

Independent Office of Audits And Investigations

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August 12, 2021

Ms. Jeanie Ward-Waller
Deputy Director
Planning and Modal Programs
California Department of Transportation

Dear Ms. Ward-Waller:

Final Report – County of Kern, Incurred Cost Audit

Enclosed is the Independent Office of Audits and Investigations final audit report of the County of Kern's (County) three projects with costs totaling \$3,193,988 reimbursed by the California Department of Transportation (Caltrans). The final audit report, including the County's response to the report, is enclosed. The report is a matter of public record and will be posted on the IOAI's website. It will also be included in the Inspector General's Annual Report.

Based on our audit, we determined project costs totaling \$25,206 were not in compliance with Caltrans agreement provisions, and state and federal regulations. In addition, we identified deficiencies with the County's architectural and engineering contract management and contract procurement.

A detailed Corrective Action Plan (CAP) addressing the findings and recommendations is due from Caltrans within 60 days from receipt of this letter. The CAP should include milestones and target dates as applicable. Subsequent to the submission of the 60-day CAP, updated CAPs will be due every six months until all planned actions have been implemented.

We thank you, your staff, and County personnel for the assistance provided during this audit. If you have any questions, contact Fabiola Torres, Audit Chief, at (916) 704-3628 or fabiola.torres@dot.ca.gov.

Sincerely,

DIANA C. ANTONY, CPA
Acting Inspector General

Enclosure

c: Craig Pope, Director of Public Works, County of Kern
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P1575-0068



County of Kern Indirect Cost Audit

FINAL AUDIT REPORT

P1575-0068

AUGUST 2021



PREPARED BY:

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BACKGROUND, SUMMARY, OBJECTIVES, SCOPE, AND METHODOLOGY

BACKGROUND

The California Department of Transportation (Caltrans) Local Assistance Program oversees more than \$1 billion dollars annually available to over 600 cities, counties, and regional agencies for the purpose of improving their transportation infrastructure or providing transportation services. This funding comes from various federal and state programs specifically designed to assist the transportation needs of local agencies.

The County of Kern (County) was established in 1866 and is governed by a Board of Supervisors and elected department heads. The County provides a full range of services, including general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and culture and recreational services. The Public Works Department was formed and approved by the Board in January 2015. A full range of services is provided including, but not limited to, planning, design, engineering, construction project management, and operations and maintenance of roads. Operations has three categories: Finance and Engineering, Operations, and Building and Development.

SUMMARY

The Independent Office of Audits and Investigations (IOAI) performed an incurred cost audit of three County projects with costs totaling \$3,193,988 reimbursed from the Caltrans as of June 30, 2020.

We identified unallowable consultant contract costs of \$18,716, and fringe benefits and direct labor costs of \$6,490. Those costs were not supported and/or were not in compliance with Caltrans agreement provisions, and state and federal regulations. We also identified deficiencies with the County's architectural and engineering contract. See [Attachment A](#) for a summary of unallowable costs.

OBJECTIVES

We performed the audit to determine whether the project costs claimed and reimbursed were allowable and adequately supported in accordance with Caltrans agreement provisions, and state and federal regulations.

SCOPE

The audit scope included costs claimed and reimbursed during the period of July 1, 2017 through June 30, 2020 for the following projects:

Project Number	Project Name/Description	Reimbursed Amount
ATPSB1L-5950 (444)	Rexland Acres Community sidewalk, curbs, gutters, and bike lanes improvement	\$376,803
CML-5950 (422)	Shoulder improvements on Edison Road: State Route (SR) 223 to SR 58	\$1,338,317
STPCML-5950 (461)	Road resurfacing and Shoulder improvements on Panama Lane from SR 43 to Bakersfield city limit	\$1,478,868
Total Project Costs	-	\$3,193,988

METHODOLOGY

We gained an understanding of the projects and program and identified relevant criteria by reviewing the executed project agreements, Caltrans guidelines, applicable state and federal regulations, and by interviewing the County's personnel.

We performed a risk assessment, including identifying and evaluating whether key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our evaluation of key internal controls focused on invoices reimbursed from Caltrans, review and approval processes of expenditures, and procurement processes. Our methodology included conducting interviews with key personnel, analyzing relevant documentation, and testing transactions related to costs billed and reimbursed. No significant issues with key internal controls were identified.

