



Independent Office of Audits and Investigations

January 6, 2022

Transmitted via email

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

Dear Ms. Ward-Waller:

Final Report – City of Woodland, Incurred Cost Audit

Enclosed is the Independent Office of Audits and Investigations' final audit report of the City of Woodland's (City) four projects totaling \$16,071,177 reimbursed by the California Department of Transportation (Caltrans). The City's response to the draft report as well as our evaluation of the response is included in this report. The City's response required further analysis and as a result of our analysis, changes were made to Finding 1. The report is a matter of public record and will be posted on the [IOAI's website](#).

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. All CAP submissions should be sent to IOAI.Admin@dot.ca.gov.

If you have any questions regarding this report, please contact Frances Parmelee, Acting Chief Deputy Inspector General, at (916) 764-4168 or Yung Jo Ryoo, Audit Manager at (916) 926-7677.

Sincerely,

ORIGINAL SIGNED BY

DIANA C. ANTONY, CPA
Acting Inspector General

Enclosure

c: Ken Hiatt, Assistant City Manager, City of Woodland
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P1575-0067



City of Woodland Incurred Cost Audit

FINAL AUDIT REPORT

P1575-0067

JANUARY 2022



PREPARED BY:

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SUMMARY, BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

SUMMARY

The Independent Office of Audits and Investigations (IOAI) performed an incurred cost audit of the City of Woodland (City). We audited four projects totaling \$16,071,177 reimbursed by the California Department of Transportation (Caltrans) as of June 30, 2020.

We identified \$170,798 that were not in compliance with Caltrans agreement provisions and state and federal regulations. See [Attachment A](#) for a summary of questioned costs.

BACKGROUND

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 City's Community Development Department (CDD) provides economic development services, land use and environmental planning, development, transportation, capital and utility engineering, building inspections, code compliance, and plan check services. The Engineering Division within CDD assists customers through the approval and development process while ensuring that the City's public infrastructure is not adversely impacted by developments. It is also responsible for transportation planning, engineering, grant funding coordination, pavement maintenance programming, traffic signal engineering, design and construction of capital improvement projects, and capital/development project review.

OBJECTIVES

We performed the audit to determine whether 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
ATPCML-5046(042)	Construct Class III bike route, signage, ADA ramps, intersection detection	\$ 1,552,000
HP21L-5046(036)	Landscape I-5 Interchange at CR 102	1,998,409
LPPSB1L-5046(044)	Construct full road vehicle, bicycle, and sidewalk safety improvements at West Main St, between West St., and CR 98	2,901,478
STPL-5046(038)	Roadway Widening at Kentucky Avenue	9,619,290
Total Project Costs	-	\$16,071,177

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 City'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 City'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.

RESULTS

CONCLUSION

We identified questioned costs totaling \$170,798 that were not in compliance with Caltrans agreement provisions and state and federal regulations. See [Attachment A](#) for a summary of questioned costs. The City's response to the draft report is included in this report. In the interest of brevity, the attachments to the response were omitted. See Attachment B.

FINDING 1 – Unsupported Construction Costs Billed

The City's construction costs totaling \$131,435 were not adequately supported by source documents. Specifically, while the City prepared Contract Item Quantity Calculation Sheets (Q sheets) to support the progress payment for construction costs, there were instances where the Q sheets were not fully supported by daily reports as required by Caltrans Local Assistance Procedures Manual (LAPM) Chapter 16.13 (January 2018 Manual). This chapter states, in part, 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. Daily reports are required to support quantity calculation sheets and force account payments.

The City also had no invoices or delivery slips to support some costs claimed. LAPM Chapter 16.9 (January 2017 Manual) Construction Records and Accounting Procedures states, in part, it 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, (such as) the necessary measurements and/or calculations by which the quantity is determined.

Questioned costs of \$131,435 are summarized in Table 1.

Table 1 – Unsupported Construction Costs

Project No.	Unsupported Costs
HP21L-5046(036)-6814	\$73,737
STPL-5046(038)	\$5,000
ATPCML-5046(042)	\$30,000
LPPSB1L-5046(044)	\$22,698
Total Unsupported Construction Costs	\$131,435

Additionally, the City improperly billed Caltrans non-participating utility costs. The Finance Letter for STPL-5046(038) project dated September 6, 2017 identifies utility costs as non-participating costs which are excluded from federal reimbursement. However, during the audit, the City repaid the unallowable utility costs by adjusting their final invoice which did not result in any questioned costs.

