

## Memorandum

*Serious drought.  
Help Save Water!*

To: RIHUI ZHANG, Chief  
DIVISION OF LOCAL ASSISTANCE

Date: July 14, 2015

File: P1560-0004

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

Subject: **PREAWARD AUDIT – SAN MATEO COUNTY OFFICE OF EDUCATION**

Caltrans Audits and Investigations performed a preaward audit of the San Mateo County Office of Education (SMCOE) to determine whether SMCOE's financial management system is adequate to accumulate and segregate reasonable, allowable and allocable project costs. The audit period covered expenditures from July 1, 2013 through December 11, 2014.

Based on our audit, we determined SMCOE's financial management system is capable of accumulating and segregating reasonable, allowable, and allocable project labor costs. For employees who worked on multiple projects, however, SMCOE used predetermined percentages instead of actual hours worked to allocate labor hours to projects. In addition, SMCOE did not procure contracts using a competitive bid process.

The report is intended for the information of SMCOE, Caltrans management, Caltrans District 4, the California Transportation Commission, and the Federal Highway Administration. This report is a matter of public record, however, and its distribution is not limited. In addition, this report will be placed on the Caltrans website.

Please provide our office with a corrective action plan, including time lines, by September 1, 2015.

If you have any questions, please contact Yung Jo Ryoo, Auditor, at (916) 323-7950 or Alice Lee, Audit Manager, at (916) 323-7953.

Enclosure

RIHUI ZHANG

July 14, 2015

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- c: Denise Porterfield, Deputy Superintendent, Business Services,  
San Mateo County Office of Education
- Margie Gustafson, Administrator, Internal Business Services,  
San Mateo County Office of Education
- Janice Richard, Director, Financial Services, Federal Highway Administration
- Jermaine Hannon, Director, Planning and Air Quality, Federal Highway Administration
- Kara Magdaleno, Administrative Program Assistant Planning and Finance,  
Federal Highway Administration
- Veneshia Smith, Transportation Financial Manager, Federal Highway Administration
- Sylvia Fung, Senior Transportation Engineer, Caltrans District 4
- Annette Goudeau, Audits and Federal Performance Measures Analyst,  
Caltrans Division of Local Assistance
- David Saia, LAPM/LAPG Coordinator, Caltrans Division of Local Assistance

AUDIT REPORT

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San Mateo County Office of Education

Preaward Audit

P1560-0004

July 2015

Prepared By:

Audits and Investigations

California Department of Transportation

# **EXECUTIVE SUMMARY, BACKGROUND, SCOPE, METHODOLOGY, AND CONCLUSION**

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## **EXECUTIVE SUMMARY**

The California Department of Transportation (Caltrans), Audits and Investigations (A&I) performed a preaward audit of the San Mateo County Office of Education (SMCOE) and found SMCOE's financial management system is capable of accumulating and segregating reasonable, allowable, and allocable project labor costs. For employees who worked on multiple projects, however, SMCOE used predetermined percentages instead of actual hours worked to allocate labor hours to projects. In addition, SMCOE did not procure contracts using a competitive bid process.

## **BACKGROUND**

Caltrans A&I conducts preaward audits on Local Government Agencies (LGAs) receiving state and federal funds to determine if LGAs are complying with state and federal requirements, and to determine if financial management systems are adequate to accumulate and segregate reasonable, allocable, and allowable project costs.

Caltrans requires preaward audits to be performed by A&I prior to establishing a Master Agreement with LGAs for state and federal funded projects.

## **SCOPE**

The scope of the audit was limited to reviewing and testing SMCOE's financial management system, including internal controls, and its ability to accumulate and segregate reasonable, allocable, and allowable project costs. The audit also covered the review of SMCOE's contract procurement practices. The audit consisted of inquiries of SMCOE's personnel and a review of the independent auditor's Single Audit Report for the fiscal year ended June 30, 2014. The audit also included tests of individual accounts traced to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system. The audit period covered expenditures from July 1, 2013 through December 11, 2014. Financial management system changes subsequent to December 11, 2014 were not tested and, accordingly, our conclusion does not pertain to changes arising after this date.

SMCOE is responsible for ensuring compliance with state and federal regulations and that the financial management system maintained by SMCOE is adequate to accumulate and segregate

reasonable, allowable and allocable project costs. Our responsibility, based on our audit, is to conclude on SMCOE's compliance with state and federal regulations, and the adequacy of its financial management system.

