State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought. Help Save Water!

To: RIHUI ZHANG
Division Chief
Local Assistance

Date: March 30, 2016

File: P2710-0052

ORIGINAL SIGNED BY:

From: LAURINE BOHAMERA, Chief
External Audit - Contracts
Audits and Investigations

Subject: **AUDIT OF CITY OF EL MONTE**

Attached is the audit report setting forth the results of the audit of the City of El Monte's (City) financial management system relative to projects funded by Caltrans using the American Recovery and Reinvestment Act (ARRA). The projects selected for testing were ESPL-5210(016) and ESPL-5210(018). The audit was performed by the State Controller's office on behalf of Caltrans. The audit was for the period of July 1, 2009, through August 31, 2013.

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 and the Caltrans Master Agreement. Except for the instance noted below, the City has a system to accurately report project and job information as required by section 1512 of ARRA. The audit disclosed the following findings:

- The City claimed $39,599 in salaries and related cost without adequate supporting documentation that meets the requirements of federal regulations.

- Job information submitted to Caltrans contained inconsistencies.

Please provide A&I a corrective action resolution on the audit findings within 90 days of this memo's date. If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

Attachment

c: Fardad Falakfarsa, Chief, Office of Federal Resources, Division of Budgets
Steve Novotny, District 7, Local Assistance Engineer, Division of Local Assistance
MarSue Morrill, Chief, External Audits – Local Governments, Audits, and Investigations
Mark Samuelson, Chief, Office of Policy Development and Quality Assurance, Division of Local Assistance
Luisa Ruvalcaba, Audit Manager, Audits and Investigations
Lai Huynh, Audits and Performance Analyst, Office of Policy Development and Quality Assurance, Division of Local Assistance

BETTY T. YEE
California State Controller

February 26, 2016

Laurine Bohamera, Chief
External Audits – Contracts
California Department of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited the City of El Monte'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 our audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through August 31, 2013.

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. Except for an instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected for testing ARRA-funded construction projects ESPLE-5210(016) and ESPL-5210(018) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for an instance of noncompliance noted below, 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 claimed $39,559 in salaries and related costs without adequate supporting documentation that meets the requirements of federal regulations.
- Job information submitted to Caltrans pursuant to Section 1512 of ARRA contains inconsistencies.

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/rg

cc: Frank Senteno, Director
Public Works Department
City of El Monte
Luisa Ruvalcaba, Supervisor
Audits and Investigations
California Department of Transportation
Cesar Roldan, Senior Engineer
Public Works Department
City of El Monte

Contents

Audit Report

Summary 1

Background 1

Objectives, Scope, and Methodology 2

Conclusion 4

Views of Responsible Officials 4

Restricted Use 4

Schedule 1—Summary of Project Costs Reimbursed by Caltrans 5

Findings and Recommendations 6

Attachment – City's Response to Draft Audit Report

Audit Report

Summary

The State Controller's Office (SCO) audited the City of El Monte'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 August 31, 2013.

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. Except for an instance of noncompliance noted below, 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 projects ESPLE-5210(016) and ESPL-5210(018) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for an instance of noncompliance noted below, 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 claimed $39,559 in salaries and related costs without adequate supporting documentation that meets the requirements of federal regulations.
- Job information submitted to Caltrans pursuant to Section 1512 of ARRA contains inconsistencies.

Background

Caltrans entered into Master Agreement No. 07-5210R with the city. In addition, the city has been approved for ARRA funding for the following Caltrans construction projects:

- $1,192,670 for Award No. ESPLE-5210(016)
- $3,217,000 for Award No. ESPL-5210(018)

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2710-0052). 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 ARRA.
- 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 Master Agreement No. 07-5210R 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 city complied with the Buy America requirements of Title 23, United States Code.

The scope of the audit was limited to financial and compliance activities related to projects funded by Caltrans with ARRA funds. The audit was for the period of July 1, 2009 through, August 31, 2013. Our review of project costs was limited to costs reimbursed by Caltrans as of August 31, 2013. Schedule 1 of this report is a summary of project costs that were reimbursed by Caltrans as of August 31, 2013.

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 projects ESPLE-5210(016) and ESPL-5210(018) and, for each project, performed the following audit procedures:

- Reviewed project files to ensure that the city complied with applicable federal competitive bidding and procurement requirements.
- Reviewed project files and supporting documentation to ensure that the city complied with the Buy America requirements of Title 23, United States Code.
- 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 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 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. Except for an instance of noncompliance noted below, the city has a system to accurately report project and job information to Caltrans as required by Section 1512 of ARRA.

We selected for testing ARRA-funded construction projects ESPLE-5210(016) and ESPL-5210(018), and for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for an instance of noncompliance noted below, 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. 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 claimed $39,559 in salaries and related costs without adequate supporting documentation that meets the requirements of federal regulations.
- Job information submitted to Caltrans pursuant to Section 1512 of ARRA contains inconsistencies.

Views of Responsible Officials

We issued a draft audit report on September 25, 2015. Ernestine Jones, Finance Director, responded by letter dated October 15, 2015 (Attachment). This final audit report includes the City's response acknowledging lack of time records but arguing that necessary services were rendered by the affected personnel. The city has implemented a time-keeping and scheduling software system as a result of the audit.

Restricted Use

This report is solely for the information and use of the City of El Monte, 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.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 26, 2016

Schedule 1—
Summary of Project Costs Reimbursed by Caltrans
July 1, 2009, through August 31, 2013

Federal Award	Award Amount	Costs Reimbursed by Caltrans
Award # ESPLE-5210(016)	$ 1,192,670	$ 1,192,670 [1,2]
Award # ESPL-5210(018)	3,217,000	3,217,000 [1,2]
Total	$ 4,409,670	$ 4,409,670

[1] See the Findings and Recommendations section.

