

Memorandum

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Be energy efficient!*

To: KOME AJISE
Deputy Director
Planning and Modal Programs

Date: January 16, 2014

File: P1575-0026

From: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations



Subject: INCURRED COST AUDIT – COUNTY OF SHASTA, PUBLIC WORKS

We have audited the costs claimed by and reimbursed to the County of Shasta, Department of Public Works (County) totaling \$1,678,969 for work performed under project ESPLSE-5906(097) and BRLO-5906(071). The audit was performed to determine whether the costs were supported and in compliance with the agreement provisions and State and federal regulations. This audit was performed as a management service to assist the California Department of Transportation (Caltrans) in fulfilling its fiduciary responsibilities to State and federal regulatory agencies. Attached is the audit report that includes the County's response.

Based on our audit, we determined that reimbursed project costs totaling \$1,678,969 were supported and in compliance with respective agreement provisions and State and federal regulations. During the audit, we found incidents where the County's procurement and contract management can be improved.

Please provide our office a Caltrans action plan related to the audit recommendations within 90 days of this memorandum. This audit and the follow-up action plan are a matter of public record and will be placed in the Caltrans website.

We thank you and your staff for their assistance provided during this audit. If you have questions or need additional information, please contact me at (916) 323-7122 or Zilan Chen, Chief, External Audits, at (916) 323-7877.

Attachments

- (1) Final incurred cost audit report for the County of Shasta

- c: Patrick J. Minturn, Director, County of Shasta, Department of Public Works
Brian P Kelly, Secretary, California State Transportation Agency
Michael Tritz, Deputy Secretary for Audits and Performance Improvements, California State
Transportation Agency
Janice Richard, Director of Financial Services, Federal Highway Administration
Andre Boutros, Executive Director, California Transportation Commission
Malcolm Dougherty, Director, Caltrans
Norma Ortega, Acting Chief Deputy Director, Caltrans
John Bulinski, District Director, District 2, Caltrans
Dave Moore, Deputy Director, Planning and Assistance, District 2, Caltrans
Clark Paulsen, Chief, Division of Accounting, Caltrans
Ray Zhang, Acting Chief, Division of Local Assistance, Caltrans
Ian Howat, Chief, Office of Local Assistance, District Local Assistance Engineer, District 2,
Caltrans

P1575-0026
Incurred Cost Audit County of Shasta
January 2014

Zilan Chen

Chief, External Audits – Local Governments

Audits and Investigations

California Department of Transportation

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Summary

The California Department of Transportation (Caltrans) Audits and Investigations (A&I) audited costs claimed totaling \$1,678,969 by the County of Shasta, Department of Public Works (County). The audit included costs incurred on projects ESPLSE-5906(097) and BRLO-5906(071) (see Attachment II) during our audit period from July 1, 2009 through December 31, 2011. Based on our audit, we determined that reimbursed costs totaling \$1,678,969 were supported and in compliance with respective Agreement provisions, and State and federal regulations. However we found incidents where the County's procurement and contract management can be improved.

Objectives

The audit was performed to determine whether costs claimed by and reimbursed to the County were allowable, adequately supported, and in compliance with the respective Agreement provisions and State and federal regulations. The audit was performed as a management service to Caltrans to assist in its fiduciary responsibility.

The County is responsible for the claimed costs, compliance with applicable Agreement provisions, and State and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable, allocable, and allowable costs.

Methodology

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 County. Therefore, we did not audit and are not expressing an opinion on the County'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, as well as evaluating the overall presentation.

Scope

The scope of the audit was limited to financial and compliance activities. Our audit of the County's financial management system included interviews of County staff necessary for obtaining an understanding of the County's accounting and internal controls. Based on the risk assessment performed, the audit focused on the County's procurement process and contract management of consultant contracts. The audit consisted of transaction testing of claimed costs to evaluate compliance with Title 2 Code of Federal Regulations (CFR), Part 225; Title 23 CFR, Part 635; Title 48 CFR, Ch. 1, Part 31; Title 49 CFR, Part 18; Caltrans's Local Assistance Procedures Manual; and requirements

**Scope
(Continued)**

stipulated in the County's Agreement with Caltrans. Our field work was completed on December 13, 2012, and transactions occurring subsequent to this date were not tested. Accordingly, our conclusion does not pertain to costs or credits 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 or procedures may deteriorate.