The City stated they were short staffed and relied on consultants for much of their oversight. In addition, the City's non-participating utility cost tracking sheet was not reconciled with the progress payment request to identify unallowable costs. By not using proper oversight and retaining accurate records, the City may continue to bill Caltrans for unsupported and questioned costs.

RECOMMENDATIONS

- A. Remit \$131,435 to Caltrans for unsupported construction costs. Caltrans will determine the final disposition of questioned costs.
- B. Comply with Caltrans' LAPM requirements by adequately supporting the City's payments to contractors with construction records. Specifically, ensure a clear audit trail exists and documentation is maintained to support contractor invoices. The audit trail should facilitate the tracing of costs billed to the source documents.
- C. Implement reconciliation procedures to ensure non-participating costs are not billed to Caltrans.

SUMMARY OF CITY'S RESPONSE

The City acknowledges that improvement is needed on some construction documentation related to contractor payments and Contract Item Quantity Calculation Sheets (Q Sheets). The City, however, does not agree that the costs are unsupported and does not agree with the recommendation that the City remit \$131,435 to Caltrans.

In response to non-compliance with Public Contract Code, the City conferred with the City Attorney's Office and states the "Public Contract Code, Section 10264, does not apply to the City nor does the Caltrans LAPM, or any other memorialized funding requirement obligate the City to comply with the terms of that statute."

The City acknowledges billing of non-participating utility costs was a clerical error. The City stated the direct involvement of the City staff in this audit ensures that this issue and the criticality of ensuring the correct funding approval documents are being utilized during the invoicing process is well understood at all levels of the invoice process.

ANALYSIS OF CITY'S RESPONSE

The City did not provide additional supporting documentation to demonstrate

the costs are allowable. Additionally, Finding 1 was clarified to focus on the lack of adequate documentation to support construction costs billed. The questioned costs of \$131,435 remain unchanged. Caltrans will determine the final disposition of the questioned costs.

Upon further review of the applicability of Public Contract Code, Section 10264, we modified Finding 1 to remove the compliance issue related to mobilization costs.

FINDING 2 – Indirect Costs Claimed as Direct Costs

For project HP21L-5046(036), the City improperly billed direct project “chargeback” costs totaling \$33,039 that were indirect in nature. The City developed a chargeback account to record indirect costs such as services and supplies, and salary costs associated with leave, administrative, and training hours. Absent an approved indirect cost rate from Caltrans, these indirect costs are questioned.

Article IV, paragraph 8 of the Master Agreement No. 03-5046F15 states Indirect Cost Allocation Plan/Indirect Cost Rate Proposals (ICAP/ICRP), Central Service Cost Allocation Plans, and related documentation are to be prepared and provided to the state for review and approval prior to the Administering Agency seeking reimbursement of indirect costs incurred within each fiscal year being claimed for state and federal reimbursement.

The City does not have written policies and procedures on “chargeback” costs. The City staff responsible for billing capital projects were not aware that the “chargeback” costs were indirect costs. The City staff’s misunderstanding of “chargeback” costs may continue to result in indirect costs inappropriately being billed to Caltrans as direct costs.

RECOMMENDATIONS

- A. Remit \$33,039 to Caltrans for questioned indirect costs. Caltrans will determine the final disposition of questioned costs.
- B. Develop and implement policies and procedures on “chargeback” costs to ensure indirect costs are not billed as direct costs and provide training to responsible staff.
- C. Receive an approved indirect cost rate from Caltrans if indirect costs are to be billed in the future.
- D. Work with Caltrans to review prior billings to determine if additional “chargeback” costs were reimbursed and should be repaid.

SUMMARY OF CITY’S RESPONSE

The City acknowledges the chargeback costs billed to Caltrans contained indirect costs. The City stated that when this issue was raised during the audit

process, they immediately corrected the issue. The City also outlined process improvements implemented to address the finding, including staff training and tracking chargeback costs in a separate fund within their financial system. Further, the City does not intend to pursue reimbursement of indirect costs nor does not intend to seek approval for an indirect cost rate from Caltrans.

ANALYSIS OF CITY'S RESPONSE

We appreciate the City's response and steps taken to address the issues identified. New tracking processes implemented after our fieldwork were not audited or reviewed.

FINDING 3 – Unallowable Consultant Costs Billed

The City billed unallowable consultant costs totaling \$6,324 that exceeded the contract's approved hourly rates for project HP21L-5046(036). Billed rates ranged from \$70 to \$85 while rates approved in the contract ranged from \$61 to \$63. In addition, the City did not document approval of the consultant's change in key personnel for project STPL-5046(038).

