



DEPARTMENT OF
FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

April 4, 2011

Ms. Kim Garcia, Assistant Director of Administration
Office of Traffic Safety
2208 Kausen Drive, Suite 300
Elk Grove, CA 95758

Dear Ms. Garcia:

Final Report—City of Daly City, Office of Traffic Safety Grant Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the City of Daly City (City), Avoid the 23 DUI Campaign—San Mateo County, grant agreement AL0997 for the period October 1, 2008 through June 30, 2010.

The draft report was issued February 18, 2011, and the response to the draft report required further analysis. As a result of our analysis, changes were made to the Results section of the report to reflect the additional analysis or to provide further clarification.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the City's staff. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Deborah Hrepich, Associate Accounting Analyst, Office of Traffic Safety
Mr. Eric Wollman, Captain, Daly City Police Department
Mr. Don McVey, Director of Finance, City of Daly City
Ms. Emmy Flores, Accounting Supervisor, Department of Finance, City of Daly City
Ms. Kim Garcia, Assistant Director of Administration, Office of Traffic Safety

A GRANT AUDIT

City of Daly City Avoid the 23 DUI Campaign—San Mateo County Grant Agreement AL0997



Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Jennifer Arbis
Supervisor

Staff
Ngocnhung Tran
Kelly Wyatt

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Background, Scope, and Methodology.....	1
Results	3
Response	6
Evaluation of Response	10

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Office of Traffic Safety (OTS) is responsible for obtaining and administering National Highway Traffic Safety Act funds designed to mitigate traffic safety problems. There are eight priority program areas identified for grant funding: Alcohol and Other Drugs, Occupant Protection, Pedestrian and Bicycle Safety, Emergency Medical Services, Traffic Records, Roadway Safety, Motorcycle Safety, and Police Traffic Services. OTS allocates grant funds to local government agencies to implement these programs.

OTS awarded \$652,917 to the City of Daly City (City) for the Avoid the 23 DUI Campaign—San Mateo County. The effort aims to reduce alcohol-involved fatalities and injuries and raise general public awareness regarding the problems associated with drinking and driving. Activities include DUI checkpoints, DUI saturation patrols, DUI task force operations, and warrant/court sting operations for repeat DUI offenders during holiday periods and special events. The Daly City Police Department serves as the host agency for the regional DUI effort in San Mateo County. Participating agencies include police departments from San Mateo County cities, San Mateo County Sheriff's Department, San Mateo County Probation Department, San Mateo Community College Police Department, Bay Area Rapid Transit Police, Department of Alcoholic Beverage Control, and the California Highway Patrol.

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations, conducted an interim audit of the City's OTS grant listed below.

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
AL0997	October 1, 2008 through June 30, 2010	\$652,917

The audit objective was to determine whether the City's grant expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The City's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. OTS is responsible for state-level administration of the grant funds.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the grant-related internal controls.
- Examined the grant files.
- Reviewed the City's accounting records.
- Determined whether a sample of expenditures was:
 - Allowable
 - Grant related
 - Incurred within the grant period
 - Supported by accounting records
 - Properly recorded
 - Not billed to other revenue sources
- Evaluated whether the goals and objectives required by the grant agreement are being met.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering grant funds. The audit was conducted from October 2010 through February 2011.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

The Schedule of Claimed, Audited, and Questioned amounts is presented in Table 1. Except as noted in the two observations below, the City's expenditures were in compliance with applicable laws, regulations, and the grant requirements.

Table 1: Schedule of Claimed, Audited, and Questioned Amounts

Grant Agreement AL0997			
For the Period October 1, 2008 through June 30, 2010			
Category	Claimed	Audited	Questioned
Personnel Costs	\$ 58,791	\$ 58,791	\$ 0
Travel Expense	1,713	1,713	\$ 0
Contractual Services	176,008	176,008	\$ 0
Other Direct Costs	19,575	19,575	\$ 0
Total Expenditures	\$ 256,087	\$ 256,087	\$ 0

Observation 1: Policies and Procedures are Lacking or Not Followed

The City has inadequate or is lacking written procedures for grant and finance related activities, and does not consistently follow those that do exist.

Written Procedures

Adequate written procedures for all grant and finance related activities ensure that duties are clearly defined, performed in accordance with the approved procedures, and provide for continuity of operations in the event of staff turnover. The Terms and Conditions of grant agreement AL0997 state that the funds received are subject to applicable federal and state regulations. The OTS Grant Manual, Chapter 4.2 states that effective control and accountability must be maintained for all OTS grant and sub-grant cash, real and personal property, and other assets. Additionally, Code of Federal Regulations, Title 2, Section 215.21(b)(6) states that recipient's financial management systems shall provide written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award.

