



Independent Office of Audits and Investigations

June 30, 2022

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

Final Report – County of Placer, Incurred Cost Audit

The Independent Office of Audits and Investigations (IOAI) completed an audit of the County of Placer (County). We audited the County's costs incurred related to six projects totaling \$28,439,047, which were reimbursed by the California Department of Transportation (Caltrans).

Enclosed is the final report, which includes the County'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.

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



Independent Office of Audits and Investigations

- c: Ken Grehm, Executive Director, Flood Control & Water Conservation District,
County of Placer
Will Garner, Deputy Director, Department of Public Works, County of Placer
Becky Correa, Administrative and Fiscal Operations Manager, Department of
Public Works, County of Placer
Sukhvinder Takhar, Deputy District Director, Planning, Local Assistance, and
Sustainability, 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



County of Placer Incurred Cost Audit

AUDIT REPORT

JUNE 2022

PREPARED BY:

Independent Office of Audits and Investigations – MS 2

Post Office Box 942874

Sacramento, California 94274-0001

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

TABLE OF CONTENTS

BACKGROUND1

SCOPE AND METHODOLOGY.....2

CONCLUSION4

FINDING 1 – QUESTIONED CONSTRUCTION RELATED COSTS4

APPENDIX A.....7

RESPONSE.....8

EVALUATION OF RESPONSE.....13

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The California Department of Transportation (Caltrans) administers various programs that provide federal and state funds to local agencies. Included among these programs are the State Transportation Improvement Program, the Highway Bridge Program, and the Aeronautics Program.

- The State Transportation Improvement Program (STIP) is the biennial five-year plan adopted by the California Transportation Commission (Commission) for future allocations of certain state transportation funds for state highway improvements, intercity rail, and regional highway and transit improvements.¹
- The Highway Bridge Program's purpose is to replace or rehabilitate public highway bridges over waterways, other topographical barriers, other highways, or railroads when the State and the Federal Highway Administration determine that a bridge is significantly important and qualifies under the Local Assistance Program Guidelines (Chapter 6, Highway Bridge Program). Reimbursable scopes of work include replacement, rehabilitation, painting, scour countermeasure, and preventative maintenance activities.²
- The Aeronautics Program focuses on California's aviation transportation system and provides annual credit grants of \$10,000 per year to eligible public-use and publicly owned airports.³ Grant funds are paid to public entities for expenditures on pre-approved eligible projects for airport and aviation purposes.

For this audit, we selected six projects among these three programs that Caltrans awarded to the County of Placer (County). Caltrans reimbursed the County a total of \$28,439,047 for incurred costs.

¹ Excerpt obtained from [State Transportation Improvement Program \(STIP\) | CTC \(ca.gov\)](#).

² Excerpt obtained from [Highway Bridge Program | Caltrans](#).

³ Excerpt obtained from [Annual Credit Grant | Caltrans](#).

Table 1: Audited Projects and Costs

Program	Project Number	Project Name/Description	Reimbursed Amount
State Transportation Improvement Program (STIP)	03-0584	Kings Beach Commercial Core Improvements – Gateway to the Core	\$ 7,600,000
Highway Bridge Program	TSCP-E2CA(018)	Walerga Road Bridge at Dry Creek	15,072,843
Highway Bridge Program	BRLO-5919(116)	Gold Hill Road over Auburn Road	5,736,204
Aeronautics Program	N/A	Fiscal Year 2017-18 Blue Canyon Annual Credit Grant	10,000
Aeronautics Program	N/A	Fiscal Year 2018-19 Blue Canyon Annual Credit Grant	10,000
Aeronautics Program	N/A	Fiscal Year 2019-20 Blue Canyon Annual Credit Grant	10,000
Total Project Costs Reimbursed	-	-	\$ 28,439,047

* N/A – Not Applicable.

SCOPE and METHODOLOGY

For this audit, we determined whether project costs claimed by the County 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 January 7, 2021.

We gained an understanding of the projects and relevant criteria by reviewing the executed project agreements, Caltrans' guidelines, applicable state and federal regulations, County policies and procedures, and by interviewing County 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 County's review and approval processes of expenditures and contract procurement. 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 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 selected costs were supported by source documentation. We determined that the data 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 that the costs claimed by the County and reimbursed by Caltrans for the six projects were allowable and adequately supported in accordance with Caltrans' agreement provisions and state and federal regulations. However, we questioned certain costs for project number 03-0584, as noted in Finding 1.

FINDING 1 – Questioned Construction Related Costs

For project number 03-0584, the County claimed and was reimbursed for construction support and construction capital costs that we determined were either ineligible or unsupported.

