

Memorandum

*Flex your power!
Be energy efficient!*

To: KOME AJISE
Deputy Director
Planning and Modal

Date: February 12, 2014

File: P1575-0026

From: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations



Subject: INCURRED COST AUDIT – COUNTY OF SISKIYOU

We have audited the costs claimed by and reimbursed to the County of Siskiyou (County) totaling \$3,005,789 for work performed under projects BRLO-5902(040) and RPL-5902(047) with the California Department of Transportation (Caltrans). The audit was performed to determine whether the costs were supported and in compliance with the agreement provisions and State and federal regulations. This audit was performed as a management service to assist Caltrans in fulfilling its fiduciary responsibilities to State and federal regulatory agencies. Attached is the audit report that includes the County's response.

Based on our audit, we determined that reimbursed costs totaling \$2,793,216 were supported and in compliance with respective agreement provisions and State and federal regulations. However, reimbursed costs totaling \$212,573 were not adequately supported and were not in compliance with respective agreement provisions, and State and federal regulations. In addition, we determined that the County lacked adequate procurement procedures and practices, contract administration processes, and effective internal controls over labor costs billed.

Please provide our office a Caltrans action plan related to the audit recommendations within 90 days of this memorandum. This audit and the follow-up action plan are a matter of public record and will be placed in the Caltrans website.

We thank you and your staff for their assistance provided during this audit. If you have questions or need additional information, please contact me at (916) 323-7122 or Zilan Chen, Chief, External Audits, at (916) 323-7877.

Attachments

- (1) Final incurred cost audit report for the County of Siskiyou

- c: Scott Waite, Director, County of Siskiyou, Department of Public Works
- Michael Tritz, Deputy Secretary for Audits and Performance Improvements, Business,
Transportation and Housing Agency
- Janice Richard, Director of Financial Services, Federal Highway Administration
- Andre Boutros, Executive Director, California Transportation Commission
- Malcolm Dougherty, Director, Caltrans
- Richard Land, Chief Deputy Director, Caltrans
- John Bulinski, District Director, District 2, Caltrans
- Clark Paulsen, Chief, Division of Accounting, Caltrans
- Ray Zhang, Acting Chief, Division of Local Assistance, Caltrans
- Ian Howat, District Local Assistance Engineer, District 2, Caltrans
- Dave Moore, Deputy Director, Planning and Assistance, District 2, Caltrans

P1575-0025
Incurred Cost Audit County of Siskiyou
February 2014

Zilan Chen
Chief, External Audits – Local Governments
Audits and Investigations
California Caltrans of Transportation

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Summary

The California Department of Transportation (Caltrans) Audits and Investigations (A&I) audited costs claimed by and reimbursed to the County of Siskiyou (County), totaling \$3,005,789 for projects BRLO-5902(040) and RPL-5902(047) from July 1, 2010 through December 31, 2011. Based on our audit, we determined that reimbursed costs totaling \$2,793,216 were supported and in compliance with respective agreement provisions and State and federal regulations. However, reimbursed costs totaling \$212,573 (See Attachment I), were not adequately supported and were not in compliance with respective agreement provisions, and State and federal regulations. The total unsupported costs may change as the County performs additional analysis of the conditions identified in this audit report. In addition, we determined that the County lacked adequate procurement procedures and practices, contract administration processes, and effective internal controls over labor costs billed.

Objectives

The audit was performed to determine whether costs claimed were allowable, adequately supported, and in compliance with the respective agreement provisions and State and federal regulations. The audit was performed as a management service to Caltrans to assist in its fiduciary responsibility to State and federal regulatory agencies.

The County is responsible for the claimed costs, compliance with applicable agreement provisions, and State and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable, allocable, and allowable costs.

Methodology

We conducted this performance audit in accordance with 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 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 for the purpose of expressing an opinion on the financial statements of the County. Therefore, we did not audit and are not expressing an opinion on the County's financial statements.

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, as well as evaluating the overall presentation.

Scope

The scope of the audit was limited to financial and compliance activities. Our audit of the County's financial management system included interviews of County staff necessary for obtaining an understanding of the County's accounting and internal controls. Based on the risk assessment performed,

**Scope
(Continued)**

the audit focused on the County's procurement process and contract management of consultant contracts and construction contracts. The audit consisted of transaction testing of claimed costs to evaluate compliance with Title 2, Code of Federal Regulations (CFR), Part 225; Title 48 CFR, Chapter 1, Part 31; Title 49 CFR, Part 18; Title 23 CFR; Caltrans Local Assistance Procedures Manual; and requirements stipulated in the County's Master Agreements with Caltrans. Our field work was completed on January 10, 2013, and transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not pertain to costs or credits arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

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.