Grant Document Approval Process

Expenditure claims from allied agencies, Quarterly Performance Reports, and OTS claims are approved without the approver viewing the supporting documentation. The payments to the allied agencies represent 65 percent of claimed expenditures through June 30, 2010. The Grant Manager is instrumental in arranging the grant operations, is the liaison and primary or sole contact between the City and the allied agencies, is the sole recipient and reviewer of supporting documentation from the allied agencies, and prepares the Quarterly Performance Reports and OTS Claims. The approver should review the supporting documentation as part of the approval

process to ensure the validity and accuracy of the supporting documentation prior to payment to allied agencies and submission of Quarterly Performance Reports and Claims to OTS. The OTS Grant Manual, Chapter 6.12 states that the City is responsible for reviewing and approving invoices for payment, ensuring payments are made in accordance with contract terms, costs are budgeted and allowable, and work has been performed.

Overtime Approval

The City did not follow its written policies for approval of overtime. The City Rules and Regulations state overtime is to be pre-approved by a Department Head. Additionally, the City's Rules and Regulations state that the Department Head shall not be eligible for overtime pay. The review disclosed overtime is approved by personnel at a level below that of Department Head. Furthermore, the individual approving the overtime also received overtime pay for the majority of OTS operations worked.

Purchasing and Property Policies

The City did not follow its policies over purchasing and property as follows:

- The City submitted separate purchase requisitions for approval to purchase the DUI checkpoint trailer. This allowed the City to avoid the authorization, tagging, capitalization, and reporting requirements for property in excess of \$5,000. The OTS Grant Manual states the total cost of equipment includes modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for grant purposes, excluding any discounts. The complete cost of the trailer (including wrap, lock, and adaptor) was \$5,377.
- The City did not document its efforts to obtain three bids when purchasing items in excess of the \$1,000 limit. As a result, the City could not document that it followed its purchasing policy for the following transactions:

Generator	\$1,021
Reflective signs	\$1,130
Vehicle Wrap	\$1,228

- The City has not completed a full physical inventory and reconciliation to equipment records since May 2007. Pursuant to OTS Grant Manual, physical inventory and reconciliation to equipment records is required to be performed every two years.

Recommendations:

- A. Establish and comply with written procedures for the accounting of grant funds to ensure the internal control system is adequate.
- B. Implement and comply with purchasing procedures that ensure threshold limits are not circumvented, and that physical inventories are completed.

Observation 2: No Supporting Documentation for Quarterly Performance Reports

Some of the statistics reported to OTS on the Quarterly Performance Reports (QPR) were not adequately supported. The City provided electronic spreadsheets, meeting schedules, and press releases to reflect the planned activities. However, documentation to support the actual occurrence of the number of Saturation Patrols reported and support for statistics provided in the electronic spreadsheets were not maintained. The grant agreement states agencies are required to quarterly collect and report data that support progress on each of the goals and objectives. Failure to submit acceptable and supported data may result in withholding or disallowance of grant reimbursements, the reduction or termination of grant funding, or denial of future grant funding.

Recommendations:

- A. Retain all project source documents and records and make them available for audit.
- B. Require the allied agencies to submit written documentation to support the activities performed by them and to certify the occurrence of the activities reported.



POLICE DEPARTMENT

CITY OF DALY CITY

ADDRESS ALL COMMUNICATIONS
TO CHIEF OF POLICE

333 - 90TH STREET
DALY CITY, CA 94015-1895
PHONE: 650-991-8119

MANUEL MARTINEZ JR.
CHIEF OF POLICE

March 10, 2011

David Botelho
Department of Finance
State of California
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Dear Mr. Botelho,

The purpose of this correspondence is to respond to your "Draft Interim Audit Report," of February 18, 2011, regarding the Avoid the 23 DUI Campaign—San Mateo County, Grant Agreement AL0977.

