JE 267 | 7070825 | 7073011 | 776 | Payperiod 11/08/07 and prior | 59429 | 434 | Invoice 1 | Invoices 1, 2, 4-6 | Invoice 4 | | |
| Amount | $1,818 | $22,050 | $5,200 | $5,200 | $1,436 | $905 | $1,040 | $8,500 | $1,724 | $6,482 | $135 | $ 658 | $ 74 |
| Allocable | N | N | N | N | N | | N | N | | | | | |
| Incurred after Authorization | N | | | | N | N | N | N | N | | | | |
| Prior Approval for Indirect costs | | | | | | | | | N | N | | | |
| Proper Billing | | | | | | | | | | | N | N | |

| | |
|---|---|
| Total (both projects) | $55,222 |

N = Not in Compliance

**Attachment V**
**Criteria**

**Finding 1:**

1a. Title 23 Code of Federal Regulations (CFR) Part 172.9(a) state in part, *"The contracting agency shall prepare written procedures for each method of procurement it proposes to utilize... These procedures shall...cover the following steps:*

*(1) In preparing a scope of work, evaluation factors and cost estimate for selecting a consultant;*
*(2) In soliciting proposals from prospective consultants;*
*(3) In the evaluation of proposals and the ranking/selection of a consultant;*
*(4) In negotiation of the reimbursement to be paid to the selected consultant...*
*(5) In monitoring the consultant's work and in preparing a consultants performance evaluation when completed.*

1b. Title 49 CFR Part 18.36(c)(3) states in part, *"Grantees will have written selection procedures for procurement transactions."*

1c. Title 49 CFR Part 18.36(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."*

1d. Title 49 CFR Part 18.36(b)(3) states in part, *"Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts..."*

1e. Article IV, Paragraph 16 of the Master Agreement for State-funded projects, and Article IV, Paragraph 17 of the Master Agreement for Federal-Aid projects, both state, in part, *"Payments... for... travel and subsistence (per diem) expenses... shall not exceed rates authorized to be paid to rank and file STATE employees..."*

1f. Title 2 CFR Part 225, Appendix B #43.a states in part, *"...Notwithstanding the provisions of section 19 of this appendix...travel costs of officials covered by that section are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards."*

1g. Article IV, Paragraph 17 of the Federal Master Agreement states in part, *"Payments to ADMINISTERING AGENCY for PROJECT-related travel and subsistence (per diem) expenses of ADMINISTERING AGENCY forces and its contractors and subcontractors ... shall not exceed rates authorized to be paid rank and file STATE employees..."*

1h. California Public Contract Code (PCC)10333 states in part, "*State agencies with delegated purchasing authority should establish written policies and procedures complying with purchasing standards, including procedures for ensuring and documenting competitive purchasing, ensuring that agency contracting personnel are free from conflict of interest, and complying with other provisions of law....*"

1i. PCC 10351 (a) (1) states in part, "*State agencies shall establish written policies and procedures and a management system that will ensure the state agency's contracting activities comply with applicable provisions of law and regulations and that it has demonstrated the ability to carry out these policies and procedures and to implement the management system.*"

**Attachment V**
**Criteria**

**Finding 2:**

2a. Title 49 CFR Part 18.36(b)(1) states, *"Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.*

2b. Title 49 CFR Part 18.36(b)(9) states in part, *"Grantees ... will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."*

2c. Title 49 CFR Part 18.36(d)(3)(i) states in part, *"Requests for proposals will be publicized and identify all evaluation factors and their relative importance..."*

2d. Title 49 CFR Part 18.36(f) states in part, *"Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation..."*

2e. Title 49 CFR Part 18.36(i) states in part, *"A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section... (1) Administrative, contractual or legal remedies in instances where contractors violate or breach contract terms... (2) Termination for cause or convenience... (10) Access by the grantee, ... or any of their duly authorized representatives to any books, documents, papers, and records of the contractor... (11) Retention of all required records for three years..."*

