



## Independent Office of Audits and Investigations

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June 30, 2022

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

### **Final Report – City of Sacramento, Incurred Cost Audit**

The Independent Office of Audits and Investigations (IOAI) completed an audit of the City of Sacramento, Department of Public Works (City). We audited the City's costs incurred related to three projects totaling \$10,805,031, which were reimbursed by the California Department of Transportation (Caltrans).

Enclosed is the final report, which includes the City's response to the draft report. The final audit report is a matter of public record and will be posted on IOAI's website.

A detailed Corrective Action Plan (CAP) addressing the findings and recommendations must be developed in accordance with the Local Assistance Procedures Manual, Chapter 20, Section 20.5. The CAP should be sent to [IOAI.Admin@dot.ca.gov](mailto:IOAI.Admin@dot.ca.gov).

If you have any questions, please contact Fabiola Torres, Audit Chief, at (916) 323-7111.

Sincerely,

Diana C. Antony, CPA, CIG  
Chief Deputy Inspector General

Jeanie Ward-Waller  
June 30, 2022  
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cc: Ryan Moore, Director, Department of Public Works, City of Sacramento  
Ofelia Avalos, Engineering Manager, Department of Public Works, City of Sacramento  
Dustin Purinton, Senior Accountant Auditor, Department of Public Works, City of Sacramento  
Sukhvinder Takhar, Deputy District Director, Division of Planning, Local Assistance, and Sustainability, District 3, California Department of Transportation  
Bomasur Banzon, District Local Assistance Engineer, District 3, California Department of Transportation  
Gilbert Petrissans, Chief, Division of Accounting, California Department of Transportation  
Rodney Whitfield, Director, Financial Services, Federal Highway Administration  
Grace Regidor, Transportation Finance Specialist, Financial Services, Federal Highway Administration



# City of Sacramento Incurred Cost Audit

**AUDIT REPORT**

**JUNE 2022**

PREPARED BY

Independent Office of Audits and Investigations – MS2

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Sacramento, California 94274-0001

<https://ig.dot.ca.gov>

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## BACKGROUND, SCOPE, AND METHODOLOGY

### BACKGROUND

The California Department of Transportation's (Caltrans) Local Assistance Program oversees more than \$1 billion annually that it makes 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.

For this audit, we selected three projects that Caltrans awarded to the City of Sacramento, Department of Public Works (City). Caltrans reimbursed the City a total of \$10,805,031 for incurred costs.

**Table 1: Audited Projects and Costs**

Program	Project Number	Project Name/Description	Reimbursed Amount
Highway Bridge Program	BRLS-5002 (134)	Rio Linda Boulevard and Main Avenue: Bridge Rehabilitation	\$ 5,668,229
Highway Bridge Program	BRLS-5002 (164)	I Street Bridge Replacement: Bridge Replacement	3,388,802
Local Partnership Program (SB1 funded)	LPPSB1L-5002 (206)	J Street and Mack Road Corridors: Road Rehabilitation	1,748,000
-	-	<b>Total Project Costs Reimbursed</b>	<b>\$ 10,805,031</b>

## **SCOPE and METHODOLOGY**

For this audit, we determined whether the project costs claimed by the City and reimbursed by Caltrans were allowable and adequately supported in accordance with Caltrans' agreement provisions and state and federal regulations. Our audit included costs claimed and reimbursed during the period of July 1, 2017, through December 31, 2020.

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, City policies and procedures, and interviewing City personnel.

We performed a risk assessment, including identifying and evaluating whether internal controls significant to our audit objectives were properly designed and implemented. Our evaluation of internal controls focused on the City's review and approval processes of expenditures, contract procurement, and record processing and retention processes. Our methodology included conducting interviews with key personnel, analyzing relevant documentation, and testing transactions related to costs claimed and reimbursed. We have included in this report any deficiencies in internal control that we identified during our audit and that we determined to be significant within the context of our audit objectives.

We assessed the reliability of project expenditure and labor data obtained from the City's financial management system, Electronic Citywide Accounting and Personnel System (eCAPS). Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, and determining if selected costs were supported by source documentation. We determined the project expenditure and labor data obtained from eCAPS was sufficiently reliable to meet our audit objectives.

