

Chapter 20 Audits and Corrective Actions

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Chapter 20 Audits and Corrective Actions

20.1 Introduction

This chapter provides the expectations when an audit is conducted by the Caltrans Internal Audits Office (CIAO) and the Independent Office of Audits and Investigations (IOAI), potential findings and sanctions, common deficiencies, and recommended internal controls to improve compliance. This includes compliance with state and federal regulations, the Master Agreement, the Local Assistance Procedures Manual (LAPM), the Local Assistance Program Guidelines (LAPG), California Transportation Commission grant requirements, and all other applicable regulations.

In order to reduce the risk of audit findings and deficiencies in the administration of state and federal funding, Local Public Agencies (LPA) should keep an on-going dialog with and consult their District Local Assistance Engineer (DLAE). It is also strongly recommended for LPAs to develop, update, and maintain written policies and procedures in the following areas including, but not limited to:

- Adoption of [LAPM Chapter 10](#) as required in Section 10.1.10 for architectural and engineering consultant procurement
- Grant or contract management
- Direct and indirect cost development and charging procedures
- Financial management systems for invoicing and labor
- Construction administration

20.2 The Caltrans Internal Audits Office

CIAO conducts Pre-Award audits to determine the compliance of LPAs applying for a Master Agreement to administer state and federal-funded projects before agreements are signed with Caltrans.

Single Audit Reports

Any LPA that expends \$750,000 or more for all types of federal funds in an LPA's fiscal year must submit a Single Audit Report (SAR) package from an independent auditor to the State Controller's Office (https://www.sco.ca.gov/aud_single_audits.html), Federal Audit Clearinghouse (<https://facweb.census.gov/uploadpdf.aspx>), and Caltrans (CaltransFederalFundAward@dot.ca.gov). If the SAR has a finding involving federal funds passed-through Caltrans to the LPA, CIAO will issue a Management Decision to determine if the finding has been resolved.

20.3 The Independent Office of Audits and Investigations

Senate Bill 1 of 2017 and the Stewardship and Oversight Agreement between the Federal Highway Administration and Caltrans require IOAI to ensure LPAs spend funds from Caltrans in compliance with applicable state and federal requirements. IOAI reviews the LPA's policies and procedures, and conducts audits and investigations of activities involving funds passed-through from Caltrans to LPAs.

The audit process can be defined as the on-site review and examination of a process or quality system to ensure compliance to requirements. Some audits may have special administrative purposes, such as auditing documents, risk, performance, or following up on completed corrective actions. These audits ensure accountability in managing transportation funds administered by LPAs.

Common Audits Performed By IOAI

- [Incurred Cost](#) – To determine if costs billed to Caltrans are allowable.
- [Proposition 1B Program](#) – For projects receiving Proposition 1B funds, similar audit objectives as an Incurred Cost audit, including the evaluation of allowability of costs and to assess whether deliverables and benefits/outcomes are met.
- [Indirect Cost Allocation Plan \(ICAP\)/Indirect Cost Rate Proposal \(ICRP\)](#) – To determine whether the LPA's ICAP or ICRP are presented in accordance with [2 CFR 200](#) and [LAPM Chapter 5](#).
- [Active Transportation Program \(ATP\)](#) – Compliance with ATP Guidelines and eligibility of costs reimbursed.
- [Financial Management System \(FMS\)](#) – To determine the LPA's ability to accurately segregate and document charges to projects; and the adequacy of the FMS that includes the accounting, procurement, and contract management systems.
- Other – Various other types of audits or reviews as necessary.

For a more detailed description and listing of audits performed by IOAI, please refer to [Audits Issued by IOAI](#).

20.4 Roles and Responsibilities During IOAI Audits

IOAI generally uses the below processes and timelines when performing audits of LPAs:

Audit Activities

- IOAI contacts the LPA to schedule the audit.
- IOAI sends a formal engagement letter, which outlines the objective of the audit. If specific documentation is required in advance of fieldwork, IOAI will correspond with the LPA accordingly.
- An entrance conference is held on the first day of fieldwork to discuss the scope of the audit, audit objectives, schedules, and identification of some of the documents and records that will be reviewed during audit fieldwork.
- Fieldwork is performed. IOAI will keep the auditee informed of any deficiencies identified during fieldwork.
- Once fieldwork is completed, an exit conference is conducted to discuss what the LPA performed well and the potential audit findings.

