


# Memorandum

*Making Conservation  
a California Way of Life.*

**To:** DARA WHEELER  
Division Chief  
Division of Rail and Mass Transportation

**Date:** December 28, 2017

**File:** P2545-0027

**From:** ALICE LEE   
Chief  
External Audits – Contracts  
Independent Office of Audits and Investigations

**Subject:** **AUDIT OF CITY OF LATHROP PROPOSITION 1B PROJECTS**

Attached is the audit report pertaining to the audit performed on the following Proposition 1B (Prop 1B) project:

<u>Project Name</u>	<u>Project Number</u>	<u>P Number</u>	<u>Amount Audited</u>
Lathrop Road Grade Separation	001300052	P2545-0027	\$5,000,000.00

The project's implementing agency is the City of Lathrop. The project was funded using Proposition 1B Highway Railroad Crossing Safety Account funds. The Audit was for the period of July 17, 2013, through April 6, 2016.

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the Department of Finance on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed. The audit disclosed the following finding:

Finding: Questioned Construction Engineering Expenditures - The City claimed ineligible construction engineering for City personnel totaling \$18,526.

1. The City claimed \$9,554 of ineligible direct personnel expenditures for the Public Works Director and support staff. The Public Works Director and support staff Costs are indirect costs recoverable through the Caltrans approved Indirect Cost Rate (ICR).
2. The City claimed \$6,062 of ineligible indirect expenditures because the City used an ICR that was higher than the Caltrans approved ICR.
3. The City claimed \$2,910 of ineligible direct personnel expenditures. The unsupported expenditures stemmed from the City using 1,792 hours as the divisor to calculate the hourly billing rate. The City should have used 2,080 hours as the divisor (52 workweek X 40 hours per week). According to

DARA WHEELER  
December 28, 2017  
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the City, 1,792 hours was used to account for vacation and sick leave benefits. Vacation and sick leave benefits should be recovered through an approved benefits rate or ICR. Hourly rates above amounts actually paid are not eligible for reimbursement.

Please provide Audits and Investigations a corrective active resolution (CAR) on the audit finding within 90 days of this memorandum's date and reference the project number above on the CAR.

If you have any questions, please contact Elena Guerrero, Acting Audit Manager, at (916) 323-7954.

Attachment:

cc: Stephen Maller, Deputy Director, California Transportation Commission  
Rick Guevel, Associate Deputy Director, California Transportation Commission  
Teri L. Anderson, Assistant Deputy Director, California Transportation Commission  
Coco Briseño, Deputy Director, Planning and Modal Programs  
Bruce De Terra, Division Chief, Transportation Programming  
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming  
Carlos Ruiz, Rail Transportation Manager I, Division of Rail and Mass Transportation  
Carmen Wills, Audit Liaison, Division of Local Assistance  
Elena Guerrero, Acting Audit Manager, Audits and Investigations



**City of Lathrop**

Proposition 1B Bond Program

Project Number 0013000252

Report No. 17-2660-17  
October 2017

Team Members

Jennifer Whitaker, Chief  
Cheryl L. McCormick, CPA, Assistant Chief  
Susan M. Botkin, CGFM, Manager  
Rick Cervantes, CPA, Manager  
Robert Scott, MSA, CPA, CGMA, Supervisor  
Kweku Atta-Mensah, MBA

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

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EDMUND G. BROWN JR. • GOVERNOR

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Transmitted via e-mail

November 6, 2017

Ms. Alice M. Lee, Chief  
External Audits-Contracts, Audits and Investigations  
California Department of Transportation  
1304 O Street, Suite 200  
Sacramento, CA 95184

Dear Ms. Lee:

**Final Report—City of Lathrop, Proposition 1B Audit**

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Lathrop's (City) Proposition 1B funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0013000252	P2545-0027	Lathrop Road Grade Separation

The enclosed report is for your information and use. The City's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Jennifer Whitaker, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Elena Guerrero, Acting Audit Manager, External Audits—Contracts, Audits and Investigations, California Department of Transportation  
Mr. Stephen Salvatore, City Manager, City of Lathrop  
Mr. Tim McCoy, Director, Public Works Department, City of Lathrop  
Ms. Cari James, Director of Finance, City of Lathrop  
Mr. Michael King, Project Manager, City of Lathrop

# BACKGROUND, SCOPE AND METHODOLOGY

## BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.<sup>1</sup>

CTC awarded \$5 million of Proposition 1B Highway-Railroad Crossing Safety Account (HRCSA) funds to the City of Lathrop (City) for the Lathrop Road Grade Separation project (0013000252). The project includes the construction and realignment of a four-lane overpass on Lathrop Road from 5<sup>th</sup> Street to McKinley Avenue over the Union Pacific Railroad tracks. The project was administered by the City's Public Works Department. Construction for this project is complete.

