State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: KOME AJISE
Deputy Director
Planning and Modal

Date: July 16, 2014

File: P1575-0021

From: WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

Subject: **INCURRED COST AUDIT – CITY OF LINDSAY**

We have audited the costs claimed by and reimbursed to the City of Lindsay (City), totaling $3,197,924 for work performed under six agreements with the California Department of Transportation (Caltrans) from July 1, 2008 through December 31, 2011. The audit was performed to determine whether the costs were supported and in compliance with the agreement provisions and state and federal regulations. This audit was performed as a management service to assist Caltrans in fulfilling its fiduciary responsibilities to state and federal regulatory agencies. Attached is the audit report that includes the City's response.

Based on our audit, we determined that the City lacked an adequate financial management system and procedures. While reimbursed project costs totaling $1,397,188 were supported and in compliance with respective Agreement provisions, and state and federal regulations, reimbursed costs totaling $1,800,736 were not supported nor in compliance with respective Agreement provisions, and state and federal regulations. In addition, we determined that the City did not comply with state and federal regulations related to procurement, labor, construction contract change orders, grant management and contract management.

Please provide our office a Caltrans action plan related to the audit recommendations within 90 days of this memorandum. This audit and the follow-up action plan are a matter of public record and will be placed on the Caltrans internet website.

We thank you and your staff for their assistance provided during this audit. If you have questions or need additional information, please contact me at (916) 323-7122 or Zilan Chen, Chief, External Audits, at (916) 323-7877.

Attachment
(1) Final incurred cost audit report for the City of Lindsay

c: Rich Wilkinson, City Manager, City of Lindsay
Michael Tritz, Deputy Secretary for Audits and Performance Improvements, Business, Transportation and Housing Agency
Janice Richard, Director of Financial Services, Federal Highway Administration
Andre Boutros, Executive Director, California Transportation Commission
Malcolm Dougherty, Director, Caltrans
Norma Ortega, Acting Chief Deputy Director, Caltrans
Sharri Bender Ehlert, District Director, Caltrans, District 6
Clark Paulsen, Chief, Caltrans, Division of Accounting
Ray Zhang, Chief, Caltrans, Division of Local Assistance
Gail Miller, Deputy Director, Transportation Planning, Caltrans, District 6
Jim Perrault, District Local Assistance Engineer, Caltrans, District 6

P1575-0021
Incurred Cost Audit **City of Lindsay**
July 2014

Zilan Chen
Chief, External Audits – Local Governments
Audits and Investigations
California Department of Transportation

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I. List of Audited Projects and Questioned / Unsupported Costs

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Summary

The California Department of Transportation (Caltrans) Audits and Investigations (A&I) audited costs claimed by the City of Lindsay (City), totaling $ 3,197,924 for work performed under six agreements with Caltrans from July 1, 2008 through December 31, 2011 (see Attachment I). Based on our audit, we determined that the City lacked an adequate financial management system and procedures during our audit period and continue to need improvements. While reimbursed project costs totaling $1,397,188 were supported and in compliance with respective Master Agreement (Agreement) provisions, and state and federal regulations, reimbursed costs totaling $1,800,736 were not supported nor in compliance with respective Agreement provisions, and state and federal regulations (see Attachment I). In addition, we determined that the City did not comply with state and federal regulations related to procurement, labor, construction contract change orders, grant management and contract management.

On May 21, 2012, Caltrans designated the City as a high risk recipient for state and federal funds. Based on the audit results detailed in this report, we recommend the City continue to be designated as a high risk recipient.

Objectives

The audit was performed to determine whether costs claimed by and reimbursed to the City were allowable, adequately supported, and in compliance with the respective Agreement provisions, and state and federal regulations. The audit was performed as a management service to Caltrans to assist in its fiduciary responsibility.

The City is responsible for the claimed costs, compliance with applicable Agreement provisions, and state and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable, allocable, and allowable costs.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our 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 City. Therefore, we did not audit and are not expressing an opinion on the City's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation.

Scope

The scope of the audit was limited to financial and compliance activities. Our audit of the City's financial management system included interviews of City staff necessary to obtain an understanding of the City's financial management system. The audit consisted of transaction testing of claimed costs to evaluate compliance with Title 2 Code of Federal Regulations (CFR) Part 225; Title 48 CFR Ch. 1, Part 31; Title 49 CFR Part 18; Title 23 CFR Part 172 and 635; Caltrans's Local Assistance Procedures Manual; and requirements stipulated in the City's Agreement with Caltrans. Our field work was completed on January 23, 2013, and transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not pertain to costs or credits arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any 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 because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our findings and recommendations take into consideration the City's response dated May 30, 2014, to our draft report dated February 18, 2014. Our findings and recommendations, the City's response, and our analysis of the response are set forth in the Findings and Recommendations of this report. Additional criteria were incorporated to provide clarification. A copy of the City's response is included as Attachment VII. Attachments referenced in the response are available upon request.

