

Memorandum

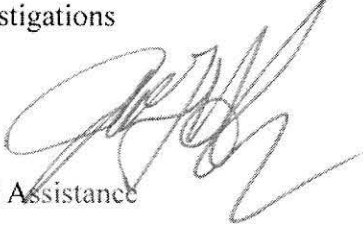
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To: MARSUE MORRILL, CPA
Chief, External Audit–Local Governments
Audits and Investigations

Date: June 30, 2017

File: P1594-0026
P1594-0027

From: JOHN HOOLE
Acting Chief
Division of Local Assistance



Subject: **DIVISION CORRECTIVE ACTION PLAN-INDIRECT COST RATE PROPOSAL AUDIT–
CITY OF PASADENA, DEPARTMENT OF PUBLIC WORKS**

This memorandum serves as the California Department of Transportation's (Caltrans) Division of Local Assistance (DLA) Corrective Action Plan for findings described in Audits and Investigations' (A&I) Audit of the City of Pasadena, Department of Public Works. 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 audit findings:

Finding 1 – Indirect Labor Costs Were Recovered Twice.

The City recovered an excess totaling \$57,950 for direct and indirect costs billed to Caltrans. The Department of Public Works (DPW) staff were not aware of the allocated indirect costs to the project. As a result, the City has recovered costs billed as both a direct and indirect cost.

A&I Recommendation

The City should reimburse Caltrans the \$57,950 in excess recovered costs identified above. In addition, the City will review all invoices billed to Caltrans since FY2011/2012, and identify and reimburse any allocated indirect costs that were billed both as direct labor costs and as indirect costs if the indirect cost rate was applied to the allocated costs.

Corrective Action

The DLA agrees with the finding and will seek reimbursement of \$57,950 of recovered costs. The City will review all invoices billed to Caltrans since Fiscal Year 2011/2012, and identify and reimburse any allocated indirect costs that were billed both as direct labor costs and as indirect costs if the indirect cost rate was applied to the allocated costs by October 1, 2017.

Finding 2 – The Administrative Labor Costs Were Not Equitably Allocated.

The City's DPW staff charged their project labor costs directly to the capital projects fund (301) and indirect labor costs to either the capital projects fund or general fund based on budgeted percentages. To calculate the indirect costs rate, the City includes only the capital project fund's indirect labor costs in the pool. Applying the budgeted percentage to determine the indirect labor costs does not produce an equitable result in consideration of relative benefits it provides.

A&I Recommendation

The City should develop an administrative labor cost allocation base that will produce an equitable result in consideration of relative benefits derived, and apply the new methodology to the indirect cost allocation plan beginning FY 2015/16 and onward.

Corrective Action

The City will reexamine how costs are allocated and evaluate the indirect cost rate going forward.

Finding 3 – Timesheets Were Not Properly Approved.

The City's DPW staff charged their project labor costs directly to the capital projects fund 301 and found 19 out of 94 (20 percent) timesheet were not properly approved. Timesheets need to be approved by an employee's supervisor or another individual with authority to approve and ensure charges are authorized purposes.

A&I Recommendation

The City should implement an effective internal control over employee time reporting process in compliance with 49 CFR Part 18.20 (b)(3) and ensure timesheets are approved by the appropriate authorized individuals.

Corrective Action

The City will implement an effective internal control over employee time reporting process by October 1, 2017.

Finding 4 – Procurement Policy and Procedures Not Compliant with Federal Requirement.

The City's Procurement Policy and Procedures were reviewed and it was found that cost or price analysis and profit negotiation was not included and therefore is not compliant with federal requirements. Without including cost or price analysis, and profit negotiations within their policies and procedures the City may not be able to ensure contracts are executed at a fair and reasonable cost.

A&I Recommendation

The City should update their procurement policies and procedures to include cost or price analysis and profit negotiation.

Corrective Action

The City will update their procurement policies and procedures to include cost price analysis and profit negotiations by October 1, 2017.

Finding 5 – Procurement Transaction Did Not Comply with All Federal Procurement Policies and Procedures.

A&I selected three procurement contracts (transactions) from state and federal projects billed to Caltrans and found selected transactions did not address all areas required by federal regulations. A & I found the following:

One consultant service contract for Preliminary Engineering, Environmental Analysis, Design and Right of Way activities that was authorized by the City Council on January 12, 2009 did not include:

- A cost estimation with detail of cost breakdown.
- A price/cost analysis and profit negotiation.
- Verification if the winning bidder was suspended or debarred from the federal contract.

Two construction contracts did not include:

- Procedures for protest/dispute in the Invitation for Bid (IFB) contract.
- Verification if the winning bidder was suspended or debarred from the federal contract.

By not following, the requirements identified above the city cannot ensure a fair and reasonable cost, and fair and reasonable competition on their contracts. In addition without verifying if a contractor has been suspended or debarred, the City cannot ensure work being performed is done by qualified contractors.

A&I Recommendation

The City should update procurement policy and procedures to include the deficiencies identified above, and train staff accordingly.

Corrective Action

The City will update their procurement policies and procedures and train staff accordingly by October 1, 2017.

If you have any questions, please contact Carmen Wills, Division of Local Assistance at (916) 653-3990 or by email sent to carmen.wills@dot.ca.gov.

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