2f. Caltrans' Local Assistance Procedures Manual (LAPM) Chapter 10 states in part,

i. *"The local agency advertises the availability of the RFP in a major newspaper of general circulation or technical publication of widespread circulation."* (page 10-18)

ii. *"Architectural and Engineering (A&E) Consultants - Those private consulting firms providing architectural, landscape architectural, engineering, environmental, land surveying, or construction project management services are termed "Architectural and Engineering (A&E) Consultants." California law requires selection of A&E contract services on the basis of demonstrated competence and professional qualifications. Cost may not be included as criteria for rating such consultants. Negotiations shall begin with the most qualified consultant. Should negotiations result in not a price the local agency considers to be fair and reasonable, negotiations shall be formally terminated and the local agency shall then undertake negotiations with the second most qualified consultant....Consultants, other than A&E consultants, may be selected using cost as one of, or the sole selection criteria. The procedures outlined in this chapter could be modified for selecting non-A&E consultants, by adding a cost item to the proposal. Similarly in selecting an A&E consultant, a*

*detailed technical proposal or qualifications proposal, and a draft contract would be required."* (page 10-1)

iii. *"A minimum of four weeks is usually allowed between the time the RFP is mailed and time that proposals must be submitted. More time may be required for complex contracts or projects."* (page 10-15)

iv. *"...the local agency manages and administers the contract to ensure that a complete and acceptable product is received on time, within standards, and within budget."* (page 10-23)

*Caltrans LAMP Chapter 10 (May1, 2006) Page 10-13 states "Local agencies should be fully aware that consultant services costing in aggregate no more than $100,000 per contract, may be obtained through a relatively simply and informal method of procurement. This informal method must be sound and appropriate for the consulting services procured and provide justification for the selection. It shall be documented and supported. The method of procurement shall be an open and competitive process in selecting consultants and should consider a minimum of three different consultants whenever possible."*

2g. Title 23 CFR Part 172.5(a)(1) states in part, *"Contracting agencies shall use competitive negotiation for the procurement of engineering and design related services... The proposal solicitation (project, task, or service) process shall be by public announcement, advertisement, or any other method that assures qualified in-State and out-of-State consultants are given a fair opportunity to eb considered for award of the contract. Price shall not be used as a factor in the analysis and selection phase..."*

2h. Title 23 CFR Part 172.9(a) state in part, *"The contracting agency shall prepare written procedures for each method of procurement it proposes to utilize... These procedures shall...cover the following steps:*
*(1) In preparing a scope of work, evaluation factors and cost estimate for selecting a consultant;*
*(2) In soliciting proposals from prospective consultants;*
*(3) In the evaluation of proposals and the ranking/selection of a consultant;*
*(4) In negotiation of the reimbursement to be paid to the selected consultant...*

2i. Title 49 CFR Part 18.37(a) states in part, *"States shall follow state law and procedures when awarding and administering subgrants ... to local and Indian tribal governments."*

2j. PCC Section 10344 states in part, *"State agencies that use this procedure shall include in the request for proposal a clear, precise description of the work to be performed or services to be provided, ...the standards the agency will use in evaluating proposals...*

2k. PCC Section 10340 states in part, *"...state agencies shall secure at least three competitive bids or proposals for each contract."*

2l. California Government Code (GC) Section 4529.12 states in part, *"All architectural and engineering services shall be procured pursuant to a fair, competitive selection process..."*

2m. GC Section 4527(a) states in part, *"... statewide announcement of all projects ... shall be made... through publications of the respective professional societies. ..."*

2n. GC Section 4527(b) states in part, *"When the selection is by a local agency head, the agency head may undertake the procedures described in subdivision (a). ..."*

**Attachment V**
**Criteria**

**Finding 3:**

3a. Title 49 CFR Part 18.36(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."*

3b. Title 49 CFR Part 18.20(b)(3) states in part, *"Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets..."*

3c. Title 49 CFR Part 18.20(b)(5) states in part, *"Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."*

3d. Title 2 CFR Part 225, Appendix B #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: ... (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).*

3e. PCC Section 10346 states, No state agency shall make progress payments on a contract unless it first has established procedures... which will ensure that the work or services contracted are being delivered in accordance with the contract.

