

City of Chico Procurement Audit



Audit Report

July 2018

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

PREPARED BY:

California Department of Transportation
Independent Office of Audits and Investigations – MS 2
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P1500-0003

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ATTACHMENT

I. Audit Response from City of Chico

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

SUMMARY

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations (IOAI), audited the City of Chico's (City) procurement management to determine if controls are adequately designed and operating effectively to ensure compliance with agreement provisions, and state and federal regulations. We determined that the City can improve its processes by preparing a detailed independent cost estimate as required by state and federal requirements.

OBJECTIVES

The audit was performed to determine whether the City's third party contracts billed to Caltrans were procured in accordance with respective agreement provisions, and state and federal regulations. The audit included testing of RFPs for consultant services billed to Caltrans on agreements ATPCML 5037(028), BRLO 5037(022), and BRLO 5037(023). Our audit period was from July 1, 2016 through April 11, 2018.

SCOPE

We conducted a procurement management audit of the City's agreements with Caltrans to determine if the City's third party contracts were procured in compliance with the agreements, and applicable laws and regulations. Further, we assessed the City's accounting principles and significant estimates made by management to determine the overall presentation of the procurement process. The audit comprised tests of documentary evidence supporting the City's financial management system relative to the procurement practices. The audit was limited to compliance activities. Our field work was completed on May 4, 2018 and transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not include costs or credits arising after this date.

The City is responsible for complying with applicable agreement provisions, and state and federal regulations. In addition, the City is responsible to ensure their financial management system relative to procurement practices is able to accumulate and segregate reasonable, allowable costs that can be allocated to projects. 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.

METHODOLOGY

We conducted our audit in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. 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 to express 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.

The audit of the City's financial management system relative to procurement practices included survey questionnaires and interviews of City staff to obtain an understanding of the City's procurement process. The audit comprised of transaction testing of various procurements to evaluate compliance requirements stipulated in the City's agreements with Caltrans.

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 by the City, and evaluating the overall presentation of the procurement process.

BACKGROUND

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

CONCLUSION

Based on our audit, we determined that overall, the City complied with the respective agreement provisions, and state and federal regulations except for the following:

- One RFP lacked a detailed independent cost estimate.

VIEWS OF RESPONSIBLE OFFICIALS

Our findings and recommendations consider the City's response dated July 2, 2018 to our June 27, 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. A copy of the City's full written response is included as Attachment I.

The report is a matter of public record and will be placed on Caltrans' website, which can be viewed at <www.dot.ca.gov/audits/INC.html>.

If you have questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

MARSUE MORRILL, CPA

Chief

External Audits – Local Governments

Independent Office of Audits and Investigations

July 9, 2018

FINDINGS AND RECOMMENDATIONS

FINDING 1 – Missing Detailed Estimate

The City of Chico (City) did not prepare a detailed cost estimate for one of the procurements tested. 23 CFR 172.7 (a)(1)(v)(B) in part states, “...contracting agency shall prepare a detailed independent estimate with an appropriate breakdown of the work of labor hours, types or classifications of labor required, other direct costs, and consultant’s fixed fee for the defined scope of work. The independent estimate shall serve as a basis for negotiation.” The City used the LAPM Exhibit 9-D thinking it would be sufficient based on their discussion with District Local Assistance staff. By not preparing a detailed independent cost estimate the City may not be able to support that the contract was executed at a fair and reasonable price.

RECOMMENDATION

We recommend the City to prepare a detailed cost estimate showing the breakdown of costs.

CITY’S RESPONSE

Although the three RFP’s reviewed did not include protest/dispute procedures, the City had already included updated protest/dispute procedures in their RFP template form between the timeframe of these three RFP’s and prior to the audit by Caltrans Audits & Investigations. A copy of the updated template is provided that this finding is already in practice by the City and will continue as part of their template form for all RFP’s.

For lack of detailed independent cost estimate, City feels that this was an anomaly for their standard practices and work diligently with Caltrans Local Assistance staff to ensure that all requirements are met. City will continue to incorporate this into their process for evaluating RFP’s for professional services in the future, and request that any determination by Local Assistance for this not being required in the future, be done so in writing. In addition, City will put all staff through Caltrans Local Assistance trainings that are provided, so that their staff are using the most current practices and forms to remain compliant with state and federal funding programs.

See Attachment I for City’s complete response.

ANAYLSIS OF CITY’S RESPONSE

We accept that the City’s processes adequately address the protest and dispute procedures and, therefore, we have removed that finding. Any new processes and procedures implemented subsequent to our fieldwork date have not been reviewed or audited.



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July 2, 2018

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California Department of Transportation
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RE: City of Chico Draft Procurement Audit Response Letter

Dear Ms. Morrill,

We greatly appreciate the additional insight this process has given us. We continually strive to better ourselves and our processes within the department and welcome any information that will assist us in our goals.

Per your draft audit report, it was determined that overall, the City complied with the respective agreement provisions, and state and federal regulations, with the following two exceptions:

1. The three RFP's tested did not include protest/dispute procedures
 - a. CITY RESPONSE -Although the three RFP's reviewed did not include protest/dispute procedures, the City had already included updated protest/dispute procedures in our RFP template form between the timeframe of these three RFP's and prior to the audit by Caltrans Audits & Investigations. Attached is a copy of the updated template to provide detail that this finding is already in practice by the City and will continue as part of our template form for all RFP's.
2. One RFP lacked a detailed independent cost estimate
 - a. CITY RESPONSE – We feel that this was an anomaly for our standard practices and work diligently with our Caltrans Local Assistance staff to ensure that all requirements are met. We will continue to incorporate this into our process for evaluating RFP's for professional services in the future, and request that any determination by Local Assistance for this not being required in the future, be done so in writing. In addition, we continue to put all of our staff through the Caltrans Local Assistance trainings that are provided, so that our staff are using the most current practices and forms to remain compliant with state and federal funding programs.

We would like to thank you for your time on this and please let us know if you have any further questions or comments.

Sincerely,

Brendan Ottoboni, P.E.
Public Works Director - Engineering

Note: The attachment from City of Chico's response have been reviewed and incorporated in our analysis. Due to the size of the attachment, it is not included in the report, but can be provided upon request.