You identified findings of noncompliance with the Office of Traffic Safety (OTS) grant agreement requirements which I will address below:

Answer to Observation 1 (Policies and Procedures are Lacking or Not Followed)

The finding states that "The Grant Manager is the liaison and primary or sole contact between the City and the allied agencies, and is the sole recipient and review of supporting documentation. There is no additional review of the documentation to support payments to allied agencies for personnel costs incurred, which represented 65 percent of claimed expenditures through June 30, 2010. There is also no additional review of the documentation to support claims made to OTS." This finding is unclear and untrue. There is additional review. In order to process claims for outside agencies, the Grant Manager obtains the supporting documentation via an allied agency representative who works with his/her Finance department counterpart to produce documentation to support the claims. This process is an additional review. Chapter 5.2 and 5.4 of the OTS grant program manual lists instructions on preparing and submitting claims, however it is not stated that any "additional review" is required.

The observation regarding the “lack of continuity in the event the Accounting Services Manager was unavailable” is incorrect. The Accountant at the Finance Department is also knowledgeable and cross-trained on grant-related activities and is able to fill in when the Accounting Services Manager is unavailable.

It also should be noted that the OTS Grant Program does not require that the City have written procedures for grant and finance-related activities, and this should have no mention on this audit. The activities have all been performed as to the requirements of the grant, and furthermore there has been no grant money expended outside the parameters of this agreement.

Regarding the comment about the City not following the written policies for approval of overtime, this is incorrect and a misinterpretation of the City’s Rules and Regulations of the Classified Service. The overtime for this grant was authorized and pre-approved by the Chief of Police when the grant specifications were established. The Sergeant who signed the overtime slips was delegated that authority by the Chief of Police. There is nothing in the City Rules and Regulations that states that the approver shall not be eligible for overtime pay. The portion of the Rules and Regulations covering the approval of overtime reads as follows:

SECTION 13 Overtime is not authorized to be worked unless prior approval has been granted by the Department Head. Once overtime has been authorized, the overtime work shall be recorded in hours and tenths of hours for all work completed following the regular hours of work. The minimum time recorded shall be one-tenth of an hour.

Regarding the comments about the City not following its policies over purchasing and property, this is partially incorrect. We agree with your comment about the trailer purchase, even though it can be argued that OTS approved the additional \$378 and transferred those funds from another line-item. However, the allegation that the City did not obtain and document three bids when purchasing items in excess of the \$1,000 limit is a misinterpretation of the City’s purchasing policy. The City of Daly City’s purchasing policy is that a reasonable *attempt* must be made to get at least three quotes, but the quotes need not be in writing. In each case except for the hotel for the seminar/luncheon, a reasonable attempt was made. In the case of the hotel, the City of Daly City did not select this venue, but rather the Mothers Against Drunk Drivers, under the guidance of OTS, did. Therefore, it does not fall under our purchasing policies. Lastly, in regard to the comment that the City has not completed a full physical inventory and reconciliation of equipment records since May 2007, the City has limited staffing and may not have completed the inventory as suggested, however we are currently in the process of completing the inventory.

Answer to Observation 2 (No Supporting Documentation for Quarterly Performance Reports)

This finding states that “documentation to support the actual occurrence, support for statistics provided in the electronic spreadsheets, and/or copies of articles/press releases were not maintained.” This finding partially has no merit. The Grant Manager did provide the auditor with sign in sheets and overtime slips to support the occurrences of the events. The Grant Manager did not provide documentation for all of the statistics, as most were obtained verbally via the telephone with the allied agency representatives. As far as the articles and press releases, all of those were presented to the auditors, and this observation is definitely incorrect. These are the source documents of the Quarterly Performance Reports and are attached to the back of each QPR.

Please consider modifying your findings, based on my rebuttal comments, from your report and provide us with an updated copy.

Thank you for your assistance.

Sincerely,

Original signed by:

Diane McCarthy
Management Analyst

We reviewed the City of Daly City's (City) March 10, 2011 response, which is incorporated into the final report. The City provided additional information regarding the observations included in the draft report. Based on our evaluation of the City's response, we provide the following comments.

Observation 1: Policies and Procedures are Lacking or Not Followed

A. Grant Document Approval Process

Each allied agency submits claims to the City for payment. The City indicates that it considers the allied agency representative's review of supporting documents before submitting the claim to the City as one level of review and considers the Grant Manager's review as the additional review. The City also states that the OTS Grant Manual, Chapters 5.2 and 5.4 do not require any additional review in the preparation of the claims.