Audit Report

- IOAI will develop a Draft Audit Report providing clear and sufficient evidence justifying the audit findings and recommendations.

- The LPA will have ten (10) business days to formally respond to the draft audit findings.
- Based on the LPA’s response, the draft audit findings are either sustained, modified, or deleted.
- The audit report is finalized and issued to Caltrans, and the LPA receives a copy also.

IOAI may also contract out audits to another State agency to perform such as the California Department of Finance. Each State agency’s audit procedures may slightly vary.

Please refer to Figure 20-1: Audit Process Flowchart for a visual of the typical audit process.

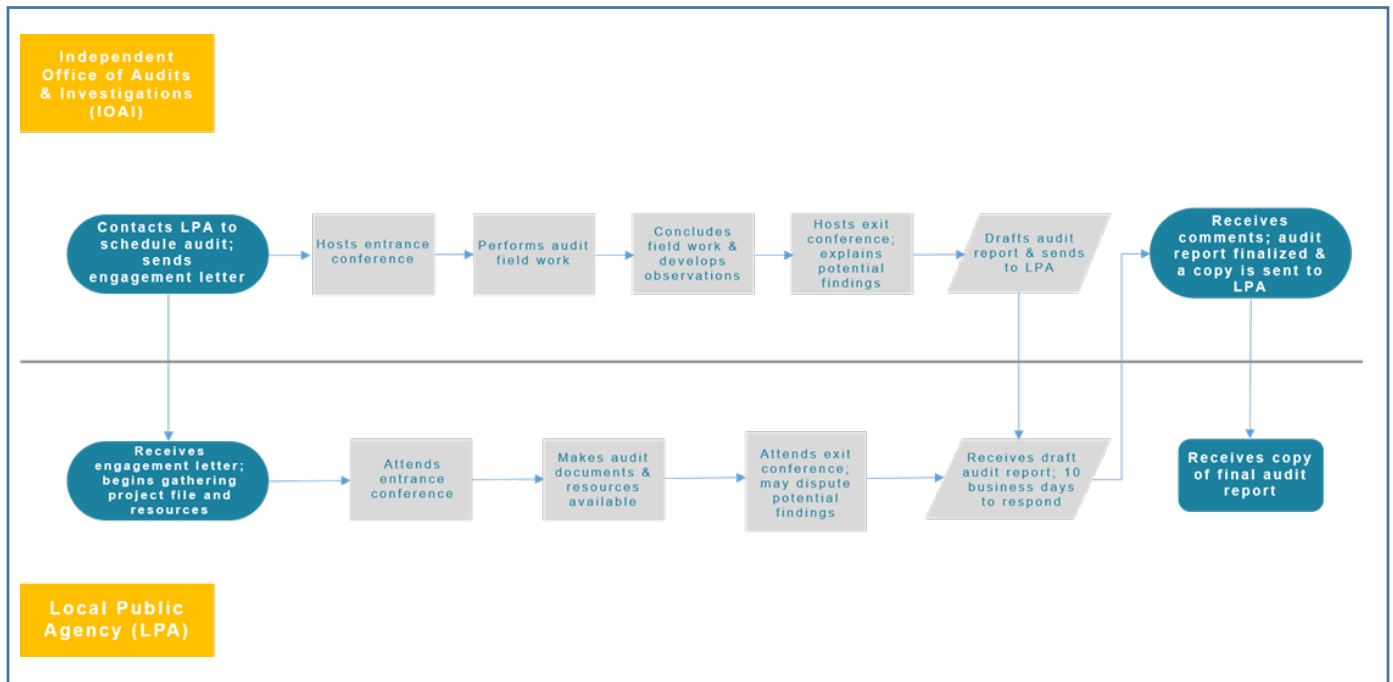


Figure 20-1: Audit Process Flowchart

20.5 Audit Findings

Findings are the results of an audit based on evidence about how the LPA’s operations, administration of funding, processes, and/or control systems do not comply with required regulations and agreed-upon policies. Audit findings may be qualitative, which contend with an LPA’s procedures and capability to comply with regulations and policies. Audit findings may also be quantitative, which determine an LPA had misappropriated funds that will be recommended for reimbursement to Caltrans.