We conducted this audit according to 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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

## RESULTS

### CONCLUSION

Based on our audit procedures, we obtained reasonable assurance the expenditures for projects BRLS-5002 (164) and BRLS-5002 (134) were incurred in compliance with the executed project agreements and applicable program guidelines, except as noted in Finding 1.

### FINDING 1 – Unsupported Construction Costs

The City was unable to provide documentation to support \$1,072,862 in reimbursed construction costs that it claimed for project number LPPSB1L-5002 (206). Specifically, the City did not maintain required source documents, such as the Contract Item Quantity Calculation Sheets (Q Sheets) and weight tickets, to support actual item payments made to the contractor. Refer to Appendix A for a Q sheet template. Table 2 details the missing documents and the associated unsupported reimbursed costs.

**Table 2: Unsupported Reimbursed Costs  
For Project Number LPPSB1L-5002 (206)**

Progress Payment Number	Bid Item Number	Missing Source Document	Total Claimed Costs	Caltrans Reimbursement Ratio*	Unsupported Reimbursed Costs
1	3	Q, W	\$1,103,770	50%	\$ 551,885
1	30	Q	148,000	50%	74,000
2	5	Q, W	744,600	50%	372,300
2	8	Q	17,500	50%	8,750
2	9	Q	46,773	50%	23,387
2	17	Q	52,000	50%	26,000
2	21	Q	10,880	50%	5,440
2	22	Q	22,200	50%	11,100
-	-	-	-	<b>Total Unsupported Reimbursed Costs</b>	<b>\$1,072,862</b>

Q = Contract Item Quantity Calculation Sheet

W = Weight Tickets (only required for Bid Items 3 and 5)

\* = Projects funded from the Local Partnership Program require at least a one-to-one funding match.



In addition, we found that the City had numerous other construction documentation deficiencies for projects LPPSB1L-5002 (206) and BRLS-5002 (134) as summarized below.<sup>1</sup>

For project LPPSB1L-5002(206), the deficiencies included missing independent cost estimates for the three change orders that we reviewed for this project; incomplete daily reports, such as missing signatures, missing contract bid item numbers, or missing actual quantity of materials used; and missing daily reports for two of the three change orders that we reviewed. These deficiencies and the missing source documents noted above led to \$1,072,862 in questioned costs.

For project number BRLS-5002 (134), the deficiencies we identified included missing independent cost estimates for the four change orders we reviewed for this project; incomplete daily reports, such as missing change order numbers, missing contract bid item numbers, or missing actual quantity of materials used; errors in the Q sheet and weight ticket calculations; and the amount in one weight ticket that did not match the amount billed to Caltrans. These deficiencies, however, did not result in questioned costs for project BRLS-5002(134) because the City was able to provide sufficient source documents to obtain reasonable assurance that the costs were supported and project related.

Section 5.8 of Caltrans' 2018 Local Assistance Procedures Manual (Manual) requires local agencies to maintain written source document records that account for agency costs and payments made to consultants, vendors, and contractors. Contract records must be retained by the local agency for a minimum period of three years from the date of the final payment by the state.<sup>2</sup>

Section 16.13 of the Manual defines source documents as the original documents, data, and records containing the details to substantiate a transaction entered in an accounting system. Source documents are the permanent record sheets that create a clear and easily followed accounting trail from the total pay quantities in the proposed final estimate, back to the first measurement or calculation for each bid item. The most common source documents are:

- (a) Q sheets support and document item payments made to the contractor each month. A separate Q sheet must be prepared for

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<sup>1</sup> The City did not claim construction contractor costs for project BRLS-5002 (164) during the audit period. Therefore, the project was not included in our construction contract testing.

<sup>2</sup> For a full list of applicable criteria, refer to Appendix B – Table of Criteria.

each contract item being paid for each progress payment.

- (b) Weight tickets, sometimes referred to as load slips, are used to support item quantity payments made by weight. Weight tickets must be collected at the point of delivery and validated by a representative of the administering local agency.