In addition, we assessed the reliability of data obtained from the County's financial management system used to identify and track project costs. Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, and determining if costs were supported by source documentation. We determined the data was sufficiently reliable to meet our audit objectives.

We conducted this performance audit according to generally accepted government auditing standards. Those standards require we plan and perform

the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

FINDINGS AND RECOMMENDATIONS

CONCLUSION

We identified consultant contract costs of \$18,716, and fringe benefits and direct labor costs of \$6,490, that were not supported and/or were not in compliance with Caltrans agreement provisions, and state and federal regulations. We also identified deficiencies with the County's architecture and engineering contract. See Attachment A for a summary of unallowable costs.

FINDING 1 – Architectural and Engineering (A&E) Contract Management Needs Improvement

The County did not consistently follow state and federal requirements for project ATPSB1L-5950(444). The following deficiencies are identified.

Unallowable Consultant Contract Costs

Caltrans reimbursed the County \$18,716 in consultant costs that was outside the scope of the environmental consulting services contract between the County and Quad Knopf (consultant). These costs, which consisted of field and office survey work, are disallowed.

Local Assistance Procedures Manual (LAPM), Chapter 5.3 Reimbursable Project Costs states, in part, that direct costs are expenditures that include contract payments, expense items, or services contracted.

The County stated since both field and office survey work were needed to complete the hydrology/hydraulic study, they thought the costs were allowable. Additionally, the County stated they have no written policies and procedures for managing consultant contracts.

Incomplete Evaluation Process

The County issued a task order solicitation to the three consultants under contract to provide environmental services using the required two-step Request for Qualifications/Request for Proposal method. Per LAPM Chapter 10.7, this method requires the County to use the same steps as the original solicitation; however, the task order solicitation did not include evaluation criteria and weight factors.

LAPM, Chapter 10.5 Develop Technical Criteria for Evaluation of Proposals, states, in part, the criteria and relative weights must be included in the Request for Proposal (RFP).

The County thought the language in the RFP stating the County reserves the right to select the most qualified consultant precluded them from needing to add specific requirements and relative importance/weight. Additionally, the County does not have policies and procedures in place that address the required state and federal procurement requirements.

Without including evaluation criteria and weight factors in the task order solicitations, the County cannot ensure fair and open competition, or that task orders are awarded/executed to the most qualified consultant.

RECOMMENDATIONS

- A. Remit \$18,716 to Caltrans for unallowable consultant costs.
- B. Develop, implement, and maintain adequate consultant contract management policies and procedures to ensure consultant costs are within the scope of work based on the executed agreement prior to submitting reimbursement claims to Caltrans.
- C. Update and implement procurement policies and procedures to conform with state and federal requirements, including the issuance of task orders, and train employees on the updated requirements.
- D. Require key County staff involved with procurement to take Caltrans Division of Local Assistance's consultant procurement training.

SUMMARY OF COUNTY'S RESPONSE

The County agreed with the finding and recommendations. However, regarding the incomplete evaluation process deficiency, the County stated the LAPM did not provide clear guidance regarding evaluation and weight factors when awarding task orders and were not instructed to do so when they consulted with Division of Local Assistance personnel. The County indicated they amended the agreement to include the proper task order language when the LAPM was revised.

The County also stated they are working on developing internal consultant contract management policies and procedures and specified staff managing these contracts will take Caltrans Division of Local Assistance's consultant procurement training.

ANALYSIS OF COUNTY'S RESPONSE

We appreciate the County's acknowledgment and steps taken to address the issues identified. Any processes, and policies and procedures implemented subsequent to our fieldwork have not been audited or reviewed.

FINDING 2 – Unallowable Fringe Benefits and Labor Costs

The County was reimbursed by Caltrans for unallowable fringe benefits and direct labor costs totaling \$6,490 for project CML-5950(422).

Specifically, the County included a fringe benefits adjustment twice on the same invoice. Additionally, the County included direct labor costs for the Plans, Specifications, and Estimates (PS&E) phase. However, the project was only authorized for construction phase reimbursements.