Examples of common audit findings include, but are not limited to the major areas of:

- Procurement of consultant contracts
- Contract and grant management administration
- ICAP/ICRP direct and indirect cost pools
- Unallowable costs reimbursed
- Invoice and labor costing

For a list of the most common detailed audit findings, and best practices to avoid these deficiencies, please visit the DLA Audits Webpage: <https://dot.ca.gov/-/media/dot-media/programs/local-assistance/documents/guide/common-deficiencies-and-best-practices.pdf>.

20.6 Caltrans Role

Depending on the type of audit, CIAO or IOAI will send the final audit report to Caltrans and copy the LPA. As a part of its oversight responsibilities, Caltrans will develop corrective actions in response to the audit findings and recommendations, and will ensure the corrective actions are implemented by the LPA. Within approximately 120 days from receipt of the final audit report, the Division of Local Assistance (DLA) endeavors to send the LPA a Corrective Action Plan (CAP) letter. DLA staff will introduce themselves, discuss the corrective actions in greater detail, and advise LPA staff of deadlines for submittal after the issuance of the CAP letter.

The CAP letter identifies specific actions the LPA must perform to mitigate audit findings from recurring in order to close out the audit. These corrective actions will strengthen LPA internal controls and improve the ability to comply with State and federal regulations, and contract provisions.

Corrective actions are typically due within five months from the date of the CAP letter. It is the LPA's responsibility to take initiative and perform the corrective actions to ensure the LPA can meet the deadlines within the CAP letter. Below are examples of common corrective actions that are prescribed in the CAP letter.

- Develop or update procedures; these must be reviewed by DLA prior to implementation and adoption.
- If training is required, it must be taken and performed, and a list of attendees or training certification must be submitted to DLA.
- If the LPA must reimburse funds to Caltrans, Caltrans will initiate an invoice to the LPA, and the LPA must make repayment.
- On a case-by-case basis, DLA may consider new documentation submitted by the LPA that will substantiate questioned and disallowed costs in the final audit report as eligible for reimbursement.

If the LPA does not make a good faith effort to submit corrective actions as required within the CAP Letter, Caltrans may invoke sanctions as prescribed in Section 20.7 of this chapter. Once all corrective actions and deficiencies have been corrected and implemented, a Final Determination Letter is sent to the LPA, sanctions (if applicable) will be removed, and the audit is closed. DLA endeavors to have the audits closed out within one year.

Please refer to Figure 20-2: Corrective Action Flowchart for a visual of the typical corrective action process.