The California Transportation Commission allocated \$7,600,000 for the construction phase of this project. The amended project agreement (03-0584 - A1) between Caltrans and the County states that STIP funds were only allocated for construction capital costs; STIP funds were not allocated to construction support. The project agreement defines construction capital costs as the funds used for the construction phase. This same agreement defines construction support costs as the funds related to the administration, acceptance, and final documentation of the project's construction contract.

Ineligible Support Costs

The County claimed construction support costs that we determined were ineligible. Specifically, Caltrans reimbursed the County \$7,600,000. However, we determined that, of that amount, \$1,460,835 was related to construction support as defined in the project agreement. As a result, these costs were not eligible for reimbursement.

Construction support costs included County labor (direct and indirect costs) and professional services (such as construction management, consulting engineers, and design consultant services). The documents that we reviewed included billing summaries, County project labor detail reports, engineering firm invoices, and consultant invoices with task descriptions such as construction inspection, project administration, project close out, and final reporting.

The County stated that it “inadvertently identified that construction capital and construction support costs were supported by STIP funds.” As noted above, STIP funds were only allocated for construction capital costs, not construction support costs. The County's improper identification resulted in ineligible and unallowable costs and reduced the amount of funds available to fund other projects.

Unsupported Construction Costs

The County also claimed \$794,559 for construction costs that we determined were unsupported. For project number 03-0584, the County entered into two separate contracts: one with Contractor A and one with Contractor B.

For Contractor A, the County was unable to provide any documentation to support \$714,654 in reimbursed construction costs. Specifically, the County did not retain the required documents to support all three progress payments submitted to Caltrans. Missing documents included daily reports, Quantity Calculation Sheets (Q sheets), and weight tickets. The County stated that it inadvertently purged the documentation. Caltrans' 2017 Local Assistance Procedures Manual requires supporting documentation to be retained for three years after payment of the final federal or state voucher.

For Contractor B, the County did not provide sufficient documentation to support certain bid items⁴, which resulted in our questioning of \$79,905 as follows:

- For bid item number 117, the County did not provide a daily report, weight tickets, or other corroborating evidence to support the Q sheet. This resulted in \$41,534 in reimbursed costs that we determined to be unsupported.
- For bid item number 93, the County provided documentation that contained inconsistencies. For example, the weight tickets did not support the quantity billed (e.g., one of the weight tickets referred to a different bid item number) and the daily reports did not support the Q sheets (e.g., the daily reports had no record of the quantities of concrete used for work performed under bid item 93). This resulted in \$33,500 in reimbursed costs that we determined to be unsupported.
- For bid item number 86, the County provided a Q sheet; however, the Q sheet included a descriptive narrative that was not supported by

⁴ [Caltrans' 2018 Standard Specifications](#) defines a bid item as a work unit for which the Bidder provides a price.

adequate documentation. For instance, the Q sheet stated, "This pay item was deleted and needs to be paid under contract change order (CCO) number 26." The County did not provide documentation to support CCO number 26. This resulted in \$4,871 in reimbursed costs that we determined to be unsupported.

The project agreement requires agencies to maintain records associated with project work responsibilities and costs for three years after the final voucher. In addition, Section 5.8 of Caltrans' 2017 Local Assistance Procedures 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. For a list of additional applicable criteria, refer to Appendix A – Table of Criteria.

According to the County, this was a complex project, and it experienced difficulty precisely tracking day-to-day work in progress since the work consisted of multiple work components at various locations. Nevertheless, the County still had an obligation to maintain adequate supporting documentation. The County's non-compliance with these requirements hindered its ability to demonstrate that project costs were allowable and to substantiate the performance of work.

RECOMMENDATIONS

- A. Caltrans should coordinate with the County 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 \$2,255,394, if applicable.
- B. The County should design and implement a review process to ensure expenditures are eligible and allowable based on executed agreements.
- C. The County should ensure the records are retained to ensure a clear audit trail is maintained to support project costs. The audit trail should facilitate the tracing of incurred expenditures to source documents

