

City of Citrus Heights Financial and Management System Audit Report



Audit Report

November 2018

PREPARED BY:

California Department of Transportation
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*"Provide a safe, sustainable, integrated and efficient transportation system
to enhance California's economy and livability"*

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SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The Independent Office of Audits and Investigations (IOAI), California Department of Transportation (Caltrans), audited the City of Citrus Heights' (City) financial and management system (FMS). We found the City's accounting system does identify and segregate costs, however, it does not accumulate total project costs. In addition, we were not able to validate whether the project costs were properly recorded in the accounting system, and we found deficiencies in the City's procurement policies and procedures.

SCOPE

The audit included testing transactions reimbursed from Federal Aid project number, STPCML 5475(033) (Sunrise Complete PH3). The audit also included testing the City's procurement policies and procedures for the project numbers ATPSB1L-5475(042) (Electric Greenway) and ATPSB1L-5475(043) (Mariposa PH4). Our audit period was from July 1, 2010, through July 31, 2018.

We conducted our audit of the City's FMS to determine if the FMS, which includes consultant procurement, complied with the requirements in the Master Agreements and supplemental agreements between the City and Caltrans and applicable laws and regulations. The scope of the audit was limited to reviewing and testing the City's FMS, including internal controls, and the City's ability to accumulate, segregate, and allocate reasonable and allowable project costs. The audit also consisted of inquiries of the City's personnel to obtain an understanding of the City's FMS and to evaluate compliance with Title 2 Code of Federal Regulations Part 200 and requirements stipulated in the City's agreement with Caltrans. The audit was limited to financial and compliance activities. Our field work was completed on September 7, 2018. Changes to the FMS subsequent to September 7, 2018, were not tested and, accordingly, our conclusion does not pertain to changes arising after this date.

The City is responsible for the design and maintenance of their FMS. Because of inherent limitations in any FMS, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the FMS to future periods are subject to the risk that the FMS may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

METHODOLOGY

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

BACKGROUND

Caltrans has a legal and fiduciary responsibility to ensure that all state and federal funds passed through Caltrans are expended in compliance with state and federal laws, regulations, and agreements. IOAI performs audits to ensure Caltrans is meeting their legal and fiduciary responsibilities and that state and federal funds are properly expended by local government entities.

IOAI audits projects from the Active Transportation Program (ATP). ATP was created to encourage increased use of active modes of transportation. The ATP consolidated various transportation programs into a single program from a combination of state and federal funds. Most recently, the Road Repair and Accountability Act, Senate Bill 1, added approximately \$100 million per year in available funds for ATP projects.

CONCLUSION

Based on our audit, we determined the City's accounting system does identify, segregate, and allocate reasonable and allowable project incurred costs and required matching funds, however, we noted the following deficiencies:

- The City was not able to provide documentation to show how project costs were charged to the project in the accounting system.
- The City's accounting system was not able to accumulate project costs. The accounting system was not able to generate a report summarizing total costs by project from their general ledger that reconciled with their summary of the total project costs report.
- The City did not follow procurement requirements to comply with state and federal laws and regulations.

VIEWS OF RESPONSIBLE OFFICIALS

Our findings and recommendations take in to account the City's response dated October 30, 2018, to our October 19, 2018, draft report. Our findings and recommendations, the City's response, and our analysis of the response are set forth in the Findings and Recommendations section of this report. The report is a matter of public record and will be placed on Caltrans' webpage, which can be viewed at www.dot.ca.gov/audits/INC.html.

If you have questions, please contact Nancy Shaul, Audit Manager, at (916) 323-7940.

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Chief
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November 5, 2018

FINDINGS AND RECOMMENDATIONS

FINDING 1 – Weaknesses in the Accounting System

The City of Citrus Heights' (City) accounting system does not accumulate project costs. In addition, we were not able to validate whether the project costs were properly recorded in the accounting system. Specifically, we found the following deficiencies:

- The City was not able to provide documentation to show how some of the project costs for STPCML 5475 (033) were charged to the project in the accounting system.
- The City was not able to generate a report of total costs by project from their general ledger that reconciled to the City's summary of the total project costs for project STPCML 5475 (033).

