

Memorandum

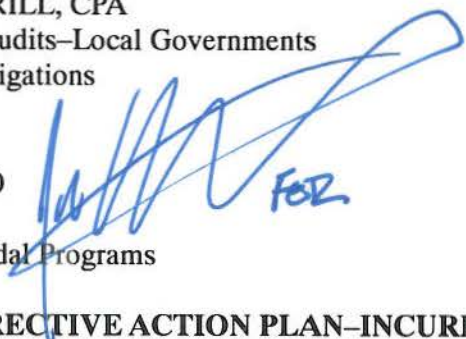
*Making Conservation
a California Way of Life.*

To: MARSUE MORRILL, CPA
Chief, External Audits–Local Governments
Audits and Investigations

Date: May 11, 2017

File: P1575-0046

From: COCO BRISEÑO
Deputy Director
Planning and Modal Programs



Subject: DIVISION CORRECTIVE ACTION PLAN–INCURRED COST AUDIT–CITY OF DUNSMUIR

This memorandum serves as the California Department of Transportation (Caltrans) Division of Local Assistance's (DLA) corrective action plan for findings described in Audits and Investigations (A&I) Audit of the city of Dunsmuir (City) dated September 20, 2016. We thank you and your staff for the efforts in completing this audit and for helping the City improve their financial management system.

The DLA concurs with the entire Audit findings.

Finding 1–Lack of Written Policies and Procedures

The City did not have written policies and procedures related to grant management, procurement, contract management, construction management, or record keeping as required by federal regulations.

A&I Recommendation

The City should establish and maintain written policies and procedures related to grant management, procurement, contract management, construction management, and record keeping and ensure that management and staff are trained accordingly by August 30, 2017.

Corrective Action

District 2 (District) will ensure that the City attends Federal Highway Administration (FHWA) sponsored "Federal-Aid Series" training (Fiscal Year [FY] 2017–18) and provides written contract procurement procedures to the DLA for review and approval by August 30, 2017. The City's future procurement activities for projects with federal or State funding is subject to DLA oversight and approval.

Finding 2–Financial Management Needs Improvement

The City's accounting system was not fully utilized in order to properly accumulate and segregate project costs as required by federal regulations.

A&I Recommendation

The City's existing accounting system should be fully utilized to accomplish the following:

- Accumulate and segregate project costs at the phase level, and capture cost and payment information accurately and consistently.
- Provide cost reports by project, phase, and consultant/vendor when preparing requests for reimbursement from Caltrans.

Corrective Action

The District Local Assistance Engineer will work with the City to ensure that all invoices are reviewed for compliance with contract terms, and conditions, and approved for payment in accordance with written policy, and that the review and approval is documented. The City will validate with DLA that their fiscal management system utilized meets Federal requirements as required by 49 CFR 18.20 (a) fiscal control and accounting procedures by August 30, 2017.

Finding 3–Grant Management Needs Improvement

The City did not follow requirements of the Federal-Aid Highway Program related to authorization dates, reimbursement, and reporting as required by the City’s Master Agreement, federal regulations, and Caltrans.

The City billed \$3,725 for construction engineering costs incurred between July 18, 2013, and August 22, 2013, which was prior to the authorization date of September 3, 2013, for the construction phase on the Tauhindauli Project. These costs are disallowed.

A&I Recommendation

The City should reimburse Caltrans \$3,725 for the disallowed costs identified above. In addition, the City should develop policies and procedures, and train staff accordingly to ensure:

- Proper grant management processes to include eligible start dates and reporting requirements.
- Consultants have been paid and checks have cleared the bank prior to requesting reimbursement for project costs.

Corrective Action

The DLA will work with the City to repay the reimbursed amount of \$3,725, by June 30, 2017.

Finding 4–Procurement Needs Improvement

The City did not maintain records to support the procurement of professional services, and construction contracts met federal and State laws and regulations. The City did not have established policies and procedures for procurement or the retention of records.

A&I Recommendation

The City should develop and adopt procurement policies, and procedures that comply with federal and State laws and regulations, and train staff accordingly. The City should ensure that they maintain records sufficient to detail the history as required.

DLA should work with the FHWA to determine whether the City should reimburse Caltrans for professional services and construction contracts related to the Butterfly and Tauhindauli projects in the amount of \$163,367.

Corrective Action

The DLA will work with the FHWA to determine whether the \$163,367 in questioned costs should be repaid by June 30, 2017. The District will ensure that the City develops procurement policies and procedures by August 30, 2017.

Finding 5–Contract Management Needs Improvement

The City did not manage its professional services contract to ensure that consultants were providing services and billing in accordance with the terms, conditions, and specifications of the contracts

resulting in unallowable costs. The City did not have a written contract covering engineering services provided by PACE Engineering. As a result, \$2,211 in environmental and permit phase costs incurred during this time are disallowed.

A&I Recommendation

The City should reimburse Caltrans \$2,211 for the disallowed costs.

Corrective Action

The DLA will work with the City to recover disallowed costs of \$2,211 by June 30, 2017.

Finding 6—Needs for Responsible Persons in Charge/Construction Management Needs Improvement

The City did not have a full-time responsible person in charge of the Tauhindauli construction project in violation of FHWA regulations and Local Assistance Procedures Manual requirements. In addition, the City did not have possession of the construction files.

A&I Recommendation

The City should develop policies and procedures, and train staff accordingly to:

- Assign an employee who can fulfill the duties of the person in charge of projects that employs consultants for construction engineering services.
- Ensure staff establish and follow procedures to document work being performed on a construction project, such as quantities and types of materials used, personnel present at the job site etc.
- Ensure that consultants hired to perform construction engineering services also understand and document work being performed on construction projects as required.

Corrective Action

The District will ensure that the City has a full-time public employee designated as being in “responsible charge” of construction projects.

Summary of Corrective Actions

- Appropriate City staff to participate in the DLA-sponsored Local Agency Architectural & Engineering Procurement and Resident Engineers training, and in the FHWA-sponsored Federal-Aid Series training FY 2017–18.
- The District will work with the City to ensure that all invoices are reviewed for compliance with contract terms, and conditions, and approved for payment in accordance with written policy, and that the review and approval is documented.
- The District will work with the City to ensure the City develops or adopts procurement policies and procedures that comply with federal and State laws and regulations, and train staff accordingly by June 30, 2017.
- Caltrans will seek reimbursement of \$5,936 (\$3,725 associated with Finding 3, and \$2,211 associated with Finding 5) by June 30, 2017.
- The DLA will work with the FHWA to determine whether the \$163,367 in questioned costs associated with Finding 4, should be repaid by June 30, 2017. The District will ensure that the City develops procurement policies and procedures by August 30, 2017.
- The City will ensure, and validate with the District that it has a full-time public employee designated as being in “responsible charge” of construction projects.

MARSUE MORRILL, CPA

May 11, 2017

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If you have any questions, please contact Phyllis Nahale, Division of Local Assistance, at (916) 651-8257, or by email sent to phyllis.nahale@dot.ca.gov.

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