APPENDIX A

Table of Criteria

Criteria Source	Criteria Section	Criteria
2017 Local Assistance Procedures Manual	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.
2017 Local Assistance Procedures Manual	10.8	For audit purposes, project records and documentation shall be kept for three (3) years after payment of the final federal or state voucher. Among the records to be retained are progress and final payments and supporting documentation.
2017 Local Assistance Procedures Manual	16.7	The administering agency's Resident Engineer, Assistant Resident Engineers, and construction inspectors should keep daily reports to record work in progress. The detail should be sufficient to permit review of the contractor's costs of the work in a manner similar to force account.
2017 Local Assistance Procedures Manual	16.8	<p>Project files shall contain all data pertinent to the work and to the requirements of the specifications. In general, project files should support: 1) adequacy of filed control, 2) conformance to contract specifications, and 3) contract payments to the contractor.</p> <p>Generally, whenever the local agency is unable to produce requested data or information, it shall be assumed by reviewing personnel the required actions were either never performed or not properly recorded. Organized project files can minimize these negative assumptions.</p>
2017 Local Assistance Procedures Manual	16.9	<p>The essential elements of the accounting system must contain a file of source documents supporting payments made to contractors. Source documents shall be any written record(s) prepared by the administering agency which clearly record:</p> <ul style="list-style-type: none"> • To what specified portion of work it applies; • The necessary measurements and/or calculations by which the quantity is determined; and • The calculations on source documents are to be checked in accordance with good engineering practice and the name of the checker included thereon. Checking should be performed as soon as practicable, but in any event prior to payment of a final estimate. Quantities from source documents must be entered in the appropriate project records.

RESPONSE

June 24, 2022

Transmitted via email

Diana C. Antony
Chief Deputy Inspector General
Independent Office of Audits and Investigations
P.O. Box 942874, MS-2
Sacramento, CA 94274-0001

Dear Ms. Antony,

Subject: County of Placer Department of Public Works, Draft Incurred Cost Audit, 2021

In February of 2021, The Independent Office of Audits and Investigations for California DOT began an incurred cost audit of the County Department of Public Works for the following projects:

- 1) Gateway to Kings Beach Core Improvements – Agreement 03-0584 - \$7,600,000
- 2) Walerga Road Bridge at Dry Creek – Agreement TCSP-E2CA(18) - \$15,603,353
- 3) Gold Hill Road over Auburn Road – Agreement BRLO-5919(116) - \$5,736,204
- 4) Blue Canyon Airport Annual Credit of \$10,000 for FY 2017/18, 2018/19 & 2019/20

Over the months that followed the audit team met remotely with County staff and exchanged a significant amount of information to substantiate costs charged to each of these funding agreements. In March of 2022 your team met with County staff to present preliminary findings. On April 21, 2022 we submitted a response to the preliminary findings along with relevant supporting information. On June 20, 2022 we received the Confidential Draft Report with a request to provide a response within five business days. Below are our responses.

STIP Funds - Agreement #03-0584 – Kings Beach Commercial Core Improvement Project

The Kings Beach Commercial Core Improvement Project (KBCCIP) was built in three phases and was completed in November of 2017. The project is located on State Route 28 in Placer County between State Route 267 and Chipmunk Street in the unincorporated community of Kings Beach. The project modified the highway from a four-lane to three-lane highway, added two roundabouts, sidewalks, bike lanes, parking, transit stops, landscaping and extensive storm water drainage and treatment improvements. The total project cost was \$52.7 million and was funded by multiple federal, state and local sources.

The portion of the project that was examined by the audit team was for the period between June 2016 and October of 2017. They reviewed contracted construction work with Disney Construction and Q&D Construction along with the award of STIP funds in the amount of \$7,600,000 (Agreement #03-0584, Project #0315000138). The draft report noted that the agreement for STIP funds was for construction capital with no funds for construction support. The draft report stated that \$1,460,835 was related to construction support.

The County billed \$7,600,000 in construction reimbursement costs to the STIP funds in two separate requests of \$3,800,000 in June and October of 2019. This was to fund two phases of the project known as the "Gateway to the Core" with Disney Construction and "Parking and Landscaping Improvements" with Q&D Construction.

Internally, the County tracked project costs and allocated them to multiple funding sources for reimbursement. This tracking was not submitted to Caltrans to support the STIP reimbursement requests. This internal tracking sheet identified that construction capital and construction support costs were supported by STIP funds. According to our internal tracking, \$6,218,981 in construction capital and \$1,381,019 in construction support were allocated to the STIP funding of \$7,600,000. Overall, the County spent \$200,200 in additional construction capital costs above what we internally allocated to the STIP. In total, there were \$7,800,200 in construction capital project costs from both Disney Construction and Q&D Construction, and \$3,813,288 in construction support costs. In addition, past the timeframe of the construction funded by the STIP, there was \$514,810 in construction capital payment to both contractors for a grand total in construction costs of \$8,315,010.