Our findings and recommendations take into consideration the County's response dated December 17, 2013, to our November 2013, draft report. Our findings and recommendations, the County's response, and our analysis of the response are set forth in the Findings and Recommendations of this report. Additionally, Finding 1 was modified as a result of additional supporting documents provided by the County. A copy of the County's full response is included as Attachment III. Documents referenced in the County's response may be provided upon request.

Background

The Shasta County was created by an act of California's first legislature on February 18, 1850, as one of California's original 27 counties. The County seat is the City of Redding. Shasta County's economy is based on agriculture, tourism, timber, medical services, and retail businesses. The geographic boundaries of Shasta County include three incorporated cities, which are Anderson, Redding, and Shasta Lake.

The Shasta County is governed by a five member Board of Supervisors, who are elected on a non-partisan basis to serve four-year terms. Each is elected from one of the five supervisorial districts of Shasta County. Other elected officials include the Assessor/Recorder, District Attorney, Sheriff/Coroner, and Superintendent of Schools. A County Administrative Officer appointed by the Board of Supervisors runs the day-to-day business of Shasta County.

Conclusion

The Caltrans A&I audited costs claimed totaling \$1,678,969 by the County. The audit included costs incurred on projects ESPLSE-5906(097) and BRLO-5906(071) during our audit period from July 1, 2009 through December 31, 2011. Based on our audit, we determined that reimbursed costs totaling \$1,678,969 were supported and in compliance with respective Agreement provisions, and State and federal regulations. However we found several incidents where the County's procurement and contract management can be improved.

**Conclusion
(Continued)**

This report is intended for the information of the County, Caltrans Management, 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 Caltrans website.

If you have any questions, please contact Lisa Moreno, Auditor, at (916) 323-7885, or Cliff Vose, Audit Manager, at (916) 323-7917.

**ZILAN CHEN, Chief
External Audits – Local Governments
Audits and Investigations**

January 16, 2014

FINDINGS AND RECOMMENDATIONS

Finding 1 - Contract Administration Needs Improvement

The Shasta County, Department of Public Works (County) did not maintain an adequate contract administration system to ensure that costs billed and reimbursed are supported and in accordance with State and federal regulations and the terms, conditions, and specifications of its contracts. As a result, the County risks billing the California Department of Transportation (Caltrans) costs that are not supported. We identified the following inconsistencies:

- The County was billing to, and reimbursed by Caltrans for retention costs prior to the County reimbursing its construction contractors. (For criteria see Attachment I, Finding 1 – 1a, 1d, 1e, 1f, 1g, and 1h.)
- One of three consultant invoices tested for project BRLO-5906(071) contained costs for a labor category that is not identified in the cost proposal. Additionally, it also included reimbursed mileage rates that were billed at a higher rate than allowed by the Master Agreement between the County and Caltrans. (For criteria see Attachment I, Finding 1- 1a, 1b, 1c, and 1d.)

These conditions appear to be a result of the County staff not fully understanding all State and federal requirements and the requirements of the Master Agreement between the County and Caltrans.

Recommendation

The County should take the following corrective action:

- Ensure that the County does not bill for retention costs prior to actually paying the retention costs to the contractor or an escrow account.
- Ensure approval of any added consultant personnel and/or new rates are properly document prior to cost being incurred.
- Bill travel and per diem rates paid to consultants at rates approved by the State’s Department of Personnel Administration for State employees.
- Ensure staff assigned as contract managers have knowledge of contract terms and conditions.

County’s Response

The County agreed partially with the items in Finding 1 and provided additional supporting documents related to the two construction line items in question. The County will focus efforts to comply with the recommendations and have created recap sheets in response to the findings. For the County’s full response to this finding see Attachment III.