Caltrans Master Agreement, Article V Audits, Third Party Contracting, Records Retention and Reports, states in part that:

- *Agency, its contractors, and subcontractors, shall establish and maintain an accountings system and records that properly accumulate and segregate incurred project costs and matching funds by line item for the Project.*
- *The accounting system of administering agency, its contractors, and all subcontractors shall conform to GAAP, enable the determination of incurred costs at interim points of completion, and provide support for reimbursement payment vouchers or invoices sent to or paid by STATE.*

Title 2 Code of Federal Regulations (CFR) Part 200.302 states in part, *(a) the state's and the other non-Federal entity's FMSs, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.*

The City's accounting system was not designed to accumulate project costs. These deficiencies put Caltrans at risk of being billed inaccurately and of being unable to recognize federal fund expenditures passed through Caltrans to report in the annual Single Audit.

RECOMMENDATION

We recommend the City:

- Update their accounting system to ensure project costs are properly accumulated to comply with the federal and state laws and regulations.
- Develop written accounting system policies and procedures and train staff accordingly.

THE CITY’S RESPONSE

To ensure that staff record project costs accurately in the financial system (Eden), management will create written accounting policies and procedures and train staff accordingly. In addition, the City will record costs by project phase in Eden to ensure reasonable and allowable project costs are properly accumulated, segregated, and allocated, and also comply with the federal and state laws and regulations

ANALYSIS OF THE CITY’S RESPONSE

We reviewed the City’s response to their accounting procedures, and we determined that the finding related to inaccurate line descriptions and accounting codes might be human error and an isolated incident, therefore, we removed the finding from the audit report.

FINDING 2 – Deficiency in Proper Procurement Practices

The City did not procure consultant contracts in accordance with the procurement requirements stipulated in the agreements for Federal-Aid Project No. ATPSB1L-5475(042) (Electric Greenway), ATPSB1L-5475(043) (Mariposa PH4), and STPCML 5475(033) (Sunrise Complete PH3). Several required processes were not performed or completed when the City contracted for architecture and engineering services. The table below summarizes the deficiencies.

CRITERIA REFERENCE	Deficiency	Electric Greenway	Mariposa PH4	Sunrise Complete PH3
1	No support that Independent Cost Estimate was prepared prior to accepting proposals	X	X	
2	No evidence Independent Cost Estimate was completed			X
3	No fee estimate, breakdown of job classifications, and cost components in the cost proposal	X	X	X
4	Cost proposal not in the correct format (e.g. LAPM Exhibit 10-H)	X	X	X
5	Mark-up included in cost proposal	X		

X = Deficiency

Please see Attachment 1 for a summary of applicable criteria.

The City was not aware of the procurement requirements stipulated in the Caltrans, Division of Local Assistance, LAPM, or the federal contract requirements of Title 49 Code of Federal Regulations (CFR) Part 18.36 Procurement. As a result, the City may not be able to ensure that there was fair and open competition during the procurement, and that a reasonable price was obtained.

RECOMMENDATION

We recommend the City:

- Revise their procurement policies and procedures to conform with stipulations in agreements with Caltrans and with state and federal procurement requirements, and train staff accordingly.
- Include the LAPM Exhibit 10-H format as the final cost proposals for prime and all subconsultants.
- Amend the Electric Greenway and Mariposa contracts to include the LAPM Exhibit 10-H as the final contract cost proposals, and remove any current Fee Estimate and other Cost Proposals schedules.
- Have staff working on procurements take the Caltrans, Division of Local Assistance online Architectural and Engineering Procurement training at:
<http://www.dot.ca.gov/hq/LocalPrograms/AE/index.htm>.

SUMMARY OF THE CITY'S RESPONSE

The City stated that the City will update their procedures to include preparation of an independent cost analysis, a dated copy of the analysis prior to receiving proposals, and the Exhibit 10-H in all future contracts. In addition, the City will require their contractors and subcontractors not to include a "Mark Up" line item on the cost proposal form.

The City states that the City's current "Request for Proposal (RFP)" template does include weighted evaluation factors, consultant rating forms updated to reflect these same factors and weights, no bonus factors, criteria for developing a short list, at least three people rating the initial proposals and three people attending the final selection interviews for short listed firms, protest/dispute procedures, documentation of consultant price negotiations prior to award of contract, Federal Title V and/or Disadvantaged Business Enterprise requirements, and Conflict of Interest forms from selection committee and all persons involved in rating prior to finalizing the evaluations.

ANALYSIS OF THE CITY'S RESPONSE

We reviewed the City's response to the deficiencies unique to the Sunrise Complete PH3 project. We determined that the City's current RFP process does comply with the LAPM and federal and state laws and regulations with exceptions stipulated in the final deficiency table. We removed

deficiencies that were unique to the Sunrise Complete PH3 project as we determined the City has corrected these processes.

For the City's full response, see Attachment II.