Our findings and recommendations take into consideration the County's response dated December 17, 2013, to our November 2013, draft report. Our findings and recommendations, the County's response, and our analysis of the response are set forth in the Findings and Recommendations of this report. Additionally, Finding 1 was modified as a result of additional supporting documents provided by the County. A copy of the County's full response is included as Attachment V. Documents referenced in the County's response may be provided upon request.

Background

Siskiyou County is located in the northernmost part of California, in the Shasta Cascade region on the Oregon border. It was created on March 22, 1852, and is geographically the fifth largest county in California. Yreka is its county seat.

More than 60 percent of Siskiyou land is currently managed by agencies of the State and federal governments. These include the United States Department of Agriculture, Forest Service, Bureau of Land Management, United States Fish and Wildlife Services and California Department of Fish and Game.

Conclusion

Based on our audit, we determined that reimbursed costs totaling \$2,793,216 were supported and in compliance with respective agreement provisions and State and federal regulations. However, reimbursed costs totaling \$212,573, were not adequately supported and were not in compliance with respective agreement provisions, and State and federal regulations. Total unsupported amount may change as the County performs additional analysis of the conditions identified in the audit. In addition, we

**Conclusion
(Continued)**

determined that the County lacked adequate procurement procedures and practices, contract administration processes, and effective internal controls over labor costs billed.

This report is intended for the information of the County, Caltrans Management, the California Transportation Commission and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited. In addition, this report will be placed on the Caltrans website.

If you have any questions, please contact Lisa Moreno, Auditor, at (916) 323-7885, or Cliff Vose, Audit Manager, at (916) 323-7917.

**ZILAN CHEN, Chief
External Audits – Local Governments
Audits and Investigations**

February 7, 2014

FINDINGS AND RECOMMENDATIONS

Finding 1 - Inadequate Procurement

Our audit testing found that the County of Siskiyou (County) did not ensure compliance with Title 49 Code of Federal Regulations (CFR), Part 18.36, Federal Aid Master Agreement 02-5902R, and the California Department of Transportation's (Caltrans) Local Assistance Procedure Manual (LAPM).

Specifically, the County lacks an adequate written procurement policy and procedures manual detailing appropriate processes to ensure compliance with State and federal regulations. The County believes its written procedures are adequate since County staff follows the requirements set out by LAPM, and there would never be a lack of knowledge of rules and regulations. Without following required procurement procedures, the County risks entering into contracts that may not be fair and reasonable. We believe the lack of adequate written procedures contributed to the deficiencies and non-compliant actions noted below. Subsequent to the issuance of the draft audit report, the County provided us a copy of its October 2013 written procurement policy and procedures. We found the written policy and procedures are not adequate and we have identified areas that can be improved upon. See Attachment VI for details.

We tested two construction contracts that utilized an Invitation for Bid procurement process, one consultant contract that utilized a Request for Proposal (RFP) procurement process, one informal small purchase, and one contract that did not follow any procurement procedure. We found significant issues with the consultant contract utilizing the RFP process and the contract that did not follow any procurement procedure. As such, costs claimed by the County for the two consultant contracts within our audit period of July 1, 2010 through December 31, 2011, totaling \$212,573 is questioned. (See Attachment III for details, For criteria see Attachment II, Finding 1.)

Plans, Specifications & Estimates Consultant Contract with Quincy Engineering for Klamath River Bridge Near Ash Creek

The County was unable to support the procurement of the consultant, Quincy Engineering, for Phase one through Phase four of the Plans, Specifications & Estimates (PS&E) work for the Klamath River Bridge. The contract was executed for \$407,800 on April 13, 2004, and through three amendments the contract was increased to \$658,867. The County was unable to provide score and interview sheets, independent cost estimates prior to the receiving of bids, cost / price analysis of bids received, evidence of profit negotiations and proof of when bids were received. Also, the County did not implement pre-award recommendations provided by Caltrans Audits & Investigations in a reduced scope report on this consultant agreement, dated February 23, 2004. As a result, the County

**Finding 1
(Continued)**

missed an opportunity to correct issues identified and these factors contributed to deficiencies identified in Finding 2. The County stated that the pre-award recommendations were not implemented because the County did not understand the recommendation contained in the report.

Additionally, the County did not amend the Quincy Engineering contract prior to the expiration dates of the original or amended contract. Specifically, the original contract was amended 63 days after it expired and the subsequent amendment was executed 36 days after it expired. Furthermore, the second amendment modified the scope of work and added \$251,067 to the contract. This resulting in a non competitive procurement. There was no evidence of a cost analysis being performed by the County or approval record from Caltrans for the non competitive procurement.

Both the original contract and the three amendments were not in compliance with State and federal regulations therefore all costs billed by the County and reimbursed by Caltrans are questioned.