**Auditor's Analysis
to County
Response**

We removed the audit issues related to construction line items identified in the draft audit report as a result of additional supporting documents provided by the County. The County agreed to the remainder of the findings.

**Finding 2 –
Procurement
Procedures Needs
Improvement**

The County did not follow procurement procedures as required by Title 49 Code of Federal Regulations (CFR), Part 18.36, Federal Aid Master Agreement, and the Caltrans Local Assistance Procedures Manual (LAPM). Without following required procurement procedures, the County risks entering into contracts that may not be fair and reasonable.

Our audit included testing of two construction contracts that utilized an Invitation for Bids (IFB) procurement process and two consultant contracts that utilized a Request for Proposal (RFP) process. We found issues within both procurement processes. Specifically, we found:

- For both RFPs tested, the County could not provide evidence that the County negotiated profit as a separate element. (For criteria see Attachment I, Finding 1 – 1d, and Finding 2 – 2a and 2b.)
- For both RFPs, an independent cost estimate was not prepared prior to receiving bids. (For criteria see Attachment I, Finding 2 – 2a and 2c.)
- For both RFPs, the County used time and materials type contract without documenting any justification/support showing that no other contract type was suitable for the contracts. (For criteria see Attachment I, Finding 2 – 2a and 2d.)
- One of the two IFBs tested was advertised for only 10 days instead of the required three weeks. (For criteria see Attachment I, Finding 2 – 2e, 2f, 2g.) Moreover, the County's Policy and Procedures does not specify how long an IFB needs to be advertised when using State and federal funds.
- One of four procurements tested did not have date and time stamps on bids when they were received. (For criteria see Attachment I, Finding 2 – 2a, and 2h).

These conditions appear to be a result of the County staff not fully understanding State and federal procurement requirements.

Recommendation

The County should take the following corrective action:

- Ensure proper procurement procedures are followed in accordance with State and federal regulations, Caltrans LAPM, and the Agreement between the County and Caltrans.
- Create an independent cost estimate prior to receiving bids under an RFP process.

**Recommendation
(Continued)**

- Negotiate profit as a separate element and keep evidence of the negotiations in the contract/project file.
- Maintain all necessary procurement-related documents (profit negotiations, cost estimates, etc) in the project files to support proper procurement.
- Revise its procurement Policy and Procedures to ensure compliance with State and federal regulations.
- Ensure that all IFB's in the future are advertised the required three weeks when State and/or federal funds are involved in the project.
- Seek training for management and staff for proper procurement practices.

County's Response The County agrees with this finding. For the County's full response to this finding, see Attachment III.

Audit Team

Zilan Chen, Chief, External Audits - Local Governments
Cliff Vose, Audit Manager
Lisa Moreno, Auditor
Ashna Singh, Auditor
Derek Pixley, Auditor
Fifie King, Auditor

ATTACHMENT I CRITERIA

Finding 1

- 1a.** 49 CFR, Part 18.36 (b)(2) states, “Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders”.
- 1b.** 2 CFR, Appendix B to part 225 (43)(b) states, “Costs incurred by employees and officers for travel including lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit’s written travel policy”.
- 1c.** Article IV-Fiscal Provisions, number 17 of Master Agreement 02-5906R, Administrating Agency-State Agreement for Federal Aid Projects states, “Payments to Administrating Agency for project-related travel and subsistence (per diem) expenses of Administrating Agency forces and its contractors and subcontractors claimed for reimbursement or as local match credit shall not exceed rates authorized to be paid rank and file State employees under current State Department of Personnel Administration (DPA) rules. If the rates invoiced by Administrating Agency are in excess of DPA rates, Administrating agency is responsible for the cost difference, and any overpayments inadvertently paid by State shall be reimbursed to State by Administrating Agency on demand within thirty (30) days of such invoice”.
- 1d.** 49 CFR, Part 18.20 (b)(3) states, in part, that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.
- 1e.** Article IV, number 7 of Federal and State Master Agreement states, “Payments to Administering Agency can only be released by State as reimbursement of actual allowable Project costs already incurred and paid for by Administering Agency”.
- 1f.** LAPM Chapter 5.2-Requirements for Reimbursement page 5-4 states, in part, that the local agency may submit monthly invoices for reimbursement of participating costs (costs eligible for federal and/or state reimbursement). Amounts claimed must reflect the cost of completed work, which has been paid for.
- 1g.** LAPM Chapter 5.4-Methods of Reimbursement page 5-9 also states in part, that the local agency must incur the expenditures and pay their contractor prior to invoicing Caltrans for reimbursement of their costs.
- 1h.** LAPM Chapter 5.5-Format of Invoices page 5-15 states, in part, that retention is not eligible for reimbursement until it has been paid to contractor or deposited into an escrow account.