Background

The City was incorporated February 28, 1910 and is located in Tulare County, California. The population was 11,768 as of the 2010 Census. A council of five members elected at large for alternating four-year terms govern the City.

The City is a member of the Tulare County Association of Governments (TCAG) and received Measure R (local tax) funds from TCAG for its Downtown project. In April 2011, TCAG audited the City's Measure R expenditures totaling $3.75 million and reported $568,000 in ineligible expenses and $365,000 in questionable costs. As a result of the audit report, TCAG demanded that the City refund the entire $3.75 million in Measure R funds reimbursed to the City. In April 2012, the City and TCAG reached an agreement that required the City to repay TCAG a total of $1.04 million. The agreement requires the City to make $13,000 payments quarterly for the next 20 years. The City also received federal funds from Caltrans for the Downtown project, which was one of the six projects included in this audit.

Conclusion

Based on our audit, we determined that the City lacked an adequate financial management system and procedures during our audit period and continue to need improvements. While reimbursed project costs totaling $1,397,188 were supported and in compliance with respective Agreement provisions, and state and federal regulations, reimbursed costs totaling $1,800,736 were not supported and in compliance with respective Agreement provisions, and state and federal regulations. In addition, we determined that the City did not comply with state and federal regulations relating to procurement, labor, construction contract change orders, grant management and contract management procedures.

Also, based on the audit results, we recommend the City continue to be designated as a "High Risk" recipient of state and federal funds.

This report is intended for the information of the City, Caltrans Management, the California Transportation Commission, the Federal Highway Administration and the Federal Transit Administration. However, this report is a matter of public record and its distribution is not limited. In accordance with A&I disclosure policy, this report will be posted on Caltrans website.

If you have any questions, please contact Cliff Vose, Audit Manager, at (916) 323-7917 or myself at (916) 323-7877.

ZILAN CHEN, Chief
External Audits – Local Governments
Audits and Investigations

July 16, 2014

FINDINGS AND RECOMMENDATIONS

Finding 1 – Inadequate Financial Management System and Procedures

The City of Lindsay (City) lacked an adequate financial management system and procedures during our audit period and continue to need improvements. Specifically, the City lacked a system of internal controls, an adequate project costing system and adequate policies and procedures over procurement, timekeeping, construction contract change orders, and grant and contract management. As a result, the City was not in compliance with the Agreement provisions, state and federal regulations. The specific deficiencies and noncompliance are detailed in findings 2 through 6. (See Attachment II Finding 1 for criteria.)

During our audit period of July 1, 2008 through December 31, 2011, the City's Purchasing and Contracting Ordinance 482 (Ordinance 482) was in place. We reviewed Ordinance 482 and found it to be inadequate when procuring contractors and consultants for state and federally funded projects. In addition, the City did not have policies and procedures for the functions of contract change orders, grant management and contract management.

In January 2012, the City established the Financial Management and Accounting Procedures and Internal Controls Policy (Policy). The Policy included revisions to Ordinance 482 and the City's purchasing procedures. We reviewed and found the new Policy and purchasing procedures to be deficient for the procurement of contractors and consultants for state and federally funded projects. For example, we noted the following:

- The City's purchasing procedures state "*it is desirable generally to seek bids from a reasonable number of prospective bidders*." This is less restricted than state and federal regulations that require a minimum of three competitive bids or proposal for each contract.
- The City's purchasing procedures state in part, "*copies of written invitations for bids shall be posted on a bulletin board available to the public*". Title 23 CFR Part 172 requires that proposal solicitation (project, task, or service) shall be by public announcement, advertisement, or any other method that assures qualified in-state and out-of-state consultants are given a fair opportunity to be considered for award of the contract. In addition, the California Department of Transportation (Caltrans) Local Assistance Procedures Manual (LAPM) requires the advertisement of requests for proposals in a major newspaper of general circulation or technical publication of widespread circulation and construction projects a minimum of three weeks in a newspaper receiving wide local circulation. Also, state regulations require the publications of the project in the respective professional societies.
- The purchasing procedures do not specify a minimum of three weeks prior to opening bids as required by Title 23 CFR Part 635.112.

Finding 1 (Continued)

- The purchasing procedures are not adequate in addressing the requirements for the Request for Qualification / Request for Proposal (RFQ/RFP) for consultant selection. Specifically, the purchasing procedures do not include: Descriptions of the types of contracts to be used; requirements to document the procurement and selection method used; requirement that the RFQ/RFP's include the evaluation factors and their relative importance; required documents in bidding, requirement for technical proposal, conflict of interest and protest procedures as required by state and federal regulations.
- The contract management procedures do not provide adequate processes for contract change orders on construction contracts. Specifically, the procedures lack requirements for contract modification analysis, cost estimation, negotiation and cost analysis as required by Title 23 CFR Part 635.120.
- The contract management procedures do not detail proper processes for managing consultant contracts nor do they include a process to ensure third party contracts include fiscal provisions as required by the Master Agreement between the City and Caltrans.

