

# MEMORANDUM

**TO:** **Dee Lam**  
Division Chief,  
Division of Local Assistance (DLA)

**FROM:** **Ben Shelton**  
Audit Chief,  
Caltrans Internal Audits Office (CIAO)

**DATE:** 6/13/2024

**FILE #:** 24PRE.02

**SUBJECT:** Pre-Award Audit of Eastern Sierra Council of Governments – Final Report Attached



Caltrans Internal Audits Office (CIAO), California Department of Transportation (Caltrans), audited the financial management system (FMS) of the Eastern Sierra Council of Governments (ESCOG), a Joint Powers Authority (JPA) between the Town of Mammoth Lakes, City of Bishop, Inyo County and Mono County. The scope of the audit was limited to reviewing and testing of ESCOG's FMS which includes payroll, accounts payable, and procurement and contract management. Auditors tested the FMS internal controls, and more specifically evaluated the ability of ESCOG's accounting system to determine if it could accumulate and segregate reasonable and allowable costs that can be allocated to projects. The final audit report does not include a response from ESCOG as they did not provide one to CIAO.

Based on the audit, CIAO determined ESCOG's accounting system does accumulate and allocate reasonable and allowable project costs however, auditors found the following deficiencies:

- ESCOG does not verify staff's timesheets (Excel tracking) for the time spent working on the grants.
- ESCOG receives proposals directly through e-mail.
- ESCOG does not verify for debarment/suspensions in their procurement process.
- ESCOG has a potential conflict of interest identified.

Please provide CIAO with a Corrective Action Plan, including the timelines for addressing the recommendations in the report, within 60 business days from the date of this memo. If you have any questions, or if you would like to request a paper copy of this report, please contact me, by phone: (916) 858-9694 or by e-mail: [Audits@dot.ca.gov](mailto:Audits@dot.ca.gov).

**ATTACHMENT:** ESCOG Pre-Award - 24PRE.A02 - Final Report

# MEMORANDUM

## Cc:

**Elaine Kabala**, Executive Director, ESCOG

**Janet Dutcher**, Fiscal Agent, ESCOG

**KC Handren**, Deputy Director, Administration and Financial Management,  
California Transportation Commission

**Mark Samuelson**, Deputy Division Chief, DLA, Caltrans

**Seree "Mack" Yenjai**, Acting Chief, Office of Guidance and Oversight, DLA,  
Caltrans

**Ryan Dermody**, Director, District 9, Caltrans

**Kirsten Helton**, Division of Planning and Environmental, Deputy Division Chief,  
District 9, Caltrans

**Mark Heckman**, DLAE, Local Assistance Branch, District 9, Caltrans

**Bing Luu**, A&E Oversight Program Manager, Office of Guidance and  
Oversight, DLA, Caltrans

**Daniel Burke**, Supervisor, Program Reviews and Outreach Branch, , Office of  
Guidance and Oversight, DLA, Caltrans

**Felicia Haslem**, Chief, Office of Project Management Oversight - North, DLA,  
Caltrans

**Darlene Wulff**, LoCode Coordinator, Office of Project Management Oversight,  
Caltrans

**Blair Thompson**, Chief, Division of Risk and Strategic Management, Caltrans

**Gerald Lee**, Audit Manager, CIAO, Caltrans

<[california.lpa@dot.gov](mailto:california.lpa@dot.gov)>



## CALTRANS INTERNAL AUDITS OFFICE

DEPARTMENT OF TRANSPORTATION



# CALTRANS INTERNAL AUDITS OFFICE

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DEPARTMENT OF TRANSPORTATION

## FINAL REPORT: EASTERN SIERRA COUNCIL OF GOVERNMENTS, PRE-AWARD AUDIT

**Submission Date:** 6/13/2024

**Requested by:** Division of Local Assistance (DLA)

**Prepared by:** Caltrans Internal Audits Office (CIAO)



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**AUDIT REPORT PREPARED BY:**  
Caltrans Internal Audits Office (CIAO)



**AUDIT TEAM:**

Ben Shelton, Audit Chief  
Gerald Lee, Audit Manager, Auditor-in-Charge  
Mia Gomez, Auditor

**AUDIT #24PRE.A02**

**CONTACT INFORMATION:**

Department of Transportation  
Caltrans Internal Audits Office  
1120 N Street, Sacramento, CA 95814  
[Audits@dot.ca.gov](mailto:Audits@dot.ca.gov)