3f. Article V, Paragraph 2 of the Federal and State Master Agreements state in part, *"...The accounting system of the ADMINISTERING AGENCY, its contractors and all subcontractors shall conform to Generally Accepted Accounting Principles..."*

3g. Article V, Paragraph 3 of the Federal and State Master Agreements state in part, *"... ADMINISTERING AGENCY, ADMINISTERING AGENCY's contractors and subcontractors, and STATE shall each maintain and make available for inspection and audit all books, documents, papers, accounting records, and other evidence pertaining to the performance of such contracts, including, but not limited to, the costs of administering those various contracts. All of the above-referenced parties shall make such AGREEMENT and PROGRAM SUPPLEMENT materials available at their respective offices at all reasonable times during the entire PROJECT period and for three (3) years from the date of final payment to ADMINISTERING AGENCY under any PROGRAM SUPPLEMENT. ..."*

3h. Article V, Paragraph 7 of the Federal and State Master Agreements state in part, *"Any subcontract entered into by ADMINISTERING AGENCY as a result of this AGREEMENT shall contain all the provisions of ARTICLE IV... and this ARTICLE V..."*

**Finding 4:**

4a. Title 49 CFR Part 18.40(a) states, in part, *"Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must... assure compliance with applicable Federal requirements..."*

4b. Title 2 CFR Part 225, Appendix A, Section C.1 states in part, *"To be allowable under Federal awards, costs must ... be the net of all applicable credits."*

**Attachment V**
**Criteria**

4c. Title 2 CFR Part 225, Appendix A, Section C.3.c states, *"Any cost allocable to a particular Federal award or cost objective under the principles provided for in Title 2 CFR, Part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons."*

4d. Title 2 CFR Part 225, Appendix B, Section 42 states in part, *"...Notwithstanding the provisions of section 19 of this appendix, General government expenses, travel costs of officials covered by that section are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards."*

4e. Article IV, Paragraph 8 of the State Master Agreement and Article IV, Paragraph 8 of the Federal Master Agreement states that an indirect cost rate/allocation plan is to be provided to Caltrans Audits and Investigations annually for review and approval prior to Administering Agency seeking reimbursement of indirect costs.

4f. LAPM Chapter 5 states in part, *"Should the local agency seek reimbursement of their indirect costs, they must receive an Approval Letter of Indirect Costs Rate for the fiscal year involved from Caltrans' Audits and Investigations prior to billing for indirect costs."*

4g. Paragraph 1 of the Special Covenants or Remarks to Program Supplement No. D91 for project RPL-5439(019) states in part, *"...The start of the reimbursable expenditures is restricted to the later of either 1) the effective date of the Master Agreement, 2)the effective dated of the PROGRAM SUPPLEMENT, or 3)the effective date of the component specific allocation."*

**Finding 5:**

5a. Title 2 CFR Part 225, Appendix A, Section C.1 states in part, *"To be allowable under Federal awards, costs must... Be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and other activities of the governmental unit... Be adequately documented."*

5b. Title 2 CFR Part 225, Appendix B #8.h(5)(b) states in part, *"Personnel activity reports or equivalent documentation... must account for the total activity for which each employee is compensated..."*

5c. Title 49 CFR Part 18.20(b)(6) states in part, *"Accounting records must be supported by such source documentation as ... payrolls, time and attendance records..."*

TOWN OF MAMMOTH LAKES
Department of Public Works
PO Box 1609 Mammoth Lakes CA 93546
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gdutton@townofmammothlakes.ca.gov

August 14, 2014

By US Mail and E-Mail
zilan_chen@dot.ca.gov

California Department of Transportation
Audits and Investigations
1304 O Street
Suite 200, MS 2
Sacramento, CA 95814

Attention: Zilan Chen, CPA
Chief, External Audits

RE: P1575-0029; Draft Incurred Cost Audit
Town of Mammoth Lakes

Ms. Chen,

Thank you to you and your staff for traveling to the Town of Mammoth Lakes on July 15 to present your draft information. It was very helpful to meet with you in person while your concerns were expressed. We appreciate this opportunity to respond to your draft and look forward to discussing these issues with you as we move forward. As requested, this response is being sent to you for your distribution to your staff as you see fit.

You can be assured we take these types of issues very seriously and have made every effort to respond fully. The Town, and the Public Works Department specifically, will be using your review, findings and recommendations to improve our procedures. Please accept this correspondence as our initial response to your Draft Audit Report. The format used follows your draft.

You requested a response from the Town within 30 days of our meeting, which would be August 14. We hope this response begins to show our commitment to working with Caltrans to improve our procedures.