Consultant Contract with Quincy Engineering Klamath River Bridge Near Ash Creek for Construction Engineering

The County improperly procured the consultant, Quincy Engineering, for the Construction Engineering (CE) of Klamath River Bridge. The contract was executed for \$128,400 however; the County did not use any type of documented procurement to secure the contract with Quincy Engineering. Therefore the contract with Quincy Engineering was not competitively bid and all costs are questioned.

Recommendation The County should take the following corrective actions:

- Cease to bill the State on the above referenced contracts until further instructions from Caltrans are received on eligibility of the costs.
- Review billing records to determine the amount of costs billed and reimbursed associated with the contracts identified in Attachment III.
- Review other RFP procurements, including contract amendments, used to bill costs on projects BRLO-5902(040 and RPL-5902(047) to determine if they were procured in accordance with all State and federal regulations.
- Update the County procurement policy and procedures to ensure the minimum required procedures as proscribed by State and federal regulations are met.
- Ensure all procurement procedures are followed in accordance with Title 49 CFR Part 18.36, Master Agreements between the County and Caltrans, the LAPM, and the County's written procurement procedures.

**Recommendation
(Continued)**

- Ensure in the future that any contract amendments are signed prior to the expiration date of the original contract, or subsequent amendments.
- Maintain all evidence of procurements from development through issuance of contract.
- Create an independent cost estimate prior to receiving bids under an RFP process.
- Maintain evidence of profit negotiations and cost analysis.
- Ensure that pre-award report recommendations are implemented or document justifications for not following the recommendations.
- Seek training for management and staff in proper procurement practices.
- Provide Caltrans with a corrective action plan addressing the audit recommendations.

Caltrans Division of Local Assistance should take the following corrective actions:

- Consult with the Federal Highway Administration (FHWA) to determine if Caltrans should seek reimbursement from the County for \$212,573 in questioned costs billed and reimbursed from July 1, 2010 through December 31, 2011 and other similar costs billed and reimbursed outside our audit period on the above contracts.
- Ensure that the County performs a review of the procurements of other contracts that were used to bill costs on projects BRLO-5902(040 and RPL-5902(047) and determine if Caltrans should seek reimbursement for any other costs associated with any questioned procurements / contracts identified by the County's review.

**County's
Response**

The County has a written procurement and procedures policy and provided a copy. The County acknowledges the expired contract amendment issues related to the PS&E Consultant Contract with Quincy Engineering and provided some documents related to the history of the amendments. In addition, related to the CE Consultant Contract with Quincy Engineering, the County responded that the CE scope of work was included in the original RFP. See Attachment V for the County's full response.

**Auditor's
Analysis**

We modified the finding and recommendation related to the lack of written procurement policy and procedures based on the procurement manual provided in the County's response. However, we found the County's written policies and procedures to be inadequate. See Attachment VI for details.

**Auditor's
Analysis
(Continued)**

The information provided by the County related to the expired contract amendment did not change the nature that the contract had expired prior to being amended. In addition, the original RFP for the PSE Consultant Contract stated, in part, "the consultant will be available to answer all questions concerning the design and or specifications throughout the bidding and construction phase of the contract." However, the subsequent CE Contract added scope of work that was more than what was stated in the original RFP, including the review of concrete mix designs, review of false work design, tiedown system shop plan review, abutment tieback system shop review, 15 days in the field, geotechnical support, environmental support, biological pre-construction surveys and cultural resource compliance. Moreover, the County response did not address other procurement deficiencies related to the original PS&E Consultant Contract. Therefore, the finding remains.

**Finding 2—
Contract
Management
Needs
Improvement**

The County did not maintain an adequate contract administration system to ensure that consultants are providing services in accordance with the terms, conditions, and specifications of its contracts.

Specifically, the County's third party consultant contracts do not include provisions required by State and federal regulations and the Master Agreement. As a result, the County risks billing Caltrans costs that are not in compliance with State and federal regulations. We reviewed three consultant contracts for inclusion of required provisions and found the following exceptions (see Attachment IV):

- All three consultant contracts:
 - Did not clearly define the basis of payment. (For criteria see Attachment II, Finding 1, 1d and Finding 2, 2i and 2j.)
 - Did not reference the cost principals correctly. (For criteria see Attachment II, Finding 2, 2h.)
- Two contracts gave only the County the right to audit. (For criteria see Finding 1, 1d and Finding 2, 2f and 2m.)
- One contract did not have a termination clause for cause. (For criteria see Attachment II, Finding 2, 2e.)
- One contract did not include the requirement that sub-contractors are required to follow the contract provisions. (For criteria see Attachment II, Finding 2, 2g, 2m.)

As noted in Finding 1, Caltrans A&I performed a reduced scope pre-award of the consultant proposed contract with Quincy Engineering however the County did not implement the report's recommendations which included changing the language in the contract to better define the method of payment and include the required cost principles to be followed. (For criteria see Attachment II, Finding 1, 1e, and Finding 2, 2g, 2h, 2k, 2i.)