## SUMMARY

The Caltrans Internal Audits Office (CIAO), California Department of Transportation (Caltrans), audited the payroll, accounts payable, and procurement processes of the Eastern Sierra Council of Governments (ESCOG). ESCOG is a joint powers authority (JPA) made up of 4 member agencies: the County of Inyo, County of Mono, City of Bishop, and the Town of Mammoth Lakes. CIAO found that ESCOG's financial system accumulates, and segregates costs based on project and funding profiles. During the audit process, CIAO found issues of non-compliance with ESCOG's payroll and procurements processes. The finding with procurement concerned proposals, debarment/suspensions, and conflict of interest; and the finding with payroll involved timesheet verifications.

## AUDIT OBJECTIVES

The objectives of the audit are to determine whether:

- ESCOG's accounting system is capable of accumulating and segregating reasonable, allocable, and allowable project costs.
- ESCOG's policies, procedures, and internal controls are adequate to support entering into State Master Agreements.

## AUDIT SCOPE

The scope of the audit was limited to reviewing and testing ESCOG's financial management system—which includes payroll, accounts payable and procurement. Auditors tested the financial management system's internal controls and evaluated the ability of ESCOG's accounting system to determine if it could accumulate and segregate reasonable, allocable, and allowable costs that can be effectively allocated to projects.

Auditors tested ESCOG's procurement process. The audit consisted of inquiries to ESCOG's personnel to acquire an understanding of ESCOG's financial management system, and to evaluate its compliance with Title 2 Code of Federal Regulations (CFR) Part 180 and 200, Public Contracting Code (PCC), State Administrative Manual (SAM), Master Agreement - Article V, and Local Assistance Procedure Manual (LAPM). The audit was limited to financial and compliance activities of the 2020-2023 fiscal years. Testing was completed on April 19, 2024.

Changes to the Financial Management System (FMS) after April 19, 2024, were not tested and, accordingly, the financial statements. Therefore, they are not expressing an opinion on ESCOG's financial statements.

## METHODOLOGY

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards. Auditors believe the evidence obtained in accordance with those standards provides a reasonable basis for findings and conclusions based on the 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 ESCOG. Auditors did not audit the financial statements and are therefore not expressing an opinion on them.

The audit consisted of interviewing ESCOG's personnel, reviewing prior audit reports, and requesting information from ESCOG's personnel to gain an understanding of ESCOG's financial management system. CIAO evaluated its compliance with Title 2 Code of Federal Regulations (CFR) Part 200, Public Contracting Code (PCC), and Local Assistance Procedure Manual (LAPM). CIAO also tested the internal controls, the procurement process, and evaluated the accounting system's ability to accumulate and segregate reasonable, allocable, and allowable costs that can be effectively allocated to projects.

## VIEWS OF RESPONSIBLE OFFICIALS

CIAO issued the draft report, dated, May 21, 2024, and requested a written response from the auditee by May 28, 2024. CIAO did not receive a response by May 28, 2024. Auditors did their due diligence to contact ESCOG by phone and e-mail and provided an extension for the response to be provided by June 12, 2024. Auditors did not receive a response from the auditee by June 12, 2024. As a result, the findings and recommendations remain unchanged. A copy of the e-mail thread is included in this report as Attachment A.

If you have additional questions, please contact Ben Shelton, Audit Chief, by phone: (916)858-9694, or by e-mail: [Audits@dot.ca.gov](mailto:Audits@dot.ca.gov).

## CONCLUSION

Based on the audit, CIAO determined ESCOG'S accounting system does accumulate and segregate project costs. However, auditors found the following deficiencies:

1. ESCOG does not verify staff's timesheets (Excel tracking) for the time spent working on the grants.
2. ESCOG receives proposals directly through e-mail.

3. ESCOG does not verify for debarment/suspensions in their procurement process.
4. Potential conflict of interest identified: an ESCOG board member was working directly on the SNC Grant with position in Mammoth Lakes Trails and Public Access (MLTPA); MLTPA is partnering with Alta Planning + Design for the SNC Grant.
  - o The ESCOG board member signed original contract with Alta Planning + Design, SNC grant.
  - o The ESCOG board member voted on amendment #1 for the Alta Contract, SNC Grant, to allow for travel and per diem costs.