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 and procedures may deteriorate.

## **METHODOLOGY**

We conducted this performance audit in accordance with generally accepted government auditing standards. These 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 SMCOE. Therefore, we did not audit and are not expressing an opinion on SMCOE'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 by the auditee, as well as evaluating the overall presentation.

## **CONCLUSION**

Based on our audit SMCOE's financial management system is capable of accumulating and segregating reasonable, allowable, and allocable project labor costs. For employees who work on multiple projects, however, SMCOE uses predetermined percentages instead of actual hours worked to allocate labor hours to projects. In addition, based on our test of three contract procurement transactions over \$150,000 we determined SMCOE did not have any documentation to support the procurement processes used; contracts were not procured using a competitive bid process.

The results of the audit were communicated to Denise Porterfield, Deputy Superintendent of SMCOE's Business Services Division, on March 9, 2015. Our findings and recommendations take into consideration SMCOE's response dated June 24, 2015. SMCOE's response and our analysis of the response are set forth in the Findings and Recommendations section of this report. A complete copy of SMCOE's response is included in Attachment I.

Marsue Morrill

MARSUE MORRILL, CPA

Chief, External Audits-Local Governments

Audits and Investigations

July 14, 2015

## FINDINGS AND RECOMMENDATIONS

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### FINDING 1

SMCOE uses predetermined percentages instead of actual hours worked to allocate labor hours to projects. Employees complete timesheets to allocate their labor hours to multiple projects using the predetermined percentages instead of actual hours worked.

Previously, state and federal grants awarded to SMCOE were paid up front and therefore did not require SMCOE documentation to support reimbursement requests for project invoices paid. Future grants from Caltrans, however, will be paid on a reimbursement basis and therefore require supporting documentation from SMCOE for all actual project costs. Costs not properly supported may run the risk of being disallowed.

Per Title 2 Code of Federal Regulation (CFR) Part 200 Section 430 (i), Standards for Documentation of Personnel Expenses, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must (i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) be incorporated into the official records of the non-Federal entity; (iii) reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities"

### RECOMMENDATION

We recommend Caltrans Division of Local Assistance ensures SMCOE's financial management system accounts for project labor hours using actual labor hours worked for employees working on multiple projects.

### AUDITEE'S RESPONSE

SMCOE agreed to finding.

### FINDING 2

SMCOE did not procure contracts using a competitive bid process. We tested three contract procurement transactions over \$150,000 and found all were procured as sole source with no documentation or justification for not using competitive bidding.

SMCOE employees were unaware of SMCOE's contracting policy (BP 3310) that references the state's Public Contract Code (PCC) 20111 for procuring contracts using a competitive bid process, and SMCOE's management did not enforce the application of its internal contracting policy. If effective oversight controls are not established, SMCOE may not manage future state

and federal awards from Caltrans in compliance with state and federal statutes, regulations and contract terms and conditions.

Per Title 2 CFR Part 200 Section 319, Competition, "All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section..."

Per PCC Section 20111. (a) The governing board of any school district, in accordance with any requirement established by that governing board pursuant to subdivision (a) of Section 2000, shall let any contracts involving an expenditure of more than fifty thousand dollars (\$50,000) for the purchase of equipment, materials, or supplies to be furnished, sold, or leased to the district, services, and repairs to the lowest responsible bidder who shall give security as the board requires, or else reject all bids.

### **RECOMMENDATION**

We recommend Caltrans Division of Local Assistance ensures SMCOE strengthen its internal controls over its procurement process by enforcing SMCOE's Board adopted state procurement policy, BP 3310, and also develop federal procurement criteria in accordance with Title 2 CFR Part 200.

### **AUDITEE'S RESPONSE**

The County Office has had a 40 plus year relationship with the YMCA. These services are for outdoor educational services and the vendor is sole source in the County. These are vendors we have worked with before and had been vetted. We will work to implement procedures when amounts exceed the bid threshold.

### **AUDITOR'S ANALYSIS**

PCC 20110-20118.4 "Contracts Awarded by School Districts" does not allow sole sourcing unless certain allowed exceptions are documented in the invitation for bid or request for proposal. SMCOE did not have any procurement documents to support sole sourcing of services from the YMCA or any other contract procurements tested. The finding remains.