We believe we have a very good working relationship with Caltrans, both in Bishop and Sacramento, which we intend to maintain. On a related item, we are meeting with Mike Giuliano, Caltrans Local Assistance Construction Oversight Engineer, Central Region in mid-September to review progress on

another project, our Canyon Boulevard project. We expect that review to go very well, as we are making great use of recent staff Caltrans training and have implemented required project controls. As we move forward, the Town is prepared to work with Caltrans in the preparation and implementation of a Caltrans Action Plan to address each of the recommendations included in the Draft Audit.

Once you have reviewed this information, please let us know if you would like to meet to go over any specific issues. We are ready and willing to meet in your offices. If that is your preference, perhaps we can coordinate the visit with a meeting with others who will be working with us on a Caltrans Action Plan in Sacramento.

Sincerely,

Town of Mammoth Lakes

Grady Dutton. P.E.
Public Works Director

cc: Dan Holler, Town Manager
Peter Bernasconi, Senior Civil Engineer
Haislip Hayes, Associate Civil Engineer

**REFERENCE: P1575-0029**
**DRAFT INCURRED COST AUDIT**
**JULY 2014**

## TOWN OF MAMMOTH LAKES UNDERSTANDING

Summary: We understand your audit covered $9,457,268 in costs claimed by the Town of Mammoth Lakes from June 10, 2008 through March 28, 2012 and that you have found issues with $226,752 of those costs. In general, these issues relate to written policies and procedures compliance with various regulations. We have provided our response to each item below, specific to each of your findings.

Objectives: We understand your stated objectives regarding compliance and our procedures & systems and have provided a response to each of your concerns below.

Methodology: We understand your methodology and appreciate your clear and concise summary.

Scope: We understand your scope as provided and offer this correspondence as our initial response. As you are well aware, we have cooperated freely with your efforts, including your field work completed on December 3, 2013. Should we find additional information that might be helpful, it will be provided.

Background: The background you have stated is accurate with the following update: At the present time, the Public Works Department consists of 26 full-time staff members and several seasonal workers. A copy of the Department Organization Chart as shown on the Town's web site is attached for your reference. On June 2, 2014, Grady Dutton, PE, assumed the duties of Public Works Director. Additional information regarding Mr. Dutton's background and experience is available on request.

Conclusion: We understand your draft conclusions and have provided responses as appropriate for your review and consideration prior to finalizing your audit.

## FINDINGS, RECOMMENDATIONS AND TOWN OF MAMMOTH LAKES RESPONSES

### Finding 1 – Lack of Policies and Procedure

Town Response:

The Town of Mammoth Lakes has begun a process to reinforce existing procedures when applicable and, where they do not exist or are found deficient, to establish written policies and procedures related to procurement, contract management, grant management and travel.

Specific to the Recommendations noted:

The Town, specifically the Public Works Department, has already begun implementing a comprehensive review of our policies and procedures. We find that there have been excellent records kept in some areas, while in others the information is lacking. There has also been an inconsistent application of often anecdotal policies and procedures. It will require more than 30 days to formulate and fully implement recommended changes. We will keep Caltrans DLA informed as to our progress throughout.

Procurement:

A. Designated a Public Works Consultant Selection Coordinator: Haislip Hayes, Associate Civil Engineer. In Hayes absence or unavailability, the Public Works Director will assume these duties. A preliminary list of Hayes' duties as Consultant Selection Coordinator:
    a. Search out and participate in Caltrans and other available training sessions.
    b. Subsequent to training, coordinate an in-house session to provide that information to other Engineering staff for their information and use.
    c. For those projects over which he has control, implement appropriate procurement processes.
    d. For all other Town of Mammoth Lakes Public Works projects, coordinate the efforts of other Public Works Staff to ensure a consistent process is adhered to.
B. Reviewed prior Projects/Processes: Peter Bernasconi, Senior Civil Engineer.
C. Reviewed Guidelines and other available information: All Public Works Engineering Staff.
D. Reviewed past practices and begun staff training:
    a. Caltrans Provided Training: Since the beginning of this audit, our designated Coordinator has completed a number of Caltrans Local Assistance Training sessions (May 5 through 9, 2014). In addition, he will be contacting Caltrans (Local Assistance in both Bishop and Sacramento) and requesting clarification of Consultant Selection Training options. Items 'b' and 'c' following will be refreshed after each Caltrans Training has been completed. While none of the training sessions listed below are specifically titled 'Consultant Selection' or 'Procurement' of Consultants, several included sections that dealt with this issue (i. through v. in May 2014):
        i. Getting Your Federal Aid Project Started
        ii. Federal Environmental Requirements for Local Agency Transportation Projects 'OFF' the State Highway System
        iii. Procedures for Right-of-Way Acquisition
        iv. Federal Aid Project Development: Design to Construction
        v. Federal Rules for Contract Administration and Project Completion
        vi. Resident Engineer's Academy (March 2013, prior to audit)
    b. In-house Training: Coordinator has scheduled an in-house session to walk through each step in the selection process, provide examples, walk through a project and respond to staff questions, based on Guidelines available.
    c. In-house Review: Bernasconi has reviewed past projects, including those identified in recent Caltrans review and others, to point out items that can help staff learn and improve for the future.
E. Coordination with Caltrans Local Assistance: We have initiated this process:
    a. Once an initial draft written process is available coordinator will be contacting the Bishop Office to request an informal discussion wherein Town staff will present our updated procedures for informal comments prior to submittal to the Sacramento Office.
    b. Coordinator will be contacting Local Assistance, Sacramento, to request details as to how they would like to review the Town's program.