# FINDINGS AND RECOMMENDATIONS

## FINDING ONE: PROCUREMENT

### SUMMARY OF FINDING

During review of ESCOG's procurement process, auditors identified ESCOG lacked training in procurement policies, which hindered staff to procure consultant contracts in accordance with Code of Federal Regulations (CFR) requirements. Specifically, the following deficiencies were noted in their procurement procedures:

- ESCOG receives proposals directly through e-mail.
- ESCOG does not verify for debarment/suspensions in their procurement process.
- Potential conflict of interest identified: an ESCOG board member was working directly on the SNC Grant with position in Mammoth Lakes Trails and Public Access (MLTPA); MLTPA is partnering with Alta Planning + Design for the SNC Grant. 2 areas of potential issues were noted:
  - The ESCOG board member signed original contract with Alta Planning + Design, SNC grant.
  - The ESCOG board member voted on amendment #1 for the Alta Contract, SNC Grant, to allow for travel and per diem costs.

Without adequate and updated procurement procedures, ESCOG cannot ensure that proposals received and awarded are fair and open to competition, nor can they ensure contract management is fair and reasonable.

### CRITERIA

**Title 2, Code of Federal Regulations (CFR), Part 200 excerpts:**

2 CFR 200.206(d): Suspension and debarment compliance:

(1) The Federal awarding agency must comply with the guidelines on governmentwide suspension and debarment in 2 CFR part 180 and must require non-Federal entities to comply with these provisions. These provisions restrict Federal awards, subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal programs or activities.

2 CFR 200.318- General Procurement Standards:

(c)(1) The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts. No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest.

**Local Assistance Procedure Manual (LAPM):**LAPM 10.1.1 – General: Organizational and Consultant Conflicts of Interest:

Federal Regulation Governing Conflict of Interest (23 CFR 172.7(b)(4)) requires that:

- No contracting agency employee who participates in the procurement, management, or administration of federal-funded contracts or subcontracts must have, directly or indirectly, any financial or other personal interest in connection with such contract or subcontract.
- No person or entity performing services for a contracting agency in connection with a federal-funded project must have, directly or indirectly, any financial or other personal interest, other than employment or retention by the contracting agency, in any contract or subcontract in connection with such project.
- No person or entity performing services for a contracting agency in connection with a federal-aid highway funded project must have, directly or indirectly, any financial or other personal interest in any real property acquired for the project.

LAPM 10.1.8 – Completing the Project: Review and Approval of Contracts:

Before approving a contract for consulting services, the Contract Administrator must be satisfied that the consultant's organization:

- Is not disbarred or suspended from state or federally funded contracts. Per 23 CFR 172.7(b)(3) "A contracting agency shall verify suspension and debarment actions and eligibility status of consultants and subconsultants prior to entering into an agreement or contract in accordance with 2 CFR 1200 and 2 CFR 180."

LAPM 10.3 – Non-A&E Contracts: Additional Requirements and EvaluationCriteria:

- A. Local Public Agency (LPA) must require consultants to submit their proposals and costs in a separate, sealed envelope.
- B. LPA must determine those that meet the format requirements and the standards specified in the Request for Proposal (RFP).

- C. The sealed envelopes containing the price and cost information for those proposals that meet the format requirements and standards must be publicly opened and read.  
(PCC 10344(b))

PCC 10344(b):

(b) State agencies that use the evaluation and selection procedure in this subdivision shall include in the request for proposal, in addition to the information required by subdivision (a), a requirement that bidders submit their proposals with the bid price and all cost information in a separate, sealed envelope.

Proposals shall be evaluated, and the contract awarded in the following manner:

- (1) All proposals received shall be reviewed to determine those that meet the format requirements and the standards specified in the request for proposal.
- (2) The sealed envelopes containing the bid price and cost information for those proposals that meet the format requirements and standards shall then be publicly opened and read.
- (3) The contract shall be awarded to the lowest responsible bidder meeting the standards.

## CIAO RECOMMENDATIONS

1. CIAO recommends ESCOG key personnel complete the Caltrans, Division of Local Assistance's (DLA) Procurement training to ensure that procedures are followed in accordance with Federal and State requirements.
2. CIAO recommends ESCOG adopt Chapter 10 of the LAPM for procurement using State and Federal transportation Funds.

## AUDITEE'S RESPONSE

ESCOG did not respond to the findings and recommendations by the extended deadline of June 12, 2024.

## **FINDING TWO: PAYROLL**

### SUMMARY OF FINDING

During review of ESCOG's payroll process, auditors identified ESCOG staff lacked controls in payroll policies. Specifically, the following deficiency was noted in their payroll procedures:

- ESCOG does not verify staff's timesheets (Excel tracking) for the time spent working on the grants.

