State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

# Memorandum

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To: RIHUI ZHANG, Acting Chief
Division of Local Assistance

Date: October 21, 2013

File: P2710-0035

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

Subject: **AUDIT OF CITY OF PALMDALE**

Attached is our final audit report setting forth the results of the audit of the City of Palmdale's (City) 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 March 31, 2012. The audit was performed by the State Controller's Office on behalf of Caltrans.

The audit concluded that the City'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 (2 CFR 225) and the Caltrans Master Agreement. In addition, the City 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
John Hoole, Chief, Office of Project Implementation, South
David Sosa, District Local Assistant Engineer, District 7
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

# CITY OF PALMDALE

Audit Report

## PROJECTS FUNDED BY CALTRANS WITH AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA) FUNDS AUDIT REQUEST #P2710-0035

*July 1, 2009, through March 31, 2012*


JOHN CHIANG
California State Controller


September 2013

# JOHN CHIANG
## California State Controller

September 26, 2013

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

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the City of Palmdale'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 SCO also audited project costs incurred during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through March 31, 2012.

Except for the deficiency noted below, the city's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) and the Caltrans Master Agreement. The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected ARRA-funded construction project ESPL–5378(019) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- ARRA project costs reimbursed by Caltrans during the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.

Our audit found that the city's ARRA reporting process does not contain procedures to verify the accuracy and completeness of employment and payroll information.

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/kw

cc: Michael Mischel, Director of Public Works
City Of Palmdale
Michael Livingston, Associate Engineer
City of Palmdale
Luisa Ruvalcaba, Audit Manager
Department of Transportation

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Palmdale'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 SCO also audited project costs reimbursed by Caltrans during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through March 31, 2012.

The city's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) and the Caltrans Master Agreement.

We selected ARRA-funded construction project ESPL-5378(019) and, for the project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- ARRA project costs reimbursed by Caltrans within our audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.

Our audit found that the city's ARRA reporting process does not contain procedures to verify the accuracy and completeness of employment and payroll information.

## Background

Caltrans entered into Master Agreement No. 07-5378R with the City of Palmdale. In addition, the city has been approved for $4,072,751 in ARRA funding for Caltrans construction project Award No. ESPL-5378(019).

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2710-0035). 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 financial audits, and the Director of Finance or the Controller shall be primarily responsible for compliance audits. . . ."

## Objectives, Scope, and Methodology

The objectives of our audit were to determine whether:

- The city'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.
- The city has processes in place to ensure compliance with provisions of ARRA, fiscal provisions of the city's Master Agreement No. 07-5378R between the city and Caltrans, and specific fiscal and funding procedures of Caltrans' Local Assistance Procedures.
- The city has complied with applicable federal competitive bidding and procurement requirements.
- The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.
- ARRA project costs incurred within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.
- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.

The scope of the audit was limited to financial and compliance activities related to projects funded by Caltrans with American Recovery and Reinvestment Act (ARRA) Funds. The audit was for the period of July 1, 2009, through March 31, 2012. Our review of project costs was limited to costs reimbursed by Caltrans as of March 31, 2012. Schedule 1 of this report is a summary of project costs that were reimbursed by Caltrans as of March 31, 2012.

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

- Reviewed prior financial statements and single audit reports of the city.
- Obtained and reviewed the city's written policies and procedures relating to accounting, construction project management, and contract management.
- Interviewed city employees in order to gain an understanding of the city'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 city'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. This limited testing included reviewing the accounting process for the city's own labor costs billed to Caltrans-funded ARRA construction projects.

- Interviewed city employees and reviewed supporting documentation to obtain an understanding of the ARRA reporting processes.

We selected for testing ARRA-funded construction project ESPL-5378(019) and, for the project, performed the following audit procedures:

- Reviewed project files to ensure that the city complied with applicable federal competitive bidding and procurement requirements.

- Selected a sample of project expenditures and reviewed supporting documentation to ensure that project expenditures including the city's own labor costs were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

- Reviewed construction contract change orders to ensure that they were properly approved and supported.

- Reviewed the city's billings sent to Caltrans to ensure that the city properly billed Caltrans for reimbursement of project expenditures.

- Reviewed the city's ARRA section 1512 reporting data to ensure that data was reported accurately to Caltrans.