[2] Awards 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.

Findings and Recommendations

FINDING 1—
The city claimed salaries and related costs without adequate supporting documentation

The city claimed $39,559 in ARRA funds for employee salaries and related costs that were not supported by after-the-fact determination of the actual activity of each employee, as required by federal regulations. According to the city's policies, employees are required to allocate their time by activity. However, the city could not provide adequate support for the hours charged by its employees to the ARRA-funded project. Although the employees reported the number of hours worked on their timesheets, which were certified by the employees and their supervisors, the timesheets did not specify the ARRA-funded project that the employees worked on. Consequently, we questioned $39,559 as an unsupported cost.

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR Part 225), Appendix B, subsection 8.a. states, in part:

> a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees: ... (3) Is determined and supported as provided in subsection h.

2 CFR Part 225, Appendix B, subsection 8.h.(4) states, in part:

> Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. . . .

2 CFR Part 225, Appendix B, subsection 8.h.(5) states, in part:

> Personnel activity reports or equivalent documentation must meet the following standards:
> (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
> (b) They must account for the total activity for which each employee is compensated, . . .

Recommendation

The city should ensure that distribution of salaries and related costs are supported by timesheets or personnel activity reports that meet the requirements of federal regulations. The city also should consult with Caltrans to determine the allowability of $39,559 in questioned costs and reimburse Caltrans any amounts deemed unallowable.

City of El Monte's Response

The city stated that it recently implemented a KRONOS Timekeeping and Scheduling Software, which will allow the city to comply with the requirements of federal regulations and will ensure more accurate time reporting and proper accounting going forward. The city also stated, that there is no question that the Public Works Director, Senior Engineer, and administrative staff dedicated at least the number of hours charged to the ARRA Project, based on the requisite engineering and supervision that a project of this magnitude requires.

SCO's comment

The finding remains unchanged.

Although the KRONOS Timekeeping and Scheduling Software will assist the City in supporting personnel activity costs in the future, the city did not provide additional documentation to support the questioned $39,559 in salary costs. Absent the required time keeping records mentioned above, we considered but could not perform alternate tests procedures to assess a reasonable estimate of these labor costs. No records were available to substantiate the time and effort for the above-mentioned affected employees. Thus, we recommend the City contact Caltrans to further discuss the questioned labor costs.

FINDING 2—Job information submitted to Caltrans pursuant to Section 1512 of ARRA contains inconsistencies

Although the city was able to report job information to the California Recovery Input System (CRIS) for the contractors used on the ARRA-funded projects, the number of work hours reported to CRIS differed significantly (as much as 120%) from the number of work hours indicated in the monthly employment reports (i.e., CEM-1204) certified by the contractors. The table below shows the inconsistencies in the number of work hours between CRIS and the monthly employment reports for the two ARRA-funded projects.

	Number of Work Hours			Difference as a Percentage of Work Hours per CEM-1204
Project Number	Per CRIS	Per CEM-1204	Difference	
ESPLE-5210 (016)	5,071	2,301	2,770	120%
ESPL-5210 (018)	5,328	6,231	(903)	(14%)

All percentages are rounded to the nearest full percentage point.

Sections 1201 and 1512 of ARRA require Caltrans to provide monthly updates to Federal Highway Administration (FHWA) on projects funded and jobs created or sustained by ARRA. The city, as a sub-recipient, shares responsibility with Caltrans for the quality of data submitted to FHWA. While it shows that the ARRA-funded projects have created or sustained jobs, the full extent of this accomplishment is unclear because of errors and inconsistencies in the collection and reporting of job information.

Additionally, the *Department of Transportation, Division of Local Assistance, Office of Project Delivery & Accountability: American Recovery and Reinvestment Act (Recovery Act) – Local Assistance - Online Data Information System (LA-ODIS) Step-by-Step User Guide, Version 1.3*, states:

> . . . 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 to submit monthly project updates via the LA-ODIS reporting tool . . . 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

The city should improve its procedures to ensure that current and accurate employment information is submitted to the appropriate agencies.

SCO's Comment

In the City's response dated October 15, 2105, there was no comment to Finding 2. Therefore, the finding and recommendation remain unchanged.

Attachment—
City's Response to
Draft Audit Report

Ernestine Jones
Finance Director

CITY OF EL MONTE
FINANCE DEPARTMENT

October 15, 2015

Jeffery V. Brownfield, CPA
Chief, Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250

Dear Mr., Brownfield,

In response to your letter dated September 25, 2015 the City of El Monte is pleased to submit this response and corrective action plan to the State Controller's Office relative to the American Recovery and Reinvestment Act (ARRA) of 2009 Project funded by the California Department of Transportation for the period of July 1, 2009 through August 31, 2013.

In response to Finding 1: The City claimed salaries and related costs without adequate supporting documentation in the amount of $39,559.00. The City of El Monte's review shows the former reporting system failed to record the time of the Public Works Director, Senior Engineer and administrative staff to the proper general ledger expenditure accounts. There is no question that the individuals dedicated at least the number of hours charged to the ARRA Project based on the requisite engineering and supervision that a project of this magnitude requires. The City has recently implemented KRONOS Timekeeping and Scheduling Software which allows the City to comply with the requirements of federal regulations and will ensure more accurate time reporting and proper accounting going forward.

We are available to discuss at your earliest convenience and if you have further questions or need additional information, please contact myself or Anne Blakeley at (626) 580-2023.

Sincerely,

Ernestine Jones
Finance Director

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