State of California
DEPARTMENT OF TRANSPORTATION

Business, Transportation and Housing Agency

Memorandum

Flex your power!
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To: MARK LEJA
Chief
Division of Construction

Attention: MICHAEL KISSEL

Date: March 15, 2010

File: P1200-2422
Agreement No.: 10-281204

From: CARLOS M. AGUILA
Chief, External Audits – A&E, Construction, Prop.1B
Division of Audits and Investigations

Subject: Incurred Cost Audit for Extra Work at Force Account of George Reed, Inc.

The California Department of Transportation's (Department) Audits and Investigations, has completed an incurred cost audit of costs reimbursed to George Reed, Inc. (Contractor) totaling $51,659.11 for extra work performed on a force account basis. The costs were reimbursed by the Department pursuant to Contract No. 10-281204 and were audited to determine whether the costs are adequately supported and incompliance with the contract provisions, section 9-1.03 of the Department Standard Specifications, and the applicable federal and State regulations. We also audited the Contractor's financial management system as of December 2008 to determine whether it is adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by the contract provisions, Code of Federal Regulations (CFR) 49 Part 18, CFR 48 Chapter 1, Part 31 and section 9-1.03C of the Department Standard Specifications. The claimed costs are the responsibility of the Contractor's management. Our responsibility, based on our audit, is to express an opinion on the allowability of the claimed costs, in accordance with the applicable contract, federal and State Provisions, and the Department Standard Specifications.

Our audit was conducted in accordance with the Performance Standards set forth in the Government Auditing Standards issued by the Comptroller General of the United State of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. It also includes assessing the accounting principles used and significant estimates made by the Contractor's management, as well as evaluating the overall presentation. We believe our audit provides a reasonable basis for our opinion.

The scope of the audit was limited to select financial and compliance activities related to the above contract. The audit consisted of tests of transactions supporting costs billed through June 31, 2008. Transactions arising subsequent to this date were not tested and accordingly, we do not express an opinion on costs or credits arising after this date. We did not audit subcontractor books and records. Testing of the funds passed through to subcontractors by the Contractor was limited to verifying that the prime contractor made reimbursement to the subcontractor(s). As a

result, opinions expressed in this report pertain solely to the Contractor's compliance with federal, State, and contract provisions.

Because of inherent limitations in any internal control or 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 due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

In our opinion, the Contractor's reimbursed costs for extra work paid on a force account basis is supported and fairly stated, in all material respects, based on the contract provisions, CFR 48 Chapter 1, Part 31, CFR 49 Part 18, and the Department Standard Specifications.

The audit results were communicated to Janet Miller, Office Manager and Mike Gourley, Division Manager of George Reed, Inc. on March 4, 2010.

This report is intended for the information of Department Management, Federal Highway Administration, and the Contractor. However, this report is a matter of public record and its distribution is not limited.

If you have any questions concerning the audit, please contact Aniceta Anderson at (916) 327-3587 or Felix Li, Supervisor, at 916-323-7897.

c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
Clark Paulsen, Chief, Division of Accounting
Frank Garcia, Chief, Accounts Receivable Branch
Felix Li, Audit Supervisor, Audits and Investigations
Audit File