LAPM Chapter 10.1.2, Identifying & Defining a Need for Consultants, states, in part, that the consultant is paid at an agreed and supported specific fixed hourly, daily, weekly, or monthly rate, for each class of employee engaged directly in the work.

LAPM Chapter 10.8 Substitution of Consultant Personnel and Subconsultants states, in part, that after contract execution, the consultant should not substitute key personnel or subconsultants without prior written approval from the local agency.

The City stated that billing rates above the contract amounts was an oversight. The City also stated that there was a clerical error in documenting the change of key personnel staff. By not exercising proper contract management, the City may continue to bill Caltrans for unallowable costs and may not be able to ensure qualified personnel are contracted to perform work.

RECOMMENDATIONS

- A. Remit \$6,324 to Caltrans for unallowable consultant costs. Caltrans will determine the final disposition of questioned costs.
- B. Review the consultant contract to ensure compliance, specifically in the areas about approved consultant billing rates and making key personnel changes for the project.

SUMMARY OF CITY'S RESPONSE

The City acknowledges the error in allowing consultant costs to be billed at a higher hourly rate than was documented in the consultant contract for Project HP21L-5046(036). However, the City disagrees with the recommendation to remit

the differential amount of \$6,324 to Caltrans. The City claims the consultant costs were allowable since the total contract remained within the not-to-exceed contract amount and the City did not over-expend available funding and costs would have been reimbursable had they been properly documented.

The City also acknowledges the oversight of not documenting an approved change in consultant's key staff on Project STPL-5046(038). The City states there were in-person conversations about the change in staff and an email message was sent to the project team about the change. The email message dated February 6, 2018 was attached to the City's response.

In addition, the City stated all project staff received refresher training on how to properly document changes to consultant contracts to prevent errors in the future.

ANALYSIS OF CITY'S RESPONSE

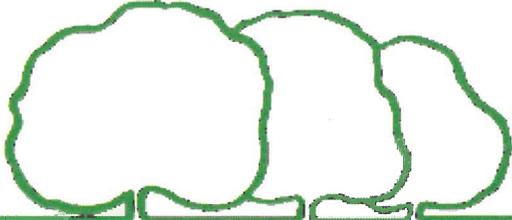
We appreciate the City's acknowledgment. However, allowability of the costs is determined based on individual cost item compliance to consultant contract provisions and state and federal cost principles. The City did not provide a formal written approval, as required by the executed consultant contract, to support the change in key personnel.

The finding and recommendations will remain unchanged.

ATTACHMENT A – Summary of Questioned Costs

Finding	Project Number	Description	Amount
1	LPPSB1L-5046(044)	Unsupported Construction Costs	\$22,698
1	HP21L-5046(036)-6814	Unsupported Construction Costs	\$73,737
1	STPL-5046(038)	Unsupported Construction Costs	\$5,000
1	ATPCML-5046(042)	Unsupported Construction Costs	\$30,000
2	HP21L-5046(036)	Ineligible Indirect Costs	\$33,039
3	HP21L-5046(036)	Unallowable Consultant Costs	\$6,324
-	-	Total Unallowable Costs	\$170,798

ATTACHMENT B – City of Woodland’s Response to the Draft Report



City of Woodland

CITY MANAGER

300 FIRST STREET

WOODLAND, CALIFORNIA 95695

(530) 661-5800

June 17, 2021

MarSue Morrill
Audit Chief
Independent Office of Audits and Investigations
PO Box 942874, MS-2
Sacramento, CA 94274-0001

SUBJECT: City of Woodland Response to Draft Incurred Cost Audit Report

Dear Ms. Morrill,

The City of Woodland has received the Draft Incurred Cost Audit Report, delivered via electronic mail on June 8, 2021, and which was the subject of an exit conference on June 9, 2021. The City has thoroughly reviewed the Draft Report, including its findings and associated recommendations.

While the City does not concur with all of the findings or recommendations in the draft report, the City does acknowledge there are deficiencies to correct and is committed to making necessary changes. The City feels this process has been particularly beneficial because we are a small enough agency that we could have all pertinent project staff and their supervisory chain directly involved in the process. This ensured your staff received information timely and our staff received corrective information firsthand.

The City appreciates the opportunity to review our program with your staff and to provide the attached response to the Draft Incurred Cost Audit Report. The City looks forward to receiving the final report and working with Caltrans Headquarters and Local Assistance staff to resolve any disputed items and identify necessary changes to our project management procedures and processes.

Respectfully,



Ken Hiatt
City Manager