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 city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

## Conclusion

We determined that the City of Palmdale has an accounting system and internal controls to adequately accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225 and the Caltrans Master Agreement.

We selected for testing ARRA-funded construction project ESPL-5378(019) and determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.

Our audit found that the city's ARRA reporting process does not contain procedures to verify the accuracy and completeness of employment and payroll information.

## Views of Responsible Officials

We issued a draft audit report on June 7, 2013. Michael Mischel, Director of Public Works responded by letter dated July 24, 2013 (Attachment), agreeing with the audit results. This final audit reports includes the city's response.

## Restricted Use

This report is solely for the information and use of the City of Palmdale, Caltrans, and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 26, 2013

# Schedule 1—
# Summary of Project Costs Reimbursed by Caltrans
# July 1, 2009, through March 31, 2012

| Federal Award | Award Amount | Costs Reimbursed by Caltrans |
|---|---|---|
| Award #ESPL-5378(019) | $ 4,072,751 | $ 4,072,751 [1] |
| Total | $ 4,072,751 | $ 4,072,751 |

[1] Award selected for testing to determine that ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

# Finding and Recommendation

**FINDING—American Recovery and Reinvestment Act reporting procedures needs to be improved**

In order to meet American Recovery and Reinvestment Act of 2009 (ARRA) reporting requirements, the city is required to report certain job and payroll information to Caltrans. This information is electronically submitted via California Recovery Input System (CRIS). Employment and payroll information is typically obtained by the city from the primary contractor, who is responsible for submitting comprehensive Monthly Employment Reports (Form CEM-1204) to the city. Our audit procedures included gaining an understanding of the city's reporting process and verifying that data reported to Caltrans is current and reasonably supported with payroll records.

We noted during our audit that the city did not obtain CEM-1204s from contractors and did not input the information on its CRIS reporting to Caltrans. Federal Highway Administration and ARRA Section 1512 require that all jobs paid for by ARRA funds be reported:

Local Assistance - Online Data Information System (LA-ODIS), currently known as CRIS, Step-by-Step User Guide stipulates that:

> All state agencies receiving RA funding will be responsible for ensuring the necessary system are in place to provide proper oversight, accounting, reporting, and project management controls to ensure all RA funds are used efficiently and for the intended purpose. . . Local agencies are responsible for submitting current and accurate data. . . Failure to submit monthly reports or reporting after the due date is cause for potential suspension and/or revocation of project 'Recovery Act' funds.

Recommendation

We recommend for future projects. that the city implement procedures to ensure that information is accurately reported.

City's Response to Audit Finding:

> The City agrees with the finding that proper procedures were not follwed to report all the employees working on the project as required by Recovery Act. We realized that although we reported the number of City employees working on the project we should have also reported the contractor labor as well. We will develop procedures to ensure that City staff is fully aware of the reporting procedures and will report accurate information for all future projects.

SCO's Comment

The city concurs with our finding and recommendation.

# Attachment—
# City's Response to Draft Audit Report

PALMDALE

*a place to call home*

JAMES C. LEDFORD, JR.
Mayor

TOM LACKEY
Mayor Pro Tem

LAURA BELTRANCOURT
Councilmember

MIKE DISPENZA
Councilmember

STEVEN D. HOFBAUER
Councilmember

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Auxiliary aids provided for communication access upon 72 hours notice and request

July 24, 2013

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

Attn: Andrew Finlayson, Chief, State Agency Audits Bureau

Subject: ARRA Project ESPL-5378(019)

Dear Mr. Finlayson:

The City is in receipt of the Draft Audit Report for Project ESPL-5378(019). Based on the recommendation that the City implement procedures to ensure that information is accurately reported our response is as follows;

The City agrees with the finding that proper procedures were not followed to report all the employees working on the project as required by Recovery Act. We realize that although we reported the number of City employees working on the project we should have also reported the contractor labor as well. We will develop procedures to ensure that City staff is fully aware of the reporting procedures and will report accurate information for all future projects.

Please move forward with publishing the Audit Report. If you have any questions, please contact me or Mike Livingston at (661) 267-5312.

Sincerely,

Michael J. Mischel
Director of Public Works

c: Mike Livingston, Project Manager

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**Division of Audits**
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