The City stated that misplaced files, human error, and a lack of oversight resulted in the documentation deficiencies. Nevertheless, the City's non-compliance with documentation requirements hinders its ability to demonstrate that project costs were allowable and substantiate the work it performed.

## **RECOMMENDATIONS**

1. Caltrans should coordinate with the City to develop a corrective action plan to resolve and close the findings identified in this audit. We also recommend that Caltrans determine the allowability of the questioned costs and recover \$1,072,862, if applicable.
2. Caltrans should review construction costs for project BRLS-5002 (164) that it reimbursed to the City subsequent to the period covered in this audit report to ensure all reimbursed costs are documented with adequate supporting records.
3. The City should design and implement a review process to ensure project files include all relevant source documents, including, but not limited to, Q sheets, weight tickets, and complete daily reports. This process should ensure that the City maintains a clear audit trail to support project costs and to facilitate the tracing of incurred expenditures to source documents.
4. The City should provide training to staff on all applicable construction record completion and retention requirements.

## APPENDIX A Q Sheet Template

Local Assistance Procedures Manual

Exhibit 16-Y

Monthly Progress Pay Item Quantity Calculation Sheet

### Exhibit 16-Y: Monthly Progress Payment Item Quantity Calculation Sheet

Contract Number:	Item:	Units:
	File Number:	
Project Name:	Calc. By:	Date:
	_____ Print                      and                      Sign	
	Checked By:	Date:
	_____ Print                      and                      Sign	

**Note:** Include detailed location of work, measurements and calculations.

As per contract specifications, these quantities were:

- ☐ Field measured by \_\_\_\_\_
- ☐ Taken from dimensions shown of plans. (Only use if the Standard Specifications specify).
- ☐ Taken from weigh tickets. (For material paid by weight).

<div style="background-color: #e0f0ff; border: 1px solid #add8e6; width: 100%; height: 100%; position: relative;"> <div style="position: absolute; top: 0; left: 0; right: 0; bottom: 0; background-image: linear-gradient(to right, transparent 49%, #add8e6 49% 49%, #add8e6 49% 51%, transparent 51% 51%, transparent 51% 52%, #add8e6 52% 52%, #add8e6 52% 54%, transparent 54% 54%, transparent 54% 56%, #add8e6 56% 56%, #add8e6 56% 58%, transparent 58% 58%, transparent 58% 60%, #add8e6 60% 60%, #add8e6 60% 62%, transparent 62% 62%, transparent 62% 64%, #add8e6 64% 64%, #add8e6 64% 66%, transparent 66% 66%, transparent 66% 68%, #add8e6 68% 68%, #add8e6 68% 70%, transparent 70% 70%, transparent 70% 72%, #add8e6 72% 72%, #add8e6 72% 74%, transparent 74% 74%, transparent 74% 76%, #add8e6 76% 76%, #add8e6 76% 78%, transparent 78% 78%, transparent 78% 80%, #add8e6 80% 80%, #add8e6 80% 82%, transparent 82% 82%, transparent 82% 84%, #add8e6 84% 84%, #add8e6 84% 86%, transparent 86% 86%, transparent 86% 88%, #add8e6 88% 88%, #add8e6 88% 90%, transparent 90% 90%, transparent 90% 92%, #add8e6 92% 92%, #add8e6 92% 94%, transparent 94% 94%, transparent 94% 96%, #add8e6 96% 96%, #add8e6 96% 98%, transparent 98% 98%, transparent 98% 100%); background-size: 20px 20px;"> </div> </div>		
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Original Planned Quantity:		Previously Paid:	
Change Order Revisions:		<b>PAY THIS SHEET:</b>	
New Authorized Quantity:		Total Paid to Date:	