**Finding 2–
(Continued)**

Moreover, we identified significant issues with the County’s management of two consultant contracts. (For criteria see Attachment II, Finding 2.) Specifically, the County had two consultant contracts with Quincy Engineering on the Klamath River Bridge. One for PS&E work and the other for CE work. Since both contracts were for the same project, the County did not require, nor did Quincy Engineering segregate costs for the two contracts and billed these costs to the County on the same invoices. Therefore, the County was unable to differentiate costs between the two contracts. As all costs billed under the two Quincy Engineering contracts are questioned in finding 1, we did not specifically identify amounts associated with contract administration deficiencies noted below:

- Both contracts did not clearly define the basis of payment. The cost proposal for the PS&E contracts appeared to be presenting a cost proposal for a Specific Rates of Compensation contract. However, the County was billed overhead and fee (profit) in addition to labor costs.
- The stated overhead for the CE contracts was 166.4 percent and the PS&E contract did not state an overhead rate to be used. However, Quincy Engineering was billing an overhead rate of 169 percent for both contracts.
- The PS&E contract did not include fee to be used but was charged a 15 percent fee. In addition, the CE contract included and the County was charged a 15 percent fee. A fee above 10 percent is only allowed for experimental, developmental or research work per federal regulation 48 CFR Chapter 1, Part 15.404-4(c)(4)(i) and the County has not demonstrated that this is such project.
- Both contracts included in the cost proposals the employee’s first and last name initials instead of the employee’s full name. Three individuals were listed in certain classifications and moved to a higher paying key role classification with no prior approval from the County.
- One individual’s time charged was not supported by timesheets.
- The CE contract stated that the contract was effective on June 1, 2011, however, it was not executed until August 9, 2011. Therefore, all work done prior to August 9, 2011 was done without an effective contract between the County and the consultant.

Recommendation The County should take the following corrective actions:

- Ensure all third party contracts comply with all State and federal regulations, Master Agreement, and the LAPM as they pertain to third party contracts provisions.
- Ensure third party invoices are reviewed and verified to all contract terms, conditions and specifications.

**Recommendation
(Continued)**

- Seek training for contract managers and staff in the administering of third party contracts and contract writing.
- Ensure that staff assigned as contract managers have knowledge of State and federal regulations, Master Agreements between Caltrans and the County, and LAPM.
- Provide Caltrans with a corrective action plan addressing the audit recommendations.

**County's
Response
County's
Response**

The County concurs in general. The County's response also included documents to show that the County was given a credit from Quincy Engineering for the difference in overhead rates charged by Quincy Engineering. In addition, the County provided a response from its Consultant regarding the 15 percent fee charged. See Attachment V for the County's full response.

**Auditors
Analysis**

While the County was given a credit for the overhead rate difference between the CE and PS&E contract, the additional documentation provided by the County relating to the 15 percent fee did not explain why fee was charged while the PS&E contract did not include fee to be used. Moreover, if included in the contract, the fee allowed should be negotiated as a total amount not as a percentage of costs for a cost plus fixed fee contract. Title 48 CFR, Part 16.6 states in part that direct labor hours at specified fixed hourly rates include wages, overhead, general and administrative expenses and profit. As such, applying the fee to the total contract amount is an incorrect interpretation of the CFR. Therefore, the finding remains.

**Finding 3 –
Labor Costs
Internal Control
Weaknesses**

The audit found internal control weaknesses relating to labor costs billed by the County. Specifically, the County bills labor rates which include an estimated fringe benefit rate by employee. However, the County does not reconcile the estimated fringe benefit costs to actual fringe benefit costs at year end. Since the County does not reconcile the estimated costs used, the County may be over or under billing State and federal projects. The master agreement between the County and Caltrans requires actual allowable project costs to be reimbursed. (For criteria see Attachment II, Finding 3 and Finding 2, 2c.)

In addition, the County could not provide documentation to support the prior year's estimated rates. The County stated that staff overwrote the prior year labor rate calculation with current year information without keeping a record of the prior year calculations.

**Finding 3 -
(Continued)**

The County stated that staff did not know they are required to reconcile estimated costs used to actual costs and that they did not know they were required to keep prior year documentation and / or due to a move some papers were thrown out, mistakenly identified as duplicates or no longer needed.

Recommendation

The County should take the following the corrective action:

- Revise its fringe benefit rates to reflect direct expenditures, or reconcile its fringe rates at a least annually to ensure fringe benefit rates reflect actual costs.
- Develop a policy to reconcile estimated rates to actual costs and how to treat the calculated difference.
- Develop a record retention policy that meets State and federal requirements.
- Ensure that all supporting records and documentation is maintained in accordance with the Master Agreements and State and federal regulations.