Contract Management:

A. Clarification of Roles and Responsibilities is well underway. The written program will include detail regarding how a project is initiated, project description preparation, responsibility for initial estimates and schedules, the consultant selection process, consultant scope & fee negotiations and contract preparation.
B. We have already begun to implement changes in our invoice review procedures. Our formal process will be documented. Staff is already being required to demonstrate the correlation between invoices received and specific contract provisions and project status. Staff most involved with projects will review the invoices first and make a recommendation regarding payment. The Public Works Director will sign off on all Payment Applications.

Grant Management:

A. Clarification of Roles and Responsibilities is underway.
B. Each grant received will be reviewed and a separate checklist noting specific grant requirements will be prepared. The invoice preparation and submittal process will include a requirement that the project manager ensure that all grant requirements are being met.

Travel Procedures:

A. Public Works staff will prepare a summary of travel authorization procedures and associated standardized lodging and per diem rates. This preparation process will include the Office of the Town Manager so that possible travel by all Town Staff, Planning Commissioners, Town Councilmembers and others will be considered.

**Finding 2 – Improper Procurement**

Town Response:

We provide the following in response to the five exceptions noted: Please note, this information is meant to describe our plan moving forward and to provide additional detail that may not have been previously provided regarding past projects. The Town understands there appear to have been issues related to the procurement process. Town will formalize its procedures as described above. The information below is not intended to excuse any item that was not completed as required, it is meant only to shed additional light on what was done. Information regarding actions we are taking in response to specific recommendations follows this section.

As background, it has often been difficult at best to obtain more than two or three responses to many of the formal Request for Proposals (RFPs) we have circulated. It appears the same firms submit responses for nearly every project. The Town will include in future RFPs additional outreach efforts in an effort to obtain a broader response. In addition to the required advertisement and circulation efforts, Town will contact Caltrans local staff and other agencies in the region in an effort to better identify consultants that may be interested in responding.

Construction Management Services, Psomas: Although Town did not formally advertise for Construction Management Services, we sent letters to eight firms that had previously expressed an interest in providing these types of services. We ultimately received three proposals. While we did not fully

document a separate detailed written estimate of the probable contract amount, we did prepare an estimate that was included in our overall project estimates. The selection committee did meet and discuss in detail each of the proposals received. Documentation of that meeting was not in accordance with the guidelines, however, we do have a summary score sheet for each of the proposals reviewed. Psomas was ranked highest by the evaluation committee prior to discussion of their cost proposal.

Surveying, Triad/Holmes: Our e-mail records show we sent letters to two firms and requested proposals. We received two proposals. While we did not document a separate detailed written estimate of the probable contract amount, we did include a value in our overall estimates. All score sheets were not retained for the record. While cost was considered, it was by no means the sole criteria for selection. Documentation of that meeting was not in accordance with the guidelines, however, we do have a summary score sheet for each of the proposals reviewed. The scope of the surveying work was straight forward and similar to other projects, therefore Town was of the opinion fifteen days was appropriate in this instance. Future RFPs will include the appropriate time for response submittal.

Material Testing – Sierra Geotechnical: Although Town did not advertise for Materials Testing Services, we did send letters to two firms that had expressed an interest in the providing the services. . Documentation of that meeting was not in accordance with the guidelines, however, we do have a summary score sheet for each of the proposals reviewed. The scope of the work was straight forward and similar to other projects, therefore Town was of the opinion fifteen days was appropriate in this instance. Future RFPs will include the appropriate time for response submittal.