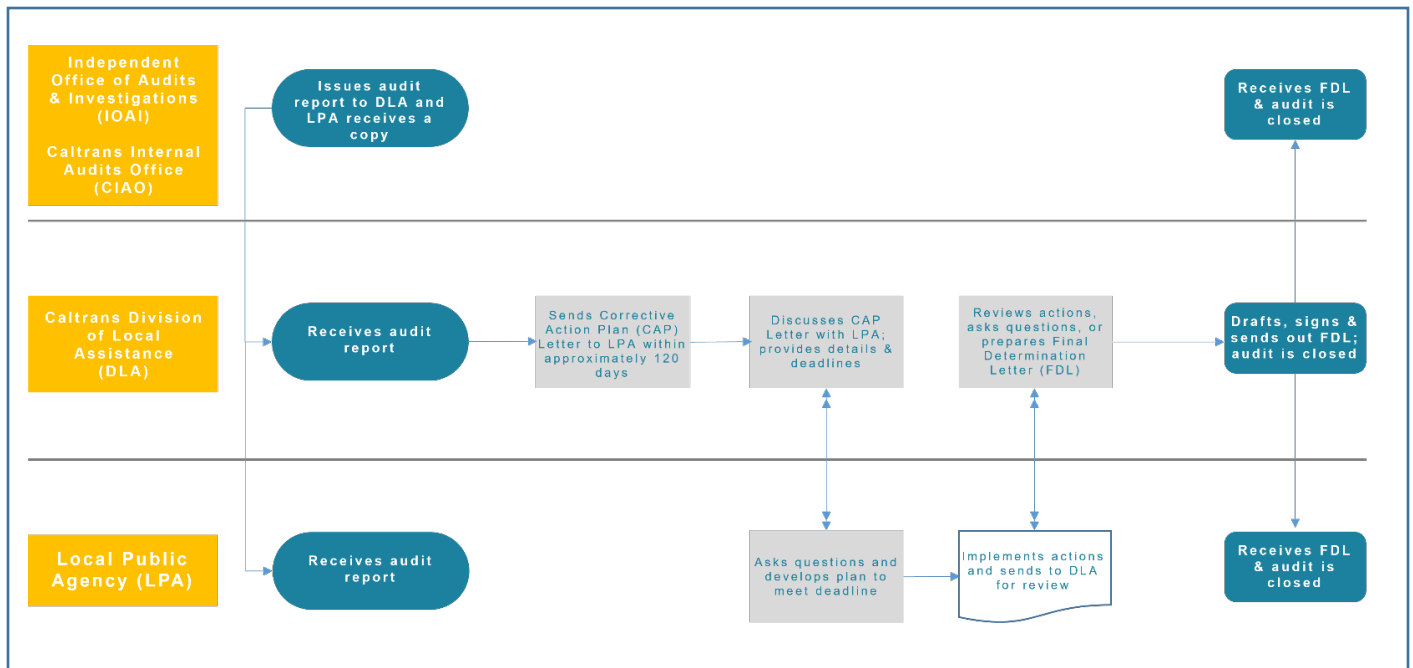


Figure 20-2: Corrective Action Flowchart

Single Audit Report (SAR) Management Decisions

If CIAO determines a SAR has unresolved findings, CIAO will issue a Management Decision to determine if the findings have been resolved in accordance with [2 CFR 200.521](#). It is the responsibility of Caltrans to follow-up with the LPA to resolve the finding.

DLA will send a CAP letter to the LPA within about two months of receiving the Management Decision letter. Corrective actions are typically due within three to five months from the date of the CAP letter dependent upon the complexity and the number of unresolved findings.

If the LPA does not make a good faith effort to submit corrective actions as required within the CAP Letter, Caltrans may invoke sanctions as prescribed in Section 20.7 of this chapter. Once all corrective actions and deficiencies have been corrected and implemented, a Final Determination Letter is sent to the LPA, sanctions (if applicable) will be removed, and the audit is closed.

20.7 Sanctions

The LPA may be subject to sanctions dependent upon the severity of the audit findings. Failure to submit required corrective actions and correct the deficiencies by the deadline stated in the CAP letter may also result in Caltrans imposing a sanction. Failure to submit a SAR package or exemption letter will result in a sanction. Caltrans will be responsible for notifying the LPA of sanctions imposed in writing and the steps for removing these sanctions. As stated in Section 20.6 of this chapter, whether or not sanctions are imposed against the LPA, the LPA is responsible to develop and implement corrective actions in an effort to mitigate all deficiencies identified in the CAP Letter. There will be no appeals for any sanction applied.

Sanctions may consist of those available within [2 CFR 200.339](#) and the following examples including, but not limited to:

- Request reimbursement of questioned and/or disallowed cost(s).

- Do not authorize new federal funds and do not recommend State allocations until corrective actions are implemented.
- Suspend the LPA's Master Agreement with Caltrans.
- Stop the project and project reimbursements if the audit is interim.
- Withhold State and federal funding until the deficiency is corrected.

20.8 References and Links

2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

<https://www.law.cornell.edu/cfr/text/2/part-200>

Caltrans Internal Audits Office

<https://dot.ca.gov/programs/audits>

Division of Local Assistance Audits

<https://dot.ca.gov/-/media/dot-media/programs/local-assistance/documents/guide/common-deficiencies-and-best-practices.pdf>

Independent Office of Audits & Investigations

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