**County's
Response**

The County agrees that they did not keep prior year fringe benefit rate calculation documentation and will do so in the future. The County also stated that costs were reconciled when the Annual Road Report is prepared and provided in its response three years of reconciliation of the Annual Road Report.

**Auditors
Analysis**

The Annual Road Report includes labor distribution total for labor and fringe benefit costs instead of comparing only actual fringe benefit costs to estimated fringe benefit costs used. In addition, any variance should be considered and used in the following year's fringe benefit rate calculation to minimize the over or under recovery.

Audit Team

Zilan Chen, Chief, External Audits, Local Governments
Cliff Vose, Audit Manager
Lisa Moreno, Auditor
Derek Pixley, Auditor
Chantha Da, Auditor

**Attachment I
County of Siskiyou
List of Audited Agreements & Questioned Costs**

Federal Master agreement 02-5902R			
Project Code:	Total Cost	Questioned Cost During Audit Period	Finding
BRLO-5902(040)	\$ 263,428	\$212,573*	1, 2, 3
Total:	\$ 263,428	\$212,573*	

* Total questioned cost may be larger than amount above because the audit is questioning all costs billed under two consultant contracts. Amount above only represents the costs billed to and reimbursed by Caltrans under the two contracts during our audit period of July 1, 2010 to December 31, 2011.

State Master agreement 000476			
Project Code:	Total Cost:	Questioned Cost:	Finding:
RPL-5902(047)	\$2,742,361	\$0	3
Total:	\$2,742,361	\$0	

Total Audit Universe			
Project Code:	Total Cost:	Questioned Cost:	Finding:
BRLO-5902(040)	\$ 263,428	\$212,573	1, 2, 3
RPL -5902(047)	\$2,742,361	\$ 0	3
Total:	\$3,005,789	\$212,573	

Attachment II Criteria

Finding 1

- 1a. Title 49 Code of Federal Regulations (CFR) 18.36 (b) (9) states, “Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”
- 1b. Title 49 CFR 18.36(d) (3) (iii) states that Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;
- 1c. Title 49 CFR, 18.36(f) (1) states, “Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offer is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.”
- 1d. Article I, Paragraph 9 of the Master Agreement for Federal Aid Projects (Federal Master Agreement) states, in part, “Administering Agency shall conform to all State statutes, regulations and procedures (including those set forth in the Local Assistance Procedures Manual and the Local Assistance Program Guidelines)”
- 1e. Chapter 10.7 of the Local Assistance Procedures Manual (LAPM) states, in part, under Review of Local Agency Action, “Any questions raised during the pre-award audit shall be resolved before the local agency executes the contract.”
- 1f. Chapter 10.7 of the LAPM states, in part, “All contract amendments must fully be executed before the ending date of the contract.”
- 1g. Title 49 CFR part 18.36(c) (3) (ii) states, “Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.”
- 1h. Title 49 CFR 18.20(b) (3) states, in part, that effective control and accountability must be maintained for all grants, including cash, real and personal property, and other assets.
- 1i. Title 2 CFR 225, Appendix A Section A.2 states, in part, “governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices. ...and assume responsibility for administering Federal funds in

Attachment II Criteria

a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.”

- 1j. Title 49 CFR 18.36 (b) (3) states, in part, “Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts...”
- 1k. Title 49 CFR 18.36 (c) (1) states, in part, “All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §18.36...”
- 1l. Title 49 CFR, Part 18.36 (d)(4)(ii) states, “Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.”
- 1m. Article IV, Paragraph 17 of the Federal Master Agreement states, in part, “Payments to Administering Agency for Project-related travel and subsistence (per-diem) expenses of Administering Agency forces and its contractors and subcontractors claimed for reimbursement or as local match credit shall not exceed rates authorized to be paid rank and file STATE employees under current State Department Personnel Administration (DPA) rules...”

Finding 2

- 2a. Title 49 CFR 18.36 (b) (2) states, “Grantees and sub grantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.”
- 2b. Chapter 10.7 of the LAPM states, in part, “The consultant should not substitute key personnel (Project Manager and others listed by name in the cost proposal) or subcontractors without prior written approval from the local agency. The consultant must request and justify the need for the substitution and obtain approval from the local agency prior to use of different subcontractor on the contract. The proposed substituted person must be as qualified as the original, and at the same rate or lower cost.”
- 2c. Title 2 CFR 225 Appendix B (8) (a) states, in part, “General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;”
- 2d. Quincy Engineering contract with the County for PS&E services, Section 3, Billings, states “Payment shall be made according to Exhibit B. Attached here to and incorporated by reference.”