## AUDIT TEAM

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MarSue Morrill, Chief, External Audits-Local Governments

Alice Lee, Audit Manager

Yung Jo Ryoo, Auditor/Specialist

## Audit Findings

Caltrans Audits and Investigations

### Finding 1-Procurement

#### Condition :

We sampled 4 procurements of which the contract amounts exceeded \$150,000 and found no competitive bid processes were followed when the SMCOE entered into the contracts. SMCOE's contract policy (BP 3310) that was adopted on June 17, 2009 requires the SMCOE's Superintendent to use a competitive bid process for contracts exceeding \$5,000. The policy also specify that, for contracts exceeding the amounts established annually by the State Superintendent of Public Instruction, which was \$84,100 for calendar year 2014 and \$83,400 for 2013, the provision of the Public Contract Code 20111 shall apply. However, no competitive bid processes were followed when the SMCOE entered into the contracts with the contractors listed below.

Contractor	Purchase Item	Amounts
EPC IT Solution	Nimble Storage and Installation Service	\$186,582.80
YMCA/JONES GULC	Facility use for Outdoor Education	\$830,000
American Asphal	Repaving Parking Lot	\$183,300
RGM & Associates	Office Remodeling	\$1,203,369.62

#### Criteria :

- California Public Contract Code Section 20111. (a) states that the governing board of any school district, in accordance with any requirement established by that governing board pursuant to subdivision (a) of Section 2000, shall let any contracts involving an expenditure of more than fifty thousand dollars (\$50,000) for the purchase of equipment, materials, or supplies to be furnished, sold, or leased to the district, services, and repairs to the lowest responsible bidder who shall give security as the board requires, or else reject all bids.
  
- California Public Contract Code Section 20111. (b) states that the governing board shall let any contract for a public project, as defined in subdivision (c) of Section 22002, involving an expenditure of fifteen thousand dollars (\$15,000) or more, to the lowest responsible bidder who shall give security as the board requires, or else reject all bids. All bids for construction work shall be presented under sealed cover and shall be accompanied by one of the following forms of bidder's security:

- (1) Cash
- (2) A cashier's check made payable to the school district
- (3) A certified check made payable to the school district
- (4) A bidder's bond executed by an admitted surety insurer, made payable to the school district

### **Recommendation**

We recommend the SMCOE to follow the Board adopted procurement policy and the provisions of the Public Contract Code 20111 when the purchase amounts exceed the bid threshold that is established annually by the State Superintendent of Public Instruction.

### **SMCOE's Response**

**The County Office has had a 40 plus year relationship with the YMCA. These services are for outdoor educational services and the vendor is sole source in the County. We believe that RGM is a skilled services vendor. We had a lease-lease back agreement. These are vendors we have worked with before and had been vetted. We will work to implement procedures when amount exceed the bid threshold.**

### **Finding 2-Unsupported labor costs**

#### **Condition:**

SMCOE charges labor cost to the project/program based on a predetermined allocation ratio. However, SMCOE does not reconcile labor costs charged to project/program using the ratio to hours recorded per each employee's timesheet. And SMCOE's system of internal controls does not include processes to review after-the-fact interim charges made to a project/program based on budget estimates and the necessary adjustments are not made. As such, labor costs charged to project/program are not accurate, allowable, and properly allocated.

#### **Criteria :**

- Title 2 CFR Part 200, Section 430,(i) Standards for Documentation of Personnel Expenses states that "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must  
  
(i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) be incorporated into the official records of the non-Federal entity;

(iii) reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities.

- Title 2 CFR Part 200, Section 430,(viii) states that Budget estimates alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that the non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

### **Recommendation**

We recommend the SMCOE to allocate the program labor costs based on actual hours reported in the personnel activity report for the federal funded program if the employee work on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity. *Direct labor charge to the federal fund will not be allowed if the SMCOE do not comply with 2 CFR Part 200, Section 430,(i) Standards for Documentation of Personnel Expenses.*

### **SMCOE's Response**

**Our account system is set up to cost account based on time spent on activities. We require the employee to certified the time they work in these program. I believe our disagreement on this item is around paid time off. It is our intent to follow the requirements for Direct labor charges.**