ATTACHMENT 1
CITY OF CITRUS HEIGHTS
FINANCIAL AND MANAGEMENT SYSTEM AUDIT
Finding 2 - Deficiencies in Procurement Practices

ISSUE REFERENCE	CRITERIA
	Local Assistance Program Manual (LAPM), Title 49 Code of Federal Regulations (CFR) 18.36
1	LAPM, January 2018, Ch 10.8 Project Records states, "The estimate is prepared in advance of requesting a cost proposal from the top-ranked consultant, so the local agency's negotiating team has a cost analysis of the project to evaluate the reasonableness of the consultant's cost proposal."
2	LAPM, January 2018, Ch 10.8 Review and Approval of Contracts states, "A cost proposal (see Exhibit 10-H: Sample Cost Proposal), must include the costs of materials, direct salaries, payroll additions, other direct costs, indirect costs, fees, and backup calculations."
2	LAPM, January 2018, Ch 10.10 Cost Proposal Worksheet states, "The Request for Proposal (RFP) should provide a standard format for cost proposal that all proposers must include in their technical proposal. The cost proposal format can be broken down by specific tasks, showing hourly labor rates, level of effort and material, and/or by milestones and deliverables."
3	LAPM, January 2018, Ch 10.8 Develop the Final contract states, "This revised cost proposal then becomes the final cost proposal, is attached to and made a part of the consultant contract."
4	LAPM, January 2018, Exhibit 10-H1 Cost Proposal states, "Note: Mark-ups are Not Allowed".

Written Responses to Findings and Recommendations

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FINDING 1 – Weakness in Financial Management System

- To ensure that staff record project costs accurately in the financial system (Eden), management will create written accounting policies and procedures and train staff accordingly. In addition, The City will record costs by project phase in Eden to ensure reasonable and allowable project costs are properly accumulated, segregated, and allocated, and comply with the federal and state laws and regulations.

FINDING 2 – Deficiency in Proper Procurement Practices

Ref. No.	Dept. Responding	Response
1	GSD	In accordance with the LAPM, the General Services Department will update its procedures to include preparation of an independent cost analysis and filing of a dated copy of this analysis in the project file prior to receiving proposals for each consultant contract.
2	GSD	General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project. In accordance with the LAPM, the updated process will include preparation of an independent cost analysis and filing of a dated copy of this analysis in the project file prior to receiving proposals for all consultant contracts.
3	GSD	In accordance with the LAPM, the city will update its process to include the Exhibit 10-H in all future contracts. Additionally, the city will amend the current Electric Greenway and Mariposa PH4 consultant contracts to incorporate the LAPM Exhibit 10-H in the approved contract.
4	GSD	In accordance with the LAPM, the city will update its process to include the Exhibit 10-H in all future consultant contracts. Additionally, the city will amend the current Electric Greenway and Mariposa PH4 consultant contracts to incorporate the LAPM Exhibit 10-H in the approved contract.
5	GSD	The Cost Proposal table provided by the consultant on the Electric Greenway project was submitted on a standard form used by this consultant (not supplied by the city) and had standard line for Mark Up. However, as can be seen in the approved contract, the value of the Mark Up line was "0" to agree with the Exhibit 10-H on file with the city.

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		In the future, the city will require any standard proposal forms not include a "Mark Up" line item and as indicated in No. 4 above, all future consultant contracts will include Exhibit 10-H in the approved contract.
6	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current RFP template does include weighted evaluation factors.</p>
7	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current RFP template does include weighted evaluation factors and the consultant rating forms have been updated to reflect these same factors and weights.</p>
8	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current RFP template no longer includes bonus factors in the proposal evaluation process.</p>
9	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current RFP template does include criteria for developing a short list.</p>
10	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current process for evaluation of consultant teams includes at least 3 people rating the initial proposals and 3 people attending the final selection interviews for short listed firms.</p>
11	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current RFP template does include protest/dispute procedures.</p>
12	GSD	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current consultant selection/contract award process does require documentation of consultant price negotiations prior to award of contract.</p>
13	GSD	General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.

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		<p>In accordance with the LAPM, the city's current RFP template does include Federal Title V and or Disadvantaged Business Enterprise requirements.</p>
<p>14</p>	<p>GSD</p>	<p>General Services' procedures have changed significantly since 2010 when proposals were received for the Sunrise Complete Streets Phase 3 project.</p> <p>In accordance with the LAPM, the city's current consultant selection procedure does require all persons involved in rating consultant proposals and attending selection interviews to complete the appropriate Conflict of Interest forms prior to finalizing the evaluations.</p>