Attachment II
Criteria

- 2e. Title 49 CFR part 18.36(i) (2) states, "Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement."
- 2f. Title 49 CFR part 18.36(i)(10) states, "Access by the grantee, subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts and transcriptions."
- 2g. Article V, Paragraph 7 of the Federal Master Agreement states, "Any subcontract entered into by ADMINISTERING AGENCY as a result of this AGREEMENT shall contain all the provisions of ARTICLE IV, FISCAL PROVISIONS, and this ARTICLE V, AUDITS, THIRD-PARTY CONTRACTING RECORDS RETENTION AND REPORTS, and shall mandate that travel and per diem reimbursements and third-party contract reimbursements to subcontractors will be allowable as PROJECT costs only after those costs are incurred and paid for by the subcontractors."
- 2h. Article I, Paragraph 15 of the Master Agreement for State Funded Projects, states in part, "The ADMINISTERING AGENCY agrees that a reference to either Office of Management and Budget (OMB) Circular A-87 or the Code of Federal Regulations, Title 48, Chapter 1, Part 31, whichever is applicable and the code of Federal Regulations, Title 49, Part 18, will be included in any subcontracts entered into as a result of this AGREEMENT."
- 2i. Chapter 10, Exhibit D, Section 4i of the LAPM states, "A procedure covering among other things, the ownership of work completed or partially completed, including the basis of payment, is established in the event of termination of the agreement prior to completion of the work. Conditions for termination due to default and circumstances beyond the control of the contractor are included."
- 2j. Chapter 10.1 of the LAPM states, in part:
The type of contract must be specified. Four types are permitted depending on the scope of services to be performed.
- Actual Cost-Plus-Fixed Fee
 - Cost Per Unit of Work
 - Specific Rates of Compensation
 - Lump Sum
- 2k. Chapter 10-2 of the LAPM states, in part, "After receipt of pre-award report from Caltrans A&I, with resolution of outstanding issues by the local agency; the "Audit Disposition" shall be completed by the local agency and sent to Caltrans A&I with a copy to the DLAE.
- 2l. Chapter 10.7 of the LAPM states, in part, "The Contract Administrator requests a revised cost proposal from the consultant after: ... (3) any pre-award audit problems have been resolved."

Attachment II Criteria

- 2m. Chapter 10.7 of the LAPM states, in part, “The contract shall provide that the consultant and subcontractors shall maintain all books, documents, papers, accounting records, and other information pertaining to costs incurred. Such materials must be available for inspection and audit by federal, state, and local agency authorized representatives; and copies thereof shall be furnished, if requested.”
- 2n. Title 48 CFR Chapter 1, 15.404-4 (c) (4) (i) states, (A) “For experimental, developmental, or research work performed under a cost-plus-fixed-fee contract, the fee shall not exceed 15 percent of the contract’s estimated cost, excluding fee.” (C) “For other cost-plus-fixed-fee contracts, the fee shall not exceed 10 percent of the contract’s estimated cost, excluding fee.”

Finding 3

- 3a. Title 2 CFR Part 225 Appendix E (D) (1) (d) states, in part, “...The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.”
- 3b. Title 49 CFR 18.42 (b) states, “Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.”
- 3c. Title 49 CFR 18.42 (c) states, “When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.”
- 3d. Chapter 5.8 of the LAPM states, in part, that 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.
- 3e. Article IV, Section 7 in the Federal Master Agreement 03-5924R states, in part, “Payments to ADMINISTERING AGENCY can only be released by STATE as reimbursements to actual allowable PROJECT costs already incurred and paid by ADMINISTERING AGENCY.”

Attachment III
County of Siskiyou
List of Exceptions Applicable to Procurements Finding 1

Project Name	Ash Creek Bridge	Ash Creek Bridge
Project Code	BRLO-5902(040)	BRLO-5902(040)
Consultant Awarded the Contract	Quincy	Quincy
Type of Services	PS&E	CE
Fund Type	Federal/State	Federal
Term of Contract	Original Contract 1 st Amendment 2 nd Amendment 3 rd Amendment	4/13/04 - 12/31/07 3/4/08 – 6/30/08 8/5/08 – 1/31/11 1/31/11 – 6/30/11
Executed Contract Amount	\$407,800	\$128,400
Dollars Added through Amendments	\$251,067	
Total Contract Amount	\$658,867	\$128,400
Questioned Costs Billed to and Reimbursed by Caltrans during audit period 7/1/10 - 12/31/11	\$212,573*	
Finding 1		
County had score sheets	No	N/A
County prepared an independent cost estimate	No	No
County documented cost analysis and profit negotiations	No	No
County time and date stamped bid proposals when received	No	N/A
County executed contract without going through a procurement process		Yes
County amended an expired contract	Yes (twice)	N/A

*Quincy Engineering did not segregate costs between the two contracts, therefore County could not identify the amount that was directly expended, billed and reimbursed on each contract. The \$212,573 is total expended, billed and reimbursed for both contracts from 7/1/10 – 12/31/11.

