

## Memorandum

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Be energy efficient!*

**To:** RIHUI ZHANG, Acting Chief  
Division of Local Assistance

**Date:** October 21, 2013

**File:** P2710-0015

**From:** MARSUE MORRILL, Chief *Marsue*  
External Audit- A&E, SAR, External Contract Management  
Audits and Investigations

**Subject:** **AUDIT OF CITY OF LONG BEACH**

Attached is our final audit report setting forth the results of the audit of the City of Long Beach's (City) financial management system relative to projects funded by the California Department of Transportation (Caltrans) with the American Recovery and Reinvestment Act of 2009 (ARRA). The audit was for the period of July 1, 2009, through May 31, 2011. The audit was performed by the State Controller's Office on behalf of Caltrans.

The audit concluded that the City's accounting system and internal controls appear adequate to properly capture costs and segregate reasonable, allocable, and allowable project costs as required by Title 2, Code of Federal Regulations, Part 225 (2 CFR 225) and the Caltrans Master Agreement. In addition, the City has a system to accurately report project and job information as required by section 1512 of ARRA.

The audit disclosed that the City submitted indirect costs to Caltrans without obtaining prior approval.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

### Attachment

c: Fardad Falakfarsa, Recovery Act Program Manager  
John Hoole, Chief, Office of Project Implementation, South  
David Sosa, District Local Assistant Engineer, District 7  
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

# **CITY OF LONG BEACH**

Audit Report

## **PROJECTS FUNDED BY CALTRANS WITH AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA) FUNDS AUDIT REQUEST NO. P2710-0015**

*July 1, 2009, through May 31, 2011*



**JOHN CHIANG**  
California State Controller

September 2013



**JOHN CHIANG**  
California State Controller

September 26, 2013

MarSue Morrill, Chief, External Audits  
Department of Transportation  
Audits and Investigations  
P.O. Box 942874  
Sacramento, CA 94274-0001

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the City of Long Beach's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The SCO also audited project costs incurred during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through May 31, 2011.

The city's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) and the Caltrans Master Agreement. The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected ARRA-funded construction projects ESPL-5108(094), ESPL-5108(097), and ESPL-5108(104) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for the noncompliance noted below, ARRA project costs reimbursed by Caltrans during the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.

Our audit found that the city submitted indirect costs to Caltrans without obtaining prior approval.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by phone at (916) 324-6310.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/kw

MarSue Morrill, Chief, External Audits

-2-

September 26, 2013

cc: Stephen W. Hannah, City Controller  
Department of Financial Management  
City of Long Beach  
Luisa Ruvalcaba, Audit Manager  
Audits and Investigations  
Department of Transportation

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Long Beach's financial management system relative to projects funded by the California Department of Transportation (Caltrans) with American Recovery and Reinvestment Act of 2009 (ARRA) funds. The SCO also audited project costs reimbursed by Caltrans during the audit period to determine whether the costs were allowable for federal ARRA reimbursement. The audit was for the period of July 1, 2009, through May 31, 2011.

The city's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) and the Caltrans Master Agreement. The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected ARRA-funded construction projects ESPL-5108(094), ESPL-5108(097), and ESPL-5108(124) and, for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for the noncompliance noted below, ARRA project costs reimbursed by Caltrans during the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule 1 of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.
- The city complied with the Buy America provision of Title 23, United States Code.

Our audit found that the city submitted indirect costs to Caltrans without obtaining prior approval.

