



DIVISION OF LOCAL ASSISTANCE CALTRANS OVERSIGHT INFORMATION NOTICE



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Welcome to the COIN!

This is a Caltrans Oversight Information Notice, or "COIN" for short. These short, single-topic bulletins are intended to provide outreach information and guidance to local agencies on issues pertaining to federal-aid projects. They cover a wide variety of subjects, including discussions of findings resulting from process reviews by Caltrans and/or FHWA, changes in procedures or regulations, reminders of existing procedures or best practices, and other timely information. The goal is to ensure proper and timely delivery of federal-aid projects.

Audit Trail for Construction Reimbursements

One area of contract administration that repeatedly encounters audit findings is the lack of an audit trail for reimbursements of construction costs. Since August 2020 through the date of this COIN, four audits have questioned \$1.32 million due to a lack of an audit trail for construction costs. One of the primary responsibilities of contract administrators is to ensure that quantities for elements of the work are measured/calculated, documented, and paid in a timely manner. Quantities should be measured in accordance with the method directed in the measurement and payment clauses in the contract specifications for each bid item. Auditors and reviewers will follow an audit trail from the Local Public Agency's (LPA's) request for reimbursement back to the original source documents showing the measurements and calculations performed to determine each bid item payment quantity, who from the LPA performed the measurements, calculations, and checking of the quantity sheets (Q sheets). Absence of these source documents and/or disconnects in the audit trail may result in loss of funding. Local agencies must NOT allow the Contractor to determine the quantities to be paid in their monthly invoice. This practice is unacceptable and not compliant with [23 CFR 635.123](#). The source document must be produced by the LPA independent of the contractor's estimate/request.

LPAs must review the guidance in Local Assistance Procedures Manual ([LAPM Chapter 16](#): Section 16.13, "Progress Payments, Accounting Procedures and Payment Records" and ensure their own processes and procedures meet or exceed these minimum requirements. Projects on the State Highway System (SHS) must follow the procedures outlined in the [Caltrans Construction Manual](#).

LPAs should encourage their staff to attend the Resident Engineer Academy training. [Table 8 – Payment](#), of the Resident Engineer's Academy training contains instructions on payment. LPAs can also request their District Construction Oversight Engineer (COE) to provide in-house training for staff with no experience in Payment or has not attended the Resident Engineer's Academy.

Procedures and Best Practice

The below bullets include procedures and a best practice to create an audit trail for construction costs.

- A Q sheet must be developed for each bid item paid in the monthly progress payment. For example: if 15 bid items out of the total 25 bid items is paid in one month, there should be 15 quantity sheets developed indicating how the quantity was measured/calculated. This includes lump sum items with an explanation on how the lump sum payment was determined.
- Weight tickets must be on file for payments made by weight.
- Record work performed on each item on daily reports. Daily reports are required to support Q sheets.
- Q sheets must be produced by the LPA not by the contractor.
- Best practice: It is highly recommended to have the Q sheet be prepared by the inspector who inspected the item, and it must be checked **independently** by the resident engineer or another qualified person who is familiar with the project. Avoid having non-qualified preparers/checkers.

This COIN is prepared by Caltrans, Division of Local Assistance, Office of Guidance and Oversight.

Comments or suggestions regarding this topic should be directed to girmay.beyene@dot.ca.gov.

Audit related questions or comments should be directed to daniel.burke@dot.ca.gov.

Conclusion

Providing proper support documentation for payments will ensure funding is not jeopardized. Remember, audits may occur up to three (3) years after payment voucher of the final report of expenditures for federal-aid projects. Complete, clear, and concise project records are the best means to receive a final audit report without construction invoice audit findings and questioned costs.