We concur that the OTS Grant Manual, Chapters 5.2 and 5.4 do not address the review process related to the preparation of the claims. However, the OTS Grant Manual, Chapter 4.2 states that effective control and accountability must be maintained for all OTS grant and sub-grant cash, real and personal property, and other assets. Additionally, the OTS Grant Manual, Chapter 6.12 states that the City is responsible for reviewing and approving invoices for payment, ensuring payments are made in accordance with contract terms, costs are budgeted and allowable, and work has been performed. Therefore, adequate controls must be in place at the City level regardless of the procedures in place at the allied agencies. Because the Grant Manager is the sole contact with the allied agencies and is the preparer of the Quarterly Performance Reports and OTS Claims, an adequate internal control system for the approval for these documents requires that the approver receive and review the supporting documents to confirm that the documents are adequately supported prior to payment of the claim and submission of documents to OTS. As stated in the report, the approver does not receive the supporting documentation to ensure the claim is adequately supported before approving the allied agency claims for payment, Quarterly Performance Reports, and OTS claims.

B. Cross-Training of Accounting Services Manager's Grant Responsibilities

The City indicated that the Finance Department Accountant is cross-trained and is able to perform the Accounting Services Manager's grant responsibilities when the Accounting Services Manager is unavailable. We accept this explanation and deleted this issue from the audit report.

C. Lack of Written Procedures

We concur that the OTS Grant Manual does not explicitly require written policies and procedures for grant and finance-related activities. However, the OTS Grant Manual, Chapter 4.2 states that effective control and accountability must be maintained for all OTS grant and sub-grant cash, real and personal property, and other assets. Effective control

and accountability includes written procedures to ensure that the duties are clearly defined, performed in accordance with the approved procedures, and provide for continuity of operations in the event of staff turnover. Furthermore, the Terms and Conditions of grant agreement AL0997 state that the funds received are subject to applicable federal and state regulations. Code of Federal Regulations, Title 2, section 215.21(b)(6) states that recipient's financial management systems shall provide written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award. Therefore, we continue to recommend that the City develop written procedures for its grant-related activities.

D. Overtime Approval

The City asserts that the City's Rules and Regulations were misinterpreted. Specifically, the City indicated that the City's Rules and Regulations do not specify that the overtime approver shall not be eligible for overtime pay. Additionally, the City indicates that the Chief of Police authorized and pre-approved the overtime when the grant specifications were established and that currently this duty was delegated to the Sergeant that signed the overtime slips.

After further review, we concur that the City's Rules and Regulations do not explicitly state that the approver should not be eligible for overtime pay. Additionally, we agree that the Rules and Regulations, section 12, states that only the Department Head is authorized to grant prior approval of overtime. As such, the report was modified. However, the City's Rules and Regulations, section 16, states that the Department Head shall not be eligible for overtime pay. A strong internal control system requires that an approver of overtime is not an individual that is eligible for overtime. As such, it appears that this control was intended when the City designated the individual authorized to pre-approve the overtime be at the Department Head level. Because the current individual pre-approving the overtime is not a Department Head, we continue to recommend that the City follow its procedure of requiring the Department Head to pre-approve the overtime.

E. Trailer Purchase

The City indicated that it agreed that it did not follow proper purchasing and property procedures related to the authorization, tagging, capitalization, and reporting requirements for the DUI checkpoint trailer.

F. Bids for Purchases over \$1,000

- Generator, Reflective Signs, and Vehicle Wrap—The City stated that its purchasing policy requires a reasonable attempt to obtain at least three quotes, but the quotes need not be in writing. We concur that the City's purchasing policy indicates that only an attempt must be made and that the quotes need not be in writing. However, the City did not provide documentation, such as a notation on the purchase order or other document, indicating that the attempts were made or the results of the attempts to obtain the quotes. As such, the City should document its efforts to obtain three quotes and the results of those attempts. Therefore, the report will remain unchanged regarding these purchases.

- Hotel purchases—Upon further review of the hotel purchases for the 2009 and 2010 seminar/luncheons, we concur that these seminar/luncheons were coordinated by Mothers Against Drunk Drivers under the guidance of OTS. Therefore, we have removed these items from the observation in the report.

G. Physical Inventory

We note that the City is currently in the process of performing a physical inventory and appreciate its willingness to implement corrective actions.

Observation 2: No Supporting Documentation for Quarterly Performance Reports

We concur with the City that it did provide sign-in sheets and overtime slips to support the occurrences of the DUI Checkpoint activities. While documentation provided indicates that Saturation Patrols were conducted, documentation confirming the actual number of Saturation Patrols conducted was not provided. Additionally, written documentation supporting the data reported on the Quarterly Evaluation Form – Schedule Cs was not provided. We concur that press releases were provided to document planned Saturation Patrols. However, this document was listed in the draft report as a potential source of evidence. To address the City's concerns, this observation was revised for clarity.