

Memorandum

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Help Save Water!*

To: RIHUI ZHANG, Chief
Division of Local Assistance

Date: April 7, 2014

File: P1575-0031



From: ZILAN CHEN, Chief
External Audits – Local Governments
Audits & Investigations

Subject: **PRE-AWARD AUDIT – CITY OF SAN BERNARDINO**

California Department of Transportation (Caltrans) Audits and Investigations performed a preaward audit of the City of San Bernardino (City) to determine whether the City's financial management system is adequate to accumulate and segregate reasonable, allowable and allocable project costs.

The City's management is responsible for ensuring compliance with Agreement provisions and State and federal regulations and that the financial management system maintained by the City is adequate to accumulate and segregate reasonable, allowable and allocable costs.

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 City. Therefore, we did not audit and are not expressing an opinion on the City's financial statements.

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

The scope of the audit was limited to select financial and compliance activities. The audit consisted of inquires of the City's personnel, a review of the independent auditor's report for the fiscal year ended June 30, 2011 and an assessment of the City's financial management system as related to its ability to accumulate and segregate project costs as of September 12, 2013. The audit also included tests of individual accounts 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 as of September 12, 2013. Financial management system changes subsequent to September 12, 2013 were not tested and, accordingly, our conclusion does not pertain to changes 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 and procedures may deteriorate.

Our findings and recommendations were communicated to Michael Grubbs, Project manager, on January 17, 2014. The City concurred in general with the findings and the City's response is included as part of this report.

AUDIT RESULTS

Based on audit work performed, the City's financial management system is adequate to accumulate and segregate reasonable, allowable and allocable project costs except for the findings noted below;

Audit Finding 1

The City records costs related to employee's project hours and vacations as prior period adjustment instead of recording them to the corresponding pay period. Because of this payroll practice, the City's invoice to Caltrans in the amounts of \$13,279.99 for the Mt. Vernon Avenue Overhead Replacement Project included unallowable staff labor costs of \$831.54. The labors in questioned were performed from August 1, 2011 to August 15, 2011, prior to the Authorization to Proceed (E-76) date of August 16, 2011.

Appendix B to 2 Code of Federal Regulation (CFR) Part 225, Section 8, (5), states that personnel activities reports or equivalent documentation must be prepared at least monthly and must coincide with one or more pay periods. Also, No. 2 of the Special Covenants with Caltrans dated August 29, 2011 states that "Administering agency agrees that it will only proceed with work authorized for specific phase(s) with an 'Authorization to Proceed' and will not proceed with future phase(s) of this project prior to receiving an 'Authorization to Proceed' from the STATE for that phase(s) unless no further State or Federal funds are needed for those future phase(s)."

Recommendation

We recommend the City to make an adjustment in the billing to the Caltrans for the unallowable project labor costs of 831.54. We also recommend the City to review its payroll process and ensure that project labors are charged to the correct pay period when the works were actually performed.

Auditee's Response

The City responded that they will make an adjustment in their next billing to Caltrans for the unallowable project labor costs of \$831.54. The amount will be deducted from the next invoice to Caltrans for the Mt. Vernon Bridge Replacement Project, BRLS-5033 (042), and an informational copy of the invoice will be sent to Caltrans Audits and Investigations.

The City also responded that they are currently using a legacy system. The City is presently evaluating Enterprise Resource Planning environment; however, due to the complexity of the system, the City do not expect the immediate correction. As such, the city will prudently monitor that no inappropriate time will be charged outside of the billing period.

Audit Finding 2

The City's procurement procedure is not as restricted as Caltrans' Local Assistance Program Manual (LAPM) and 49 CFR Part 18, Section 36. The City stated that the City followed Procurement Procedure of Caltrans' LAPM and 49 CFR Part 18, Section 36 when it procured consultant for Plans, Specifications, and Estimates (PS&E) and Right-Of-Way Acquisition for Mount Vernon Avenue Overhead Replacement Project. However, the City did not advertise the availability of the Request for Proposal (RFP) in a major newspaper of general circulation or technical publication of widespread circulation as required by Caltrans' LAPM and the evaluation criteria and its relative importance were not identified in the RFP as required by 49 CFR Part 18, Section 36. Therefore, the City is not in compliance with the state and federal requirements.

Failure to disclose the evaluation criteria and advertise the availability of the RFP can expose the City to serious risk of challenge from bidders and will reduce the chance of contract being awarded to the firm whose proposal is most advantageous to the program.

Recommendation

We recommend the City to update its procurement procedures and ensure compliance with 49 CFR Part 18, Section 36 and Caltrans' LAPM.

Auditee's Response

The City responded that, though the City feels that advertisement of the project on the City's web site and sending invitations to selected Consultants who have proven expertise in designing major bridge structures provided adequate exposure for this RFP, the City will, in addition, advertise future RFP's in a major newspaper of general circulation or technical publication of widespread circulation.

It should be noted that RFP's were sent to forty two (42) consultants. Thirty (30) were initially sent to selected bridge consultants and twelve (12) additional consultants requested RFP's after viewing the advertisement on the City's web site.

Regarding evaluation criteria, the City agrees with the finding. Throughout the RFP, the City made references to the Caltrans' LAPM Chapter 10. However, in the evaluation criteria section, this was not made clear. Going forward the City will include a copy of the evaluation criteria sheet in the RFP.

The City is in the process of developing policies and procedures for hiring consultants for work on public works project. As part of these policies and procedures, the City will ensure that all solicitation involving federal or state funds shall conform to all requirements of Caltrans' LAPM and 49 CFR Part 18, Section 36. The City expects to complete the policies and procedures within 6 months.

This report is intended solely for the information of the City, Caltrans Management, Caltrans District 8, the California Transportation Commission and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited. In addition, this report will be placed on the Caltrans website.

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

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