

Memorandum

*Flex your power!
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To: RIHUI ZHANG, Acting Chief
Division of Local Assistance

Date: August 20, 2013

File: P2710-0008

From: MARSUE MORRILL, Chief
External Audit- A&E, SAR, External Contract Management
Audits and Investigations

Subject: AUDIT OF SACRAMENTO COUNTY

Attached is our final audit report setting forth the results of the audit of the Sacramento County's (County) financial management system relative to projects funded by the California Department of Transportation (Caltrans) with the American Recovery and Reinvestment Act of 2009 (ARRA). The audit was for the period of July 1, 2009 through October 31, 2010. The audit was performed by the State Controller's Office (SCO) on behalf of Caltrans.

The audit concluded that the Counting's accounting system and internal controls appear adequate to properly capture costs and segregate reasonable, allocable, and allowable project costs as required by Title 2, Code of Federal Regulations, Part 225 and the Caltrans Master Agreement. In addition, the County has a system to accurately report project and job information as required by section 1512 of ARRA. The audit did not disclose any reportable conditions.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

Attachment

c: Fardad Falakfarsa, Recovery Act Program Manager
Jesse Bhullar, Chief, Office of Project Implementation, North
Stella Liao, District Local Assistant Engineer, District 3
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

SACRAMENTO COUNTY

Audit Report

PROJECTS FUNDED BY CALTRANS WITH AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA) FUNDS

July 1, 2009, through October 31, 2010



JOHN CHIANG
California State Controller

August 2013



JOHN CHIANG
California State Controller

August 12, 2013

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

Dear Mr. Morrill:

The State Controller's Office audited Sacramento County's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The audit was for the period of July 1, 2009, through October 31, 2010.

The county's accounting system and internal controls appear adequate to properly capture costs and segregate reasonable, allocable, and allowable project costs relative to the projects. In addition, the county appears to have processes in place to ensure compliance with provisions of ARRA, fiscal provisions of the county's agreement with the Caltrans, and specific fiscal and funding provisions of the Caltrans' Local Program Provisions. Our audit did not disclose any reportable conditions.

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/nh

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Audit Report

Summary

The State Controller's Office (SCO) audited Sacramento County's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The audit was for the period of July 1, 2009, through October 31, 2010.

The county's accounting system and internal controls appear adequate to properly capture costs and segregate reasonable, allocable, and allowable project costs. In addition, the county appears to have processes in place to ensure compliance with provisions of the ARRA, fiscal provisions of the county's Master Agreement No. 03-5924R between the county and the, and specific fiscal and funding provisions of the Caltrans' Local Program Provisions. Our audit did not disclose any reportable conditions.

Background

Caltrans entered into Master Agreement No. 03-5924R with Sacramento County. In addition, the county has been approved for ARRA funding for the following Caltrans construction projects:

- \$10,865,138 for ESPL-5924(159)
- \$2,973,695 for ESPL-5924(161)
- \$3,150,000 for ESPL-5924(162)

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2710-0008). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0033, dated March 29, 2010, between the SCO and Caltrans, which provides that the SCO will perform audits of contracts between Caltrans and private contractors to ensure compliance with the American Recovery and Reinvestment Act of 2009.
- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any money, for correctness, legality, and for sufficient provisions of law for payment."
- Government Code section 12430, which states, "With respect to audits to fulfill the requirements necessary for the receipt of federal funds, the State Auditor shall be primarily responsible for the financial audits, and the Director of Finance or the Controller shall be primarily responsible for compliance audit. . . ."

**Objectives, Scope,
and Methodology**

The objectives of our audit are to determine whether:

- The county's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with Title 2, *Code of Federal Regulations* (CFR), Part 225 and applicable Caltrans requirements.
- The county has processes in place to ensure compliance with provisions of ARRA, fiscal provisions of the county's Master Agreement No. 03-5924R between the city and Caltrans, and specific fiscal and funding procedures of the Caltrans' Local Assistance Procedures.
- The county has complied with competitive bidding and disadvantaged business enterprises (DBE) requirements for the following ARRA projects: ESPL-5924(159), ESPL-5924(161), and ESPL-5924(162).
- The county has a system to accurately report project information to Caltrans as required by ARRA.
- The county has included appropriate contract provisional language into its contracts with its contractors. The language is required by the county's Master Agreement with Caltrans for the purpose of protecting the State's interests.

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

- Reviewed prior financial statement and single audit reports of the county.
- Obtained and reviewed the county's written policies and procedures relating to accounting, construction project management, and contract management.
- Interviewed county employees in order to gain an understanding of the county's internal controls, accounting systems, and billing processes related to Caltrans-funded projects, including ARRA projects.
- Performed limited testing of Caltrans-funded ARRA projects to ensure that the county's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements.
- Reviewed project files for the ARRA projects.
- Reviewed contract award documentation including bidding documentation DBE compliance documentation, ARRA funding approvals, and construction contracts.
- Interviewed Department of Public Works employees and reviewed supporting documentation to obtain an understanding of the ARRA reporting processes.

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 county's financial statements. Given that much of the ARRA funding had not yet been expended, we limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives. It was not the objective of our audit to validate or to test the expenditures of the county's ARRA funding.

Conclusion

We determined that Sacramento County has an accounting system and internal controls to adequately accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, the Caltrans Master Agreement, and ARRA. Additionally, the county has complied or has processes in place to comply with certain provisions of ARRA, fiscal provisions of the Caltrans Master Agreement, and specific fiscal and funding provisions of the Caltrans' Local Program Provisions.

Our audit did not disclose any reportable conditions.

**Views of
Responsible
Official**

We discussed our audit results with the county's representative during an exit conference conducted on July 10, 2013. Refugio Razo, Senior Civil Engineer, agreed with the audit results. Mr. Razo 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 Sacramento County; Caltrans; and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 12, 2013

**State Controller's Office
Division of Audits
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Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>