## APPENDIX B

### Table of Criteria

Criteria Source	Criteria Section	Criteria
<b>2018 Local Assistance Procedures Manual</b>	5.8	The local agency shall maintain written source document records that account for agency costs and payments made to consultants, vendors, and contractors. Contract records must be retained by the local agency for a minimum period of three years from the date of the final payment by the state.
<b>2018 Local Assistance Procedures Manual</b>	16.3	Good records of all construction activities clearly demonstrate to those concerned that project supervision and control were attained on the project.
<b>2018 Local Assistance Procedures Manual</b>	16.8	The Local Public Agency must write daily reports to document the work in progress. These daily reports may be written by the construction inspector, the Assistant Resident Engineer, and/or the Resident Engineer, as project and staffing needs dictate. The daily report must document what work was performed, where and how it was performed, and who performed it. The details must be sufficient so that someone not familiar with the project could re-create the events that occurred and review of the contractor's costs to perform the work in a manner similar to force account. The report should also document significant events or conversations, and activities performed to ensure contract compliance.
<b>2018 Local Assistance Procedures Manual</b>	16.8	<p>The Daily Reports should record the following:</p> <ul style="list-style-type: none"> <li>• General Information <ul style="list-style-type: none"> <li>o Date</li> <li>o A brief description of the weather</li> <li>o Printed name and signature of the author</li> </ul> </li> <li>• For each person working on the project <ul style="list-style-type: none"> <li>o Full name</li> <li>o Labor classification</li> <li>o Employer</li> <li>o Hours worked, broken down by contract item and/or Contract Change (CO) work</li> </ul> </li> <li>• For each piece of equipment working on the project <ul style="list-style-type: none"> <li>o Make and model (or contractor's ID number)</li> <li>o Hours worked, broken down by contract item and/or CO work</li> </ul> </li> </ul>
<b>2018 Local Assistance Procedures Manual</b>	16.10	<p>For each change order, the following documents must be prepared:</p> <ul style="list-style-type: none"> <li>• The change order.</li> <li>• A memorandum explaining and justifying the change order.</li> </ul>
<b>2018 Local Assistance Procedures Manual</b>	16.10	It is not sufficient to just review a contractor's proposed price and decide it is reasonable without performing your own independent cost estimate calculations.

**Appendix B**  
**Table of Criteria (Continued)**

Criteria Source	Criteria Section	Criteria
<b>2018 Local Assistance Procedures Manual</b>	16.13	Source documents are the original documents, data, and records containing the details to substantiate a transaction entered in an accounting system. Source documents are the permanent record sheets that create a clear and easily followed accounting trail from the total pay quantities in the proposed final estimate, back to the first measurement or calculation for each bid item; and for extra work at force account payments back to records and costs substantiating performance of the work.
<b>2018 Local Assistance Procedures Manual</b>	16.13	Contract Item Quantity Calculation sheets, also known as Q sheets, support and document item payments made to the contractor each month. A separate quantity calculation sheet must be prepared for each contract item being paid for each progress payment.
<b>2018 Local Assistance Procedures Manual</b>	16.13	Weight tickets, sometimes referred to as load slips, are used to support both item quantity payments made by weight and extra work paid at force account. Weight tickets must be collected at the point of delivery and validated by a representative of the administering Local Public Agency.
<b>2018 Local Assistance Procedures Manual</b>	16.13	Consider organizing Q sheets and weight tickets by bid item so an easily followed audit trail exists. Total and bundle the tickets by each day worked, and place in the project files.
<b>Title 2 Code of Federal Regulations, Part 200</b>	200.334	Financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award must be retained for a period of three years from the date of submission of the final expenditure report.
<b>2018 City of Sacramento Retention Schedule</b>	PW-001	Total Retention for Projects Developed: Completion plus 7 years or audit if required, whichever is longer.

**RESPONSE**

Engineering Services Division

915 I Street, RM 2000

Phone: 916-808-8300

Diana C Antony, Chief Deputy Inspector General  
Independent Office of Audits and Investigations—MS2  
P.O. Box 942874,  
Sacramento, California 94274-0001

SUBJECT: CITY OF SACRAMENTO DEPARTMENT OF PUBLIC WORKS RESPONSE TO THE DRAFT  
INCURRED COST AUDIT REPORT

Dear Ms. Antony,

The draft audit report presented the results of an incurred cost audit of three projects of the City of Sacramento Department of Public Works (City) with costs totaling \$10,805,031 reimbursed from Caltrans as of December 31, 2020. The objective of the audit was to determine if the City's claimed and reimbursed costs were adequately supported and in accordance with State and Federal regulations.