In retrospect, we had ample expenses to allocate only construction capital costs to the STIP funding and adequate funding outside of the STIP to pay for the remaining project costs. Attachment 1 is a newly created table demonstrating how the STIP actually supported only construction capital costs. With the construction capital costs in excess of the \$7,600,000 funded by the STIP, full funding for construction support costs outside of the STIP, and successful completion of the project, the County believes that the requirements of the STIP project agreement #03-0584 have been satisfied.

Disney Construction – Contract 000935 – Progress Pay Estimate #7

Disney Construction Inc. entered into a construction contract with Placer County in April of 2015 for the portion of the project known as the Gateway to the Core, which continued

improvements on the overall KBCCIP project at both the east and west ends of Kings Beach. Construction was completed in November of 2016 at a total cost of \$7,392,635.

The draft report stated that the County did not provide sufficient documentation to support three transactions in Pay Estimate #7 totaling \$79,905. The work paid for by the County in PPE #7, dated 12/30/2016, was in various locations throughout the project limits between October 10, 2016, and November 18, 2016. The items questioned are as follows:

#86 2*18' Header Board \$6,210

This bid item was changed per Change Order #26 to the project. Change Order #26 changed the bid item which resulted in a decrease of \$1,339 which was deducted in PPE#7. Attachment 2 includes both the Q Sheet and Change Order #26.

#93 Class 2 Aggregate Base \$33,500

The draft report notes that the County provided weight tickets that do not support the quantity billed. However, the bid item is billed by volume and not weight. Additional backup for the quantity of 335 cubic yards is shown in Attachment 3. The actual quantity of AB put in place was paid. The total volume put in place was 1,030 cubic yards. 694.5 cubic yards was paid for previously. The remaining amount paid in PPE #7 was 335 cubic yards @ \$100 per cy for \$33,500.

#117 Minor Concrete (Valley Gutter) \$41,534

The draft report notes that the County did not provide a daily report weight tickets or other evidence to support the Q sheet. Concrete is not paid by weight, but by volume. So, there are no weight tickets available to support the quantities. The work consists of multiple work components at multiple locations and is hard to quantify daily. The quantity sheet shows the span of time, locations adding up to the 81.44 cubic yards of concrete in PPE #7. Attachment 4 is the quantity sheet along with daily field reports documenting work conducted on the valley gutter in the pay item.

Q&D – Construction – Contract 000963 – Progress Pay Estimate #3

Q&D Construction was awarded the contract for the Parking Lot and Landscaping portion of the KBCCIP on May 30, 2017. The Board of Supervisors approved the Notice of Completion on March 20, 2018. The final cost of the contracted construction was

\$922,406. The project completed parking and landscaping on approximately one mile along Highway 28 between Highway 267 and just east of Chipmunk Street.

The audit team tested 6 transactions from Progress Pay Estimate #3. PPE #3 was posted on 10/27/2017 in the amount of \$188,000. Placer County was not able to retrieve any records to support this pay estimate due to records being misplaced during an office move. County staff is continuing to search for daily field notes and quantity calculations that were generated for this project by the contracted resident engineer and reviewed by County staff. The project was completed to specifications. Attachment 5 is the plan cover sheet and two photographs of the completed project.

We request that you take these responses into consideration before issuing the final findings. Feel free to reach out to our team if you would like additional information and, as always, we are open to meeting to discuss these findings and our position.

Sincerely,

A handwritten signature in blue ink that reads "Ken Grehm". The signature is written in a cursive style with a horizontal line underneath the name.

Ken Grehm, Director
Department of Public Works

Attachments

EVALUATION OF RESPONSE

We reviewed the County's response to the draft audit report and incorporated it into the final report. For brevity purposes, the County's attachments to their response were not included in this audit report. In evaluating the County's response, we provide the following comments:

FINDING 1 – Questioned Construction Related Costs

The County states that in retrospect, they had ample construction capital costs to allocate to the STIP funds and provided a newly created table. However, our scope was limited to reviewing costs reimbursed by Caltrans, which included \$1,460,835 of ineligible costs.

We appreciate the County's steps taken to search for documentation related to Contractor A's \$714,654 unsupported construction costs. Regarding the \$79,905 unsupported bid items for Contractor B, the County did not provide new information for bid items 86 and 93, other than what was provided during our audit. For bid item 117, the County's response included daily field reports that were not provided during our audit. Based on our limited review of the new information, we determined that the content of the daily field reports did not clearly specify the related work (i.e., bid item number) or quantities placed as required by Caltrans' 2017 Local Assistance Procedures Manual, Section 16.9.

As a result, our finding remains unchanged. However, we modified the recommendation to recommend that Caltrans work with the County to develop a corrective action plan to resolve the audit findings and determine the allowability of the questioned costs and recover \$2,255,394, if applicable.