Title 2, Code of Federal Regulations (CFR) 200.53 Improper Payment, states, in part, (a) improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and (b) Improper payment includes any

payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

The County stated the fringe benefits were billed twice due to an error when inputting a journal entry into its accounting system. Specifically, the project number was entered in the wrong field. This resulted in the adjustment appearing twice in the report of expenditures that was used to prepare the invoice to Caltrans. Additionally, the invoice reviewer was unaware the same journal entry included labor costs from the plan, specification, and estimate phase and were unauthorized for billing. The County does not have policies and procedures in place that addresses adjusting labor costs in the accounting system and reviewing for unallowable costs.

Without policies and procedures for adjusting labor costs in the accounting system and reviewing for unallowable costs prior to submitting invoices to Caltrans, the County risks billing Caltrans for unallowable costs.

RECOMMENDATIONS

- A. Remit \$6,490 to Caltrans for the unallowable fringe benefits and labor costs.
- B. Develop policies and procedures to address adjusting labor costs and to review invoices for unallowable costs prior to submitting invoices to Caltrans.

SUMMARY OF COUNTY'S RESPONSE

The County agreed with the finding and its recommendations. The County has implemented additional review of future contract invoices to ensure accuracy before remittance to Caltrans for reimbursement. Additionally, they indicated project billing policies and procedures are being updated to reflect the additional review.

ANALYSIS OF COUNTY'S RESPONSE

We appreciate the County's acknowledgment and steps taken to address the issues identified. Any processes, and policies and procedures implemented subsequent to our fieldwork have not been audited or reviewed.

ATTACHMENT A-Summary of Unallowable Costs

Finding	Project Number	Description	Amount
1	ATPSB1L-5950(444)	Unallowable consultant costs	\$18,716
2	CML-5950(422)	Unallowable fringe benefits and direct labor costs	\$6,490
Total Unallowable Costs	-	-	\$25,206

ATTACHMENT B-County of Kern's Response to the Draft Report

CRAIG M. POPE, P.E., DIRECTOR
ADMINISTRATION & HUMAN RESOURCES
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June 21, 2021

Transmitted via email

Independent Office of Audits
and Investigations
ATTN: MarSue Morrill
P.O. Box 942874, MS-2
Sacramento, CA 94274-0001

RE: Draft Report – County of Kern, Incurred Cost Audit

Dear Mrs. Morrill,

In response to the Incurred Cost Audit Draft Report, received on June 10, 2021, the Department has the following comments regarding the Findings and Recommendations provided.

- **Finding 1 - Architectural and Engineering Contract Management Needs Improvement**

The issue identified was unallowable consultant contract costs and incomplete evaluation process when selecting the consultant. The department does not dispute these findings and agrees with the recommendations proposed in the report. However, regarding the incomplete evaluation process part of this finding, we feel it is important to clarify that the LAPM did not provide clear guidance regarding evaluation and weight factors regarding awarding individual task orders nor were we instructed to do so when consulting with Local Assistance personnel. Once the LAPM was revised to include this guidance the department amended the agreement and inserted the proper task order language.

The department is working on developing the internal policies and procedures as recommended regarding consultant agreements, staff members managing these agreements will take the Caltrans Division of Local Assistance consultant procurement training.

- **Finding 2 - Unallowable Fringe Benefits and Labor Costs**

The issue identified was billing of Labor and Fringe Benefit costs twice on the same invoice. The department has reviewed and agrees with the finding and recommendations of the report. The department has implemented additional review of all future contract invoices by the Accounts Receivable Accountant to ensure accuracy before remittance to Caltrans for reimbursement. Project billing procedures and policies are being updated to reflect this additional review.

The Department appreciates the opportunity to provide a response to the Draft Final Report and looks forward to working with the Caltrans Division of Local Assistance to address the issues identified within the report. If you have any questions or comments regarding this response, please contact myself at the number below or by email at luxs@kerncounty.com.

Respectfully,

A handwritten signature in blue ink, appearing to read "Sam Lux".

Samuel D. Lux, PE
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Engineering and Finance Division
Kern County Public Works Department
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