Without adequate and updated payroll procedures, ESCOG cannot ensure that timesheets for time spent on grants are being accurately charged.

### CRITERIA

#### **Local Assistance Procedure Manual (LAPM), Chapter 4:**

Exhibit 4-C: Master Agreement – Administering Agency-State Agreement for Federal-Aid Projects, Article V:

2. ADMINISTERING AGENCY, its contractors and subcontractors shall establish and maintain a financial management system and records that properly accumulate and segregate reasonable, allowable, and allocable incurred PROJECT costs and matching funds by line item for the PROJECT. The financial management system of ADMINISTERING AGENCY, its contractors and all subcontractors shall conform to Generally Accepted Accounting Principles, enable the determination of incurred costs at interim points of completion, and provide support for reimbursement payment vouchers or invoices sent to or paid by STATE.

### CIAO RECOMMENDATION

1. CIAO recommends ESCOG add a supervising signature approval line to the excel timesheet template used for grant work.

### AUDITEE'S RESPONSE

ESCOG did not respond to the findings and recommendations by the extended deadline of June 12, 2024.

# **ATTACHMENTS**

**ATTACHMENT A:**

DOCUMENTATION OF THE  
AUDITEE'S NON-RESPONSE

**From:** [Lee, Gerald C@DOT](mailto:Lee_Gerald_C@DOT)  
**To:** [Gomez, Mia@DOT](mailto:Gomez_Mia@DOT); [Elaine Kabala \(ESCOG\)](mailto:Elaine_Kabala@ESCOCG)  
**Cc:** [Shelton, Ben@DOT](mailto:Shelton_Ben@DOT); [Lee, Gerald C@DOT](mailto:Lee_Gerald_C@DOT)  
**Subject:** RE: ESCOG - Draft Report  
**Date:** Monday, June 3, 2024 5:04:25 PM

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Good afternoon Elaine,

I called and left a voicemail. I am following up if you have any questions about the draft report. Please respond back to our draft or if you have any questions about the draft. If we do not get a response by June 12<sup>th</sup>, CIAO will proceed with the final report.

### Gerald Lee

Audit Manager – Caltrans Internal Audits Office,  
Division of Risk and Strategic Management



Department of Transportation  
Administration, MS 80  
1120 N Street, Sacramento, CA 95814  
Cell phone: [redacted]  
(He/Him/His)

Please visit our website:  
[redacted]

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**From:** [Gomez, Mia@DOT](mailto:Gomez_Mia@DOT) [redacted]  
**Sent:** Friday, May 31, 2024 11:32 AM  
**To:** [Elaine Kabala \(ESCOG\)](mailto:Elaine_Kabala@ESCOCG) [redacted]  
**Cc:** [Lee, Gerald C@DOT](mailto:Lee_Gerald_C@DOT) [redacted]; [Shelton, Ben@DOT](mailto:Shelton_Ben@DOT) [redacted]  
**Subject:** RE: ESCOG - Draft Report

Good afternoon Elaine,

Just following up with you since we haven't heard back with your response with the ESCOG draft report. I tried giving you a call, but I was unable to reach you. Just wanted to reach out here to see if you need any help or if you have any questions or concerns.

Thank you so much,

**Mia Gomez**

Auditor – Caltrans Internal Audits Office,

Division of Risk and Strategic Management



Department of Transportation  
Administration, MS 80  
1120 N Street, Sacramento, CA 95814  
Phone: [redacted]

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**From:** [Gomez, Mia@DOT](mailto:Gomez, Mia@DOT)

**Sent:** Tuesday, May 21, 2024 2:49 PM

**To:** [Elaine Kabala \(ESCOG\)](#) [redacted]; [Janet Dutcher](#) [redacted]

**Cc:** [Lee, Gerald C@DOT](#) [redacted]

**Subject:** ESCOG - Draft Report

Good afternoon,

As discussed during the field exit meeting on May 15th, the attached draft report is ready for your review. Please provide your response within five business days, on or before May 28th. Also, let us know if you prefer to have a formal exit meeting to go over the draft report or if you would like to forego it.

Thank you so much!

**Mia Gomez**

Auditor – Caltrans Internal Audits Office,  
Division of Risk and Strategic Management



Department of Transportation  
Administration, MS 80  
1120 N Street, Sacramento, CA 95814  
Phone: [redacted]





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