**ATTACHMENT I
CRITERIA**

Finding 2

- 2a.** 49 CFR 18.36 (b)(9) states, in part, that grantees and subgrantees will maintain records sufficient to detail significant history of procurement. These records will include, but not necessary limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for contract price.
- 2b.** 49 CFR 18.36 (f)(2) states, in part, that grantees and subgrantees will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed.
- 2c.** 49 CFR 18.36 (f)(1) states, in part, that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modification. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals.
- 2d.** 49 CFR 18.36 (b)(10) states, “Grantees and sub-grantees will use time and material type contracts only – (i) after a determination that no other contract is suitable, and (ii) if the contract includes a ceiling price that the contractor exceeds at its own risk”.
- 2e.** 49 CFR 18.36 (d)(ii)(A) states, in part, that the invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing sufficient time prior to the date set for opening the bids.
- 2f.** 23 CFR 635.112 (b) states, in part, that the advertisement and approved plans and specifications shall be available to bidders a minimum of 3 weeks prior to opening of bids except that shorter periods may be approved by the Division Administrator in special cases when justified.
- 2g.** LAPM Chapter 15 Advertise and Award Project page 15-7, states, “The advertisement period is determined by the administering agency. A minimum advertisement period of three weeks is required for all federal-aid projects”.
- 2h.** LAPM Chapter 15 Advertise and Award Project page 15-9, states, in part, that as bids are received, they shall be logged in and stamped with the time and date.

**Attachment II
Incurred Cost Audit
County of Shasta**

Project Code:	Total Cost	Finding
BRLO-5906(071)	\$969,853	1,2
ESPLSE-5906(097)	\$709,116	2
Total	\$1,678,969	



Shasta County

DEPARTMENT OF PUBLIC WORKS

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PATRICK J. MINTURN, DIRECTOR
C. TROY BARTOLOMEI, DEPUTY
SCOTT G. WAHL, DEPUTY

No. 702944 (Phase I)

December 17, 2013

Lisa Moreno, Auditor
California Department of Transportation
External Audits – Local Government
P.O. Box 942874
MS #2
Sacramento, CA 94274-0001

Subject: Incurred Cost Audit P1575-0026

Dear: Ms. Moreno:

This is in response to Draft Audit P1575-0026 for Shasta County dated November 2013. Thank you for the opportunity to review the draft document. Corrective actions are being implemented as recommended in your report. Finding 1 noted two quantity discrepancies in project ESPLSE-5906(097). The items in question were: Bid Item #14 Imported Material (Shoulder Backing), and Bid Item #17 Slurry Seal. Our responses are detailed below.

Bid Item #14 – Imported Material (Shoulder Backing)

The following quantities are listed on Attachment III of the draft audit:

Quantity Billed: 500 tons
Delivery Weight Tags: 414.72 tons
Resident Engineer Diary: 415 tons
Quantity Questioned: 85.28 tons @ \$20/ton

Response to Quantity Questioned for Bid Item #14:

The amount of Import Material that was paid equals the sum of the weight tickets for material delivered, plus some excess aggregate base that was onsite and was used as Import Material and paid accordingly.

ATTACHMENT III

Response to Draft Audit Report
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On April 26, 2010, the Resident Engineer's ("RE") daily report records a conversation with the contractor's superintendent. They noted that excess Class 2 Aggregate Base was onsite. They agreed that this superior quality material could be used as Imported Material (Shoulder Backing). The quantity used was to be estimated daily by the RE. On six subsequent days, estimated quantities were listed in the daily reports. In total, 305 tons of Class 2 Aggregate Base was credited to item #14 Imported Material. (See Exhibit A).