The City acknowledges certain findings and has already begun implementing processes to align with the draft report's recommendations. The audit report will be used as a guideline to continue making these ongoing procedural improvements. The recommendations include changes to the City's Project Delivery Manual and Construction Management guidelines and employee training. Below are detailed responses to the Audit Report findings and recommendations.

**Finding #1 Unsupported Construction Costs LPPSB1L-5002(206)**

The letter states "The City was not unable to provide documentation to support \$1,072,862 in reimbursed construction costs that is claimed for project number LPPSB1L-5002 (206)". The City acknowledges that it was unable to provide the documentation of contract item quantity calculation sheets and weight tickets for \$2,145,724 in construction costs as identified by the auditor, which was translated into \$1,072,862 in state disallowed costs at the 50% reimbursement rate.

Please note the City committed a total of \$9,267,755 in local funds for the project that it previously classified as participating costs. If the \$2,145,724 in disallowed construction costs are reclassified as non-participating costs, the remaining \$7,122,031 remain as undisputed participating costs as no deficiencies were identified in the audit. At the 50% state reimbursement rate, that would exceed the total state allocation of \$1,748,000. As a result, the City does not believe it is necessary to provide a refund to the state as there remain adequate participating costs to support the City's reimbursement claim. Please see the attached invoice notes.

In addition, please note that the City has provided alternative supporting documents to substantiate the pay request lines that were questioned by the audit as an attachment to this response letter.



Engineering Services Division

915 I Street, RM 2000

Phone: 916-808-8300

The City of Sacramento acknowledges a portion of the supporting documentation requested by the Caltrans Auditor during the audit was missing and unable to be located by staff and agree that this documentation prepared during the work to support all construction activity and payments is needed to be collected and retained to ensure the projects are constructed according to plans and specifications, and to confirm that payments are made based on measured and calculated quantities. This is and has been our practice. The City is working towards a more thorough electronic record-keeping program to prevent a recurrence in the misplacement of construction documentation.

To better ensure compliance with the Caltrans Local Assistance Procedures Manual (LAPM), the City has hired a consultant to assist with updating the City Project Delivery Manual (PDM) to clearly reference the requirements in the LAPM. As it is our current and past practice, the City will ensure appropriate inspection reports and source documents supporting each line item have been prepared and archived in the construction file prior to approving payments to contractors. The referenced update to the City PDM will include clarification as to the manner in which Staff are to ensure that project files are archived appropriately prior to the project completion.

**Construction Management Finding BRLS-5002 (134)**

Regarding the deficiencies that were identified for project number BRLS-5002(134), the City completed a federally compliant procurement for Construction Management services by which we selected a consultant team including a Resident Engineer who regularly teaches Caltrans Resident Engineer Academy materials. Compliance to local assistance and federal procedures was a key component of that procurement processes. The City accepts the findings of the auditors and appreciates them taking the time to review additional construction documentation to determine that the costs were in fact appropriate, justified, and ultimately reimbursable. The findings presented for this project were a result of typographical errors, change order numbers not being generated until after daily reports, or weight tickets spanning multiple days of operation on the site. The City will incorporate procedural improvements to ensure such deficiencies are avoided on future construction efforts.

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Thank you for the opportunity to respond to the findings and questioned costs. We look forward to working with Caltrans to address these issues collaboratively.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ryan Moore".

Ryan Moore  
Director of Public Works

**EVALUATION OF RESPONSE**

We reviewed the City's response to the draft audit report and incorporated it into the final report. For brevity purposes, the City's attachments to their response were not included in this audit report.

We appreciate the City's willingness to implement our recommendations and acknowledge the steps taken to address the audit findings. In evaluating the City's response, we provide the following comments:

**FINDING 1 – Unsupported Construction Costs**

The City stated that they had additional participating costs to offset the questioned costs. However, our scope was limited to reviewing costs reimbursed by Caltrans, which included \$1,072,862 of unsupported costs. As a result, our finding remains unchanged. However, we modified the recommendation to recommend that Caltrans work with the City to develop a corrective action plan to resolve the audit findings and determine the allowability of the questioned costs and recover \$1,072,862, if applicable.