State Funded Contracts – Boyle: For the two projects noted, we issued separate Requests for Proposals for each.

Main Street Signals: Regarding work to be performed at intersections not mentioned on the RFP, during final negotiations of the scope and fee, it was noted an evaluation of the two intersections was needed to appropriately analyze the future traffic flow. We did not view this as a scope change, but simply a clarification of signal analysis required to complete the core project.

North Main Frontage: Documentation of that meeting was not in accordance with the guidelines. We have implemented improvements to our process requiring the appropriate documentation.

Specific to the Recommendations noted:

- Specific to Caltrans' Recommendations, the changes we are making will ensure proper procurement procedures are followed in the future. The Coordinator will be responsible to complete a project summary form and checklist that will include, among other things:
    - Project Description
    - Cost Estimates for Programming, Planning and Design Services
    - Cost Estimate for Construction, including construction phase consultant services
    - Funding Sources
    - Preliminary Schedule
    - Step by Step Description of Procurement Process, including a statement that the process "is being managed in accordance with 49 CFR Part 18.36, 23 CFR Part 172, the Brooks

Act, the PCC, California Government Code and Master Agreements between the Town and Caltrans."

That form will be completed at the project's beginning and is to be updated as necessary as the project progresses. The Original form and substantive changes will also be reviewed by the Public Works Director.

- As noted in the Town's Response to Finding 1, training is being pursued.
- Maintenance of records in keeping with the form noted immediately above will ensure adequate documentation is maintained.
- We have begun a review of our billing records to identify costs outside Caltrans' stated audit period.
- We will review our records as indicated and provide a complete response no later than October 15, 2014. We will make every effort to respond in more detail in advance of that date, however, as we are in the busiest time of the year for our staff (limited construction window due to typical weather patterns) we ask for your understanding.

**Finding 3 – Contract Administration Needs Improvement**

Town Response:

The Town is reviewing its standard consultant services agreements to ensure they contain the required provisions. We have requested the Town Attorney assist Public Works in the preparation of updated draft consultant agreements. As noted below, we are also formalizing our contract review and invoice review and approval processes.

Federally Funded Contract – Construction Staking, Triad Holmes:

- Contract amount: The Town Council approval included a contingency to cover issues that might arise during design and construction. Prior to execution of the contract, it was decided to include a contingency of approximately 10% in the contract to ensure the mechanism was in place to be able to respond quickly as issues arose.
- Additional scope added for design and engineering: Town had previously executed an agreement with Triad Holmes for the design phase services. That agreement was complete and had been closed out. Rather than execute a new agreement for consultation during construction, staff chose to add these services to the surveying contract. Future design phase contracts should anticipate and contain a provision for consultation during construction.

Federally Funded Contract – Construction Management Services – Psomas:

- During the course of the work, Psomas proposed changes to their staffing. Town staff discussed each proposed change with Psomas, but, unfortunately, did not appropriately document their

acceptance of Psomas proposed changes. In the future, a more formal process will be followed and documentation will be improved.

Specific to the Recommendations noted:

The Public Works Department is now requiring Invoices for consultant services clearly demonstrate the work completed, tied directly to the provisions of the consultant agreement.

As noted above, Public Works is seeking outside training by Caltrans or other appropriate qualified party and will be having in-house training to review and augment the Caltrans/outside training.

**Finding 4 – Grant Management Practices Need Improvement**

Town Response:

Specifically regarding grant management and as described in more detail elsewhere in this overall response, Town is taking a number of steps to ensure these types of issues do not arise in the future, beginning at project initiation and including all phases through closeout. Town's entire project management system and approach is being reviewed and updated. A few of these items include a new Town Financial Management System, a new timesheet format, clear & concise written procedures, specific tools to track grant requirements, invoicing changes (both from consultants and contractors and to funding sources), checklists, a comprehensive & consistent system for filing and additional oversight.

Regarding specific items noted in the Draft audit:

Main Street Traffic Signal Project [RPL-5439(019)]: Seven specific items. At this moment in time, the Town's finance staff is completing a number of critical items, including final closeout of our 2013/14 budget reconciliation (Town fiscal year ended June 30), preparation of the aforementioned RFP for a new Financial Management System and other items. In addition, we are experiencing temporary staff shortages due to other factors. We ask that we be allowed to review several of the following items in additional detail and provide a more detailed response by September 15, 2014.