Attachment IV
County of Siskiyou
List of Exceptions for Contract Management and Contract Language

Contract Management

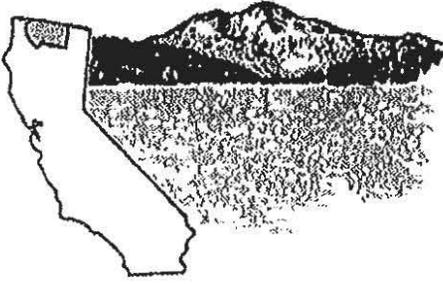
Billing #	Vendor	Invoice #	Quincy Billing Date	Project #	Consultant charged individuals in key personnel roles not listed to those classifications.	Consultant charged overhead that was incorrect.	Consultant charged for fee not stated in the contract.	Consultant invoiced for labor hours that could not be supported.
55	Quincy Engineering	8794	3/31/2011	BRLO-5902(040)	✓	✓		
53	Quincy Engineering	8606	2/24/2011	BRLO-5902(040)	✓	✓	✓	✓

Contract Language

Vendor	Project Code	Basis of Payment Not Clearly Specified	Required Regulations Not Stated	No Termination Clause for Cause	Right to Audit only to the County	Subconsultants to follow contract regulations.
Quincy Engineering PS&E	BRLO-5902(040)	✓	✓	✓		
Ground Engineering	BRLO-5902(040)	✓	✓		✓	
Quincy Engineering CE	BRLO-5902(040)	✓	✓		✓	✓

✓ =Identifies a violation

Attachment V



Siskiyou County

DEPARTMENT OF PUBLIC WORKS

PO BOX 1127
YREKA, CALIFORNIA 96097
PHONE: (530) 842-8250
FAX (530) 842-8288

Scott Waite
Director

Todd Lamanna
Deputy Director
Roads/Bridges

December 17, 2013

Zilan Chen
Department of Transportation
Audits & Investigations, M.S. 2
P.O. Box 942874
Sacramento, CA 94274-0001

Re: Draft Incurred Cost Audit, County of Siskiyou dated November 2013

Dear Ms. Chen,

The draft Incurred cost audit has been reviewed by County Staff. Please see the attached response for your review. If you have any questions or would like to discuss our response I can be contacted at 530-842-8275.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Waite", is written over a horizontal line.

Scott Waite, PE
Director

Siskiyou County Department of Public Works (November 2013)

Response to CalTrans Incurred Cost Audit: Klamath River Bridge BRLO-5902(040)

Finding 1: Inadequate Procurement Procedures and Practices

ISSUE: County lacks a written procurement policy and procedures manual detailing appropriate processes to ensure compliance with State and Federal regulations.

CORRECTIVE ACTION: The County does have a written procurement and procedures policy (see attachment 1A). County staff is willing to attend future procurement training sessions sponsored by Caltrans Local Assistance.

Plans, Specifications & Estimates (PS&E) Consultant Contract with Quincy Engineering for Klamath River Bridge Near Ash Creek

ISSUE: County did not amend the Quincy Engineering contract prior to the expiration dates of the original or amended contract.

CORRECTIVE ACTION: Response: Scope of work to complete project changed due to the environmental section 106 process, a historically eligible bridge, and complexity of the project. Additional Federal/State funding was needed but not authorized until final scope/schedule determined by County, Caltrans and Consultant. County staff will monitor future contracts and amend prior to expiration.

See attachment 1B for information that pertains to this issue. This information was sent to Caltrans Local Assistance on 11/20/2013 for review and response.

Consultant Contract with Quincy Engineering Klamath River Bridge Near Ash Creek for Construction Engineering

ISSUE: County did not use any type of documented procurement to secure the contract with Quincy Engineering.

CORRECTIVE ACTION: Response: Construction Engineering was included in the original request for proposal and the response to proposal from Quincy Engineering (see attachment 1C).

Finding 2: Contract Management Needs Improvement

ISSUE: County's third party consultant contracts do not include provisions required by State and Federal regulations and Master Agreement.

CORRECTIVE ACTION: See attachment 2A for revised contract which includes provisions per Caltrans Local Assistance and is currently in use. This contract has been edited for contracts less than \$150,000 per Local Assistance Procedures manual.

ISSUE: County was unable to differentiate the costs between two contracts

CORRECTIVE ACTION: Future contract costs will be separated.

ISSUE: Overhead for CE contracts was 166.4 percent and the PS&E contract did not state an overhead rate to be used; however, Quincy Engineering was billing an overhead rate of 169 percent for both contracts.

CORRECTIVE ACTION: See attachment 2B credit/correction.

Staff will check rates charged on invoices prior to submittal for payment to ensure rates match contract.