### **PROGRAM DESCRIPTION<sup>1</sup>**

**HRCSA:** \$250 million of bond proceeds was made available to the HRCSA to finance completion of high-priority grade separation and railroad crossing safety improvements.

## SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the project described in the Background section of this report. The audit period for the project is identified in Appendix A.

The audit objectives were to determine whether:

- Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.
- Deliverables/outputs were consistent with the project scope and schedule.
- Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

We did not assess the efficiency or effectiveness of program operations.

The City's management is responsible for ensuring accurate financial reporting; compliance with contract provisions, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. CTC and Caltrans are responsible for the state-level administration of the program.

<sup>1</sup> Excerpts were obtained from the bond accountability website <https://bondaccountability.dot.ca.gov/>

## METHODOLOGY

To achieve the audit objectives, we performed the following procedures:

- Examined the project files, project agreements, program guidelines, and applicable policies and procedures.
- Reviewed procurement records to ensure compliance with applicable local and state procurement requirements.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported by accounting records.
- Reviewed accounting records, progress payments, and cancelled checks.
- Reviewed a sample of contract change orders to ensure they were within the scope of the project, properly approved, and supported.
- Evaluated whether project deliverables/outputs were met by reviewing supporting documentation and conducting a site visit to verify project existence.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements or amendments, and the Final Delivery Report.
- Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes reported in the Final Delivery Report with the expected project benefits/outcomes described in the executed project agreements or amendments.
- Evaluated whether project benefits/outcomes were adequately reported in the Final Delivery Report by reviewing a sample of supporting documentation.

In conducting our audit, we obtained an understanding of internal control, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed, implemented, and operating effectively. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

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.

Except as noted below, Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements. In addition, the project deliverables/outputs were consistent with the project scope and schedule.

The City adequately reported project benefits/outcomes in the Final Delivery Report and achieved the expected project benefits/outcomes as described in the executed project agreements or approved amendments. The *Summary of Projects Reviewed* is presented in Appendix A.

## **Finding 1: Questioned Construction Engineering Expenditures**

The City claimed ineligible construction engineering for City personnel totaling \$18,526.<sup>2</sup> Specifically:

- The City claimed \$9,554 of ineligible direct personnel expenditures for the Public Works Director and support staff. The Public Works Director and support staff costs are indirect costs recoverable through the Caltrans approved Indirect Cost Rate (ICR).
- The City claimed \$6,062 of ineligible indirect expenditures because the City used an ICR that was higher than the Caltrans approved ICR.
- The City claimed \$2,910 of ineligible direct personnel expenditures. The unsupported expenditures stemmed from the City using 1,792 hours as the divisor to calculate the hourly billing rate. The City should have used 2,080 hours as the divisor (52 workweek X 40 hours per week). According to the City, 1,792 hours was used to account for vacation and sick leave benefits. Vacation and sick leave benefits should be recovered through an approved benefits rate or ICR. Hourly rates above amounts actually paid are not eligible for reimbursement.

The City did not have adequate policies and procedures to ensure that eligible personnel expenditures were included in Caltrans' reimbursement claims.

HRSCA Agreement No. 75GS0026 item 6 states project costs eligible for reimbursement are limited to construction work. Local Assistance Procedures Manual (LAPM), section 5.3 states that direct construction work costs includes compensation of employees for the time devoted and identified specifically to the performance of the construction phase and supervisory activities above the first level are recoverable as indirect costs. Further, local agencies seeking reimbursement of indirect costs must use the ICR in the Indirect Cost Rate Proposal/Indirect Cost Allocation Plan approved by Caltrans.

Master Agreement No. 64A0185 A01, Article 1, section 2, subdivision A(1) states that payments will be made for actual costs incurred by the administering agency.

<sup>2</sup> Caltrans reimbursed the City 31 percent of claimed construction costs. The questioned costs reflect the amount reimbursed by Caltrans (i.e., questioned costs total \$59,760 X 31 percent = \$18,526 reimbursed to the City).



**Recommendations:**

- A. Remit \$18,526 to Caltrans.
- B. Develop, implement, and maintain an adequate review process to ensure claimed expenditures are allowable and supported by Caltrans approved ICRs prior to submitting reimbursement claims to Caltrans.

# APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Lathrop: City
- Highway-Railroad Crossing Safety Account: HRCSA

## Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0013000252	\$5,000,000	C	P	Y	Y	Y	A-1

### Legend

C = Complete

Y = Yes

P = Partial

**Project Number:** 0013000252

**Project Name:** Lathrop Road Grade Separation

**Program Name:** HRCSA

**Project Description:** Construction and realignment of a four-lane overpass on Lathrop Road from 5<sup>th</sup> Street to McKinley Avenue over the Union Pacific Railroad tracks.

**Audit Period:** July 17, 2013 through April 6, 2016<sup>1</sup>

**Project Status:** Construction is complete.

#### Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed	Questioned Costs
Construction	\$4,366,608	\$ 0
Construction Engineering	633,392	18,526
<b>Total Proposition 1B Expenditures</b>	<b>\$5,000,000</b>	<b>\$18,526</b>

#### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements, except for \$18,526 of construction engineering.

#### Deliverables/Outputs

The construction phase of the project was completed in April 2016. At the time of our site visit in November 2016, project deliverables/outputs were consistent with the project scope and schedule.

#### Benefits/Outcomes

The actual project benefits/outcomes were adequately reported in the Final Delivery Report. Additionally, the City achieved the expected project benefits/outcomes as described in the executed project agreements or approved amendments.

Project Benefits/Outcomes Category	Expected Benefits/Outcomes	Actual Benefits/Outcomes	Benefits/Outcomes Achieved
Safety	<ul style="list-style-type: none"> <li>Unobstructed crossing for emergency responders.</li> <li>Construction of new curb, gutters, and sidewalk improves pedestrian access.</li> </ul>	<ul style="list-style-type: none"> <li>Improved public safety through decreased emergency response time.</li> <li>Improved pedestrian and bicycle mobility with construction of vehicle overpass, sidewalks, and bike lanes.</li> </ul>	Yes
Reliability	Reduction in detour up to 8 miles.	Reduction in detour up to 8 miles.	Yes
Congestion Reduction	49.5 reduction in Daily Vehicle Hours of Delay.	49.5 reduction in Daily Vehicle Hours of Delay.	Yes
Emission Reduction	10,783 kilograms per year in total emissions.	10,783 kilograms per year in total emissions.	Yes

<sup>1</sup> The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

# RESPONSE

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**City Manager's Office**

390 Towne Centre Drive, Lathrop, CA, 95330  
Phone: (209) 941-7320 – Fax: (209) 941-7339  
www.ci.lathrop.ca.us

October 5, 2017

Jennifer Whitaker, Chief  
Office of State Audits and Evaluations  
Department of Finance  
915 L Street  
Sacramento, CA 95814

**Re: Draft Report – City of Lathrop, Proposition 1B Audit Response (Project 0013000252)**

Dear Ms. Whitaker,

Please find the City of Lathrop's findings response below:

**Finding 1: Questioned Construction Engineering Expenditures**

The City of Lathrop does not agree with the finding stating ineligible construction engineering personnel expenditures of \$18,526 due to the following reasons:

- While administrative personnel claimed staff time directly to the project, those activities were specifically performed in benefit of the project; above and beyond the scope of their duties; and not administrative in nature. Therefore, the activities claimed by the administrative personnel qualified as direct activities to be charged to the project. Unfortunately, the Public Works Director at the time is no longer with our agency leaving us unable to produce or obtain any further documentation supporting the activities.
- During the audit fieldwork, Caltrans approved the revised Indirect Cost Rate (ICR) for the Fiscal Years under audit. The ICR used is driven by the activities required to be performed from the grant agency.
- The hourly billing rate divisor of 1,792 hours has been the basis of our calculations for the ICR reports submitted and approved.

Furthermore, during the Proposition 1B Audit Fieldwork, the City expanded the scope of its Cost Allocation Plan consulting services to include the timely submittal of the Indirect Cost Rate Report with its cognizant agency. With this action, the City will ensure future grant compliance.

The City is fully committed to maintaining adequate processes to ensure grant funding is managed to the highest degree of transparency and compliance. We will review our processes to ensure they are adequate, relevant, and meet the required regulations by our governing bodies.

Sincerely,



Stephen J. Salvatore  
City Manager

## EVALUATION OF RESPONSE

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The City's response to the draft audit report has been reviewed and incorporated into the final report. We commend the City for its willingness to review processes to ensure grant funding is managed to the highest degree of transparency and compliance. In evaluating the City's response, we provide the following comments:

### **Finding 1: Questioned Construction Engineering Expenditures**

The City disagrees with our finding of questioned engineering expenditures totaling \$18,526. However, the City did not provide additional documentation to support its compliance assertions or new criteria that would cause us to reevaluate our finding. Therefore, the finding and recommendations will remain unchanged.