For the pay estimate in question, 415 tons of delivered Import Material was credited to Item #14. An additional 85 tons of excess Class 2 Aggregate Base Material was credited to Item #14. This brought the total quantity paid for Item #14 to 500 tons, or 125% of the original bid amount. The additional 200 tons of Class 2 Aggregate Base credited to Item #14 was added to the contract in Change Order No. 5. See Exhibit A for supporting documentation (detail recap sheet, RE daily reports, weight tickets for Import Material (Shoulder Backing), and Change Order Number 5).

When reviewing our records for this response, we noticed that Change Order Number 5 did not accurately reflect the amount of excess Import Material that was used and incorporated in the work. The total tonnage recorded for Import Material was 719.72 tons. Five hundred tons was paid for Bid Item #14 and 200 was paid by Change Order Number 5. It appears the amount paid was short 19.72 tons. It was missed by both us and the contractor.

Bid Item #17 – Slurry Seal

The following quantities are listed on Attachment III of the draft audit:

Quantity Billed: 452 tons

Delivery Weight Tags: 432.05 tons

Resident Engineer Diary: 452 tons

Quantity Questioned: 52.2* tons @ \$209/ton

*Notation on documentation identify that 400 tons used

Response to Quantity Questioned for Bid Item #17

The item for Slurry is measured and paid per Caltrans Standard Specification section 37-2.07 and 37-2.08, dated May 2006. Per that document, slurry seal shall be paid by the combined weight of the aggregate and asphaltic emulsion used.

The "400 tons used" notation in the draft audit report refers only to the aggregate that went into the slurry. It is written on the second weight sheet for aggregate. On 6/11/2010, 215.94 tons of aggregate was delivered. On 6/14/2010, 216.11 tons of aggregate was delivered. The total aggregate delivered thus totaled 432.05 tons. The "400 tons used" was determined by subtracting the amount of aggregate remaining after the slurry seal operation was complete.

ATTACHMENT III

Response to Draft Audit Report
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A total of four asphaltic emulsion loads were delivered to the site over two days of slurry seal operations. The total tonnage delivered was 57.92 tons as referenced on the tags. After subtracting unused asphaltic emulsion the total amount included in the pay estimate was 52 tons. Adding together the aggregate quantity (400 tons) and the emulsion quantity (52 tons) yields the pay quantity (452 tons).

RE Daily Reports for June 14, 2010, and June 15, 2010, show slurry seal quantities of 210 tons and 242 tons, respectively for a total of 452 tons as per the pay estimate. See Exhibit B for supporting documentation [detail recap sheet, RE daily reports (2), weight tickets for aggregate (2) and asphaltic emulsion (4)].

The reproduced asphalt emulsion tags are of poor quality. However, hand written tonnages are visible on each asphalt emulsion tag and the daily reports clearly list the tonnage used each day. The amounts listed are consistent and reflect the materials delivered and used for the slurry seal operation.

We take all audit findings seriously and are working to focus our efforts to comply with the draft recommendations. The recap sheets are new and were created for this response. The other attached documents were provided previously. If upon further review you are still of the opinion that the findings are appropriate, we would appreciate another opportunity to provide any specific documentation that may be required. This would be helpful as we train and direct staff on future projects.

Prior to finalizing our response, I forwarded a copy of all documents to Ian Howat, Chief of Caltrans District 2, Office of Local Assistance, for his review and comment. Ian's email response is attached.

If you have additional questions, or would like to discuss any of the findings in your report, please do not hesitate to contact me directly at 530/225-5133 or via email at swahl@co.shasta.ca.us.

Sincerely,

Patrick J. Minturn, Director

By Scott G. Wahl
Scott G. Wahl
Deputy Director – Engineering

SGW/tac

Attachments

c: Zilan Chen, Chief, External Audits – Local Governments

Ian Howat, Chief, Caltrans District 2, Office of Local Assistance (via email)