## Background

Caltrans entered into Master Agreement No. 07-5108R with the City of Long Beach. In addition, the city has been approved for ARRA funding for the following Caltrans construction projects:

- \$3,028,790            ESPL-5108(094)
- \$229,342            ESPL-5108(095)
- \$487,633            ESPL-5108(096)
- \$634,018            ESPL-5108(097)
- \$1,845,000          ESPL-5108(098)
- \$309,000.03        ESPL-5108(103)
- \$911,464.66        ESPL-5108(107)
- \$272,695            ESPL-5108(109)
- \$1,418,027.55      ESPL-5108(112)
- \$837,764            ESPL-5108(115)
- \$3,644,332.31      ESPL-5108(124)
- \$1,502,201.30      ESPL-5108(127)
- \$852,942            ESPL-5108(129)
- \$92,584             ESPL-5108(132)

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2710-0015). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0033, dated March 29, 2010, between the SCO and Caltrans, which provides that the SCO will perform audits of contracts between Caltrans and private contractors to ensure compliance with the American Recovery and Reinvestment Act of 2009.
- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any money, for correctness, legality, and for sufficient provisions of law for payment."
- Government Code section 12430, which states, "With respect to audits to fulfill the requirements necessary for the receipt of federal funds, the State Auditor shall be primarily responsible for financial audits, and the Director of Finance or the Controller shall be primarily responsible for compliance audits. . . ."

## Objectives, Scope, and Methodology

The scope of the audit was limited to financial and compliance activities related to projects funded by Caltrans with American Recovery and Reinvestment Act of 2009 (ARRA) Funds. The audit was for the period of July 1, 2009, through May 31, 2011. Our review of project costs is limited to costs reimbursed by Caltrans as of May 31, 2011. Schedule 1 of this report is a summary of project costs that were reimbursed by Caltrans as of April 30, 2011. We selected for testing ARRA-funded construction projects ESPL-5108(094), ESPL-5108(097), and ESPL-5108(124). We did not select for testing and, accordingly, we do not provide any conclusions that the audit objectives were met, for any other ARRA-funded construction projects.

The objectives of our audit were to determine whether:

- The city's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements.
- The city has processes in place to ensure compliance with provisions of ARRA, fiscal provisions of the city's Master Agreement No. 07-5108R between the city and Caltrans, and specific fiscal and funding procedures of Caltrans' Local Assistance Procedures.
- The city has complied with applicable federal competitive bidding and procurement requirements.
- The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.
- ARRA project costs incurred within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.
- The city properly submitted billings to Caltrans for reimbursement of project costs funded by ARRA.
- The city complied with the Buy America provision of Title 23, United States Code.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed prior financial statements and single audit reports of the city.
- Obtained and reviewed the city's written policies and procedures relating to accounting, construction project management, and contract management.
- Interviewed city employees in order to gain an understanding of the city's internal controls, accounting systems, and billing processes related to Caltrans-funded projects, including ARRA projects.
- Performed limited testing of Caltrans-funded ARRA projects to ensure that the city's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with 2 CFR 225 and applicable Caltrans requirements. This limited testing included reviewing the accounting process for the city's own labor costs billed to Caltrans-funded ARRA construction projects.
- Interviewed city employees and reviewed supporting documentation to obtain an understanding of the ARRA reporting processes.

We selected for testing ARRA-funded construction projects ESPL-5108(094), ESPL-5108(097), and ESPL-5108(124) and, for each project, performed the following audit procedures:

- Reviewed project files to ensure that the city complied with applicable federal competitive bidding and procurement requirements.
- Reviewed project files and supporting documentation to ensure that the city complied with the Buy America requirements of Title 23, United States Code
- Selected a sample of project expenditures and reviewed supporting documentation to ensure that project expenditures including the city's own labor costs were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.
- Reviewed construction contract change orders to ensure that they were properly approved and supported.
- Reviewed the city's billings sent to Caltrans to ensure that the city properly billed Caltrans for reimbursement of project expenditures.
- Reviewed the city's section 1512 reporting data to ensure that data was reported accurately to Caltrans.

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.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

## **Conclusion**

We determined that the City of Long Beach has an accounting system and internal controls to adequately accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225 and the Caltrans Master Agreement. The city has a system to accurately report project and job information to Caltrans as required by section 1512 of ARRA.