- $23,868 journal entry: Understood. We will review the backup to this and any related journal entry.
- $10,400 miscode: Understood. We will review the backup in additional detail.
- $1,436 miscode: Understood. We will review the backup in additional detail.
- $1,040 and $905 prior to authorization: Agreed. No need for further review.
- $8,500 prior to authorization: Caltrans review and consideration requested. The overall project authorization occurred in December 2007. Town billed $8,500.00 for surveying prior to the Plans, Specifications and Estimates phase authorization date of April 10, 2008. However, we were of the understanding surveying services in support of preliminary engineering in advance of the phase authorization may be appropriate and billable.
- $8,207 indirect costs: Understood. We will review the backup in additional detail.

- Credit adjustments: Understood. We will review the items above and the final billing to Caltrans for the project to ensure outstanding items are reconciled.

Lake Mary Bike Path Project [RPSTPL-5439(006)]: Three specific items

- $185,723 billed and reversed: This was corrected.
- Incorrect participation factor: Procedures are being implemented to prevent this from occurring in the future.
- Travel costs and per diem rates: Public Works is working with the Town Manager to implement tracking mechanisms to prevent this from occurring in the future.

Specific to the Recommendations noted:

We have reviewed the unsupported costs and Caltrans' recommendation that Town reimburse Caltrans $55,222 and offer the following: Town asks that Caltrans allow until September 15 for us to complete our additional detailed review of the points noted immediately above. In addition, we ask that Caltrans review the fifth item immediately above relating to surveying in support of preliminary engineering. Upon completion of this audit, Town will work with Caltrans to reimburse the final amount agreed upon.

Staff is being trained in applicable requirements as described above in responses to previous Findings.

The Town is currently advertising a Request for Proposals for a new Town Financial Management System. As of June 2, 2014, the Town has a new Finance Director (Dan Izzo) who will work closely with his staff and Public Works to implement a comprehensive system overhaul to include software, hardware as necessary, new processes, training and follow up. This new system will include a finance based project management component to complement Public Works' improved procedures.

**Finding 5 – Timekeeping and Labor Reporting Needs Improvement**

Town Response:

It is clear improvements are warranted in timekeeping and coding. As noted above, Town will be acquiring and in implementing a new Financial Management System in the coming months. It will include improved timekeeping, more transparency, better labor & materials tracking and regular timely reporting. All these, along with regular staff training and reinforcement, will assist the Town in superior accuracy and consistency.

Specific to the Recommendations noted:

Town will formalize and streamline its procedures for recording and treatment of overtime and part-time labor hours. The new Financial System will provide most of the tools for doing so, combined with additional staff training and oversight. One planned feature of the new system is the ability to block the use of codes as necessary. In other words, once a project is complete or a phase is complete, we should be able to block the use of that specific code. It also can limit the use of certain codes to selected staff, further preventing miscodes.

The planned written procedures will ensure consistent application of timekeeping and billing procedures.

Timesheets are being updated to ensure consistency.

The Town is prepared to work with Caltrans in the preparation and implementation of a Caltrans Action Plan to address the recommendations.

| | | | |
|---|---|---|---|
| Public Works Director,<br>Grady Dutton | Senior Civil Engineer, Maintenance and Special Projects,<br>Peter Bernasconi | Fleet Superintendent,<br>Lon Adams | Luis Cepeda<br>Scott Durham<br>Dennis Johnson<br>Gerry Kosen |
| | | Roads Superintendent,<br>Todd Murphy | Jim Haggerty<br>Patrick Vargas<br>Warren Boling<br>Loren Kane<br>Scott Meredith<br>Lance Miller<br>Erin Willingham<br>Derick Halferty |
| | | Parks Superintendent,<br>Dennis Rottner | Juan Prieto<br>Derek Shea |
| | Associate Civil Engineer/Assistant Engineer,<br>Haislip Hayes<br>Jamie Robertson | Senior Public Works Inspector,<br>Ron Fansler | |
| | Assistant Airport Manager and Transit,<br>Brian Picken | Airport Ops Coordinator,<br>Vince Maniaci | Alex Ramos<br>Russ Larsen |