ISSUE: PS&E contract did not include fee to be used but was charged a 15% fee. The CE contract included and the County was charged a 15 percent fee. A fee above 10 percent is only allowed for experimental, developmental or research work per federal regulation 49 CFR Ch 1, Part 15.404-4(c)(4)(i).

CORRECTIVE ACTION: See attachment 2C for response by Consultant. This response was also sent to Caltrans Local Assistance on 11/15/2013 for review and response. Future contract fees will be based on direction from Caltrans Local Assistance.

Staff will check rates charged on invoices prior to submittal for payment to ensure rates match contract.

ISSUE: One individual's time charged was not supported by timesheets.

CORRECTIVE ACTION: See attachment 2D. County will request additional support for future billings.

CORRECTIVE ACTION: County will work with Caltrans Local Assistance to address and correct the deficiencies. Staff will check rates charged on invoices prior to submittal for payment to ensure rates match contract.

We now create a new worksheet for each fiscal year's fringe rate calculation. This leaves prior years' worksheets intact.

Finding 3: Labor Costs – Internal Control Weakness

ISSUE: County does not reconcile the estimated fringe benefit costs to actual fringe benefit costs at year end.

CORRECTIVE ACTION: Costs are reconciled when the Annual Road Report is prepared by the State Controller. See attachment 3A. We now create a new worksheet for each fiscal year's fringe rate calculation. This leaves prior years' worksheets intact.

Scott Waite

From: Jim Foster <jimf@quincyeng.com>
Sent: Thursday, November 07, 2013 10:41 AM
To: Scott Waite
Subject: RE: Caltrans Audit
Attachments: 48 CFR 15.404-4.pdf; Klamath Amendment 2 v2 JF.pdf

Hi Scott,

The CFR limit applies to the total contract amount including subconsultants and direct costs. Excerpt below and scan attached:

(C) For other cost-plus-fixed-fee contracts, the fee shall not exceed 10 percent of the contract's estimated cost, excluding fee.

We only apply fee to our labor amount and not to direct cost or subconsultants. For the current construction support contract, the breakdown is as follows:

QEI labor \$59,623.58

Subs \$58,000

Direct costs \$ 1,832.88

Subs +DC \$59,832.88

Contract without fee \$119,465.46

10% fee on contract = \$11,946.54

15% fee on QEI labor = \$8,943.54

Our method results in \$3003.00 less fee than allowed. The effective fee is $8,943.54/119,465.46 = 7.49\%$

For purposes of the amendment I've attached a revised estimate using a 10% fee since our subconsultant amount is lower and to facilitate the process.

Let me know if this helps.

Thanks
Jim

From: Scott Waite [mailto:swaite@co.siskiyou.ca.us]
Sent: Thursday, November 07, 2013 9:51 AM
To: Jim Foster
Subject: Caltrans Audit

Jim-

Areas of Procurement Policy and Procedures to be Improved

Attachment VI

The County provided a copy of its October 2013 written procurement policy and procedures. We found the written policy and procedures not adequate and identified areas that can be improved upon. Specifically, the manual does not reference State and federal regulations for transportation. Further, its procedures are very general and vague and may not define the steps needed for different types of procurement, such as Request for Proposals (RFP), Invitation for Bid (IFB), Sole Source, or small purchase. Provided below is a listing of steps that the County lacks in its written procedures. This list is not all inclusive and the County should review 49 CFR 18.36, the Local Assistance Program Manual, and any other State or federal regulation that may affect the procurement of goods and services when using State and federal transportation funds.

RFP

- Well defined package (What constitutes)
- Who and how many would be on selection committee
- Cost estimate (who does, when to complete)
- Advertisement (where and how long)
- How much time allotted between advertisement and filling deadlines
- Selection (when each is done)
 - Review of RFP
 - Interview
- Geographical preference (when or if used)
- Receiving of Bids (process of who receives, what is done with them, etc)
- Profit negotiations/cost analysis (who does, how documented, where documents maintained)
- Conflict of Interest (Is this discussed, is forms filled out, etc.)
- Protest procedures
- Retention of records
- Authority to approve

IFB

- Engineer Estimate
 - Who develops
 - What is to be in estimate
 - Who approves

- Advertisement
 - Where advertised
 - How long advertised
- How chosen
 - Public opening specific times/days
- Well defined items or services needed
- Receiving of bids
- How are rejected bids documented
- Responsiveness of bidders
- If bids are over/under engineer estimate
- Who has final approval
- Retention of records
- Protest procedures
- Conflict of interest

Sole Source

- Define why sole source is used
- Documentation to be kept
- Retention time period
- Authority to approve

Small Purchase

- What is the limit
- Who has approval
- Justification for selection
- How determine price is fair and reasonable
- Retention of records
- Conflict of Interest