We selected for testing ARRA-funded construction projects ESPL-5108(094), ESPL-5108(097), and ESPL-5108(124), and for each project, determined that:

- The city complied with applicable federal competitive bidding and procurement requirements.
- Except for the noncompliance noted below, ARRA project costs reimbursed by Caltrans during the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements. Schedule I of this report is a summary of project costs reimbursed by Caltrans during the audit period.
- The city properly submitted billings to Caltrans for reimbursement of ARRA-funded project costs.
- The city complied with the Buy America provision of Title 23, United States Code.

Our audit found that the city submitted indirect costs to Caltrans without obtaining prior approval.

**Views of  
Responsible  
Officials**

We issued a draft audit report on June 17, 2013. Marcie Medina, Assistant City Controller, responded by email on August 12, 2013, agreeing with the audit results.

**Restricted Use**

This report is solely for the information and use of the City of Long Beach, Caltrans, and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

September 26, 2013

**Schedule 1—  
Summary of Project Costs Reimbursed by Caltrans  
July 1, 2009 through May 31, 2011**

Federal Award	Award Amount	Costs Reimbursed by Caltrans
Award #ESPL-5108 (094)	\$ 3,028,790	\$ 2,843,633 <sup>1</sup>
Award #ESPL-5108 (095)	229,342	*
Award #ESPL-5108 (096)	487,633	*
Award #ESPL-5108 (097)	634,018	587,025 <sup>1</sup>
Award #ESPL-5108 (098)	1,845,000	*
Award #ESPL-5108 (103)	309,000	*
Award #ESPL-5108 (107)	911,464	*
Award #ESPL-5108 (109)	272,695	*
Award #ESPL-5108 (112)	1,418,027	*
Award #ESPL-5108 (115)	837,764	*
Award #ESPL-5108 (124)	3,644,332	3,422,217 <sup>1</sup>
Award #ESPL-5108 (127)	1,502,201	*
Award #ESPL-5108 (129)	852,942	*
Award #ESPL-5108 (132)	92,584	*
<b>Total</b>	<b>\$16,065,792</b>	<b>\$ 6,852,875</b>

\* Projects were not selected for testing. Therefore, costs reimbursed as of May 31, 2011 were not obtained by the auditors.

<sup>1</sup> Awards selected for testing to determine that ARRA project costs reimbursed by Caltrans within the audit period were reasonable, allocable, and allowable in accordance with 2 CFR 225 and applicable Caltrans requirements.

# Finding and Recommendation

**FINDING—  
Indirect costs rates  
not approved by  
Caltrans**

The city's fringe benefit rate charged to the ARRA projects included a payroll overhead benefit percentage rate of approximately 1.5% in fiscal year 2009-10. The city did not provide supporting documentation or any additional information to justify these costs.

2 CFR 225, Appendix A, paragraph (C)(1) states:

To be allowed under Federal awards, costs must meet the following general criteria: ... j. Be adequately documented.

Since no additional documentation was provided to support the overhead benefit percentage rate, we were unable to determine whether these costs were direct costs or indirect costs. Overhead rates are typically indirect costs. If the costs are indirect costs, the city is required to have these indirect costs approved by Caltrans before submitting these costs for reimbursement.

Article IV, Paragraph 8 of the Master Agreement for Federal Aid Projects No. 07-5108R between Caltrans and the City of Long Beach, dated October 10, 2007, states:

An Indirect Cost Rate Proposal and Central Service Cost Allocation Plan and related documentation are to be provided to the state (Caltrans Audits and Investigations) annually for review and approval prior to the Administering Agency seeking reimbursement of indirect costs incurred within each fiscal year being claimed for federal reimbursement.

## Recommendation

We recommend that the city ensure that all costs submitted to Caltrans for reimbursement are adequately supported by appropriate accounting records. We also recommend that the city conduct a review of prior Caltrans reimbursement requests to determine whether it is necessary to reimburse Caltrans for any overhead fringe benefit costs already reimbursed. In the alternative, rather than reimburse Caltrans, we recommend that the city work with Caltrans to submit for approval an indirect cost rate.

## City's Response

The city concurs with our finding and recommendation.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

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