In addition, as detailed in Findings 4, 5 and 6, the City has not established and maintained a financial management system that would properly accumulate and segregate allowable project costs as required by state and federal regulations. Moreover, on May 21, 2012, Caltrans designated the City as a high risk recipient for state and federal funds.

Recommendation

The City should take the following actions:

- Review and revise the City's written policies and procedures over organizational processes, including accounting, procurement, time keeping, contract change orders, grant and contract management to ensure compliance with all applicable state and federal regulations.
- Ensure staff and consultants are trained on all revised policies and procedures.
- Implement controls to ensure that the policies and procedures are followed by staff and consultants.
- Implement a project costing system in order to properly accumulate and segregate allowable project costs in accordance with state and federal regulations.

Caltrans Division of Local Assistance (DLA) should take the following actions:

- Continue to designate the City as a high risk recipient and continue increased oversight and monitoring of all transportation funds provided to the City.
- Prepare a Caltrans action plan to ensure that the City is addressing the audit recommendations.

The City Response

The City stated that a public notice was published in a general circulation newspaper and the Notice Inviting Bids were faxed (support provided) directly to qualified contractors.

The City also stated it will review existing procurement policies to confirm conformance with future projects. The City will review and confirm most current applicable state and/or federal procurement processes and policies for future projects. See Attachment VII for the City's full response.

Auditor's Analysis of the City Response

The City concurs with the finding in general. The public notice advertisement and the Notice Inviting Bids supporting documents provided in its response were related to procurement using the Invitation For Bids (IFB) process. Our audit did not identify the City's IFB procurement process as an issue to be addressed. Moreover, the purpose of this finding is to identify areas within the City's current procedure that can be enhanced upon to ensure compliance with state and federal regulations. Therefore, the finding remains.

Finding 2 – Inadequate Procurement Procedures and Practices

During our audit period, the City's Ordinance 482 and Resolution 06-14 were in effect as the City's purchasing procedures. Below is a summary of these procedures:

- For the purchases of $5,000 to $32,999, the City used an Informal Purchases Procedure. Either verbal or written quotations were required from prospective vendors or contractors, and quotations made were to be part of the purchase or contract file. In addition, it also required a written and signed statement by the City Officer or employee who made such solicitation and that the award was made to the lowest responsible bidder.
- For purchases between $33,000 and $98,999, the City used an Informal Bid Procedure. These procedures required written quotations to be obtained from at least three prospective and qualified vendors or contractors. All quotations were made a part of the file and the award of all contracts and purchase were to be made to the lowest responsible bidder or vendor.
- For purchases of $99,000 or more, the City used the Formal Bid Procedures (Seal Bid). Award of all contracts and purchases were to be made to the lowest responsible bidder. It required written specifications and plans (if appropriate), public notifications of all calls for sealed bids, and public opening of bids.

The City's purchasing procedures did not address requirements for purchases that were $5,000 or less.

Finding 2 (Continued)

In addition, for all supplies, equipment, contractors and services for federally-assisted grants or loan programs it referred to "Attachment O" of "OMB Circular No. A-102", contained in the "Standards Governing State and Local Grantee Procurement". However, the Master Agreement between the City and Caltrans requires compliance with various regulations to include Title 49 CFR Part 18, Title 23 CFR and the LAPM and not OMB Circular A-102.

Our audit included testing the procurement of 45 contractors, consultants and vendors providing various services, materials and supplies for the six projects audited. We audited the procurements for compliance with applicable state and federal regulations, the LAPM, and the City's own procedures. We found numerous instances of non-compliance with state and federal regulations, the LAPM and the City's own procedures and are therefore questioning reimbursed costs totaling $579,202 during our audit period of July 1, 2008 through December 31, 2011. (See Attachment I, IIIa and IIIb for details and Attachment II, Finding 1, 1b, 1d, 1k - 1n, 1p and Finding 2 for criteria.)

Specifically, the City had either improperly procured or was unable to provide proper supporting procurement documentation for services, materials and supplies for 40 of the 45 consultants and / or vendors tested. The details identified in our audit are listed below:

Consultants

The City did not follow its own procedures nor adhere to state and federal procurement regulations for the two consultant agreements tested. As a result, costs reimbursed to the City for consultant services totaling $64,516 are questioned. See Attachment IIIa for details.

Specifically, the City hired James Winton & Associates as the City Engineer on October 10, 2003, for one year with an option to extend the contract for an additional year. However, the City was unable to provide any documentation to support the original procurement in violation of both state and federal regulations. In addition, the City was unable to provide any documentation extending the contract for the additional year or subsequent years, including the years that were included in this audit. As of June 14, 2012, the City Engineer was still operating under the original expired contract. In addition, the contract required the evaluation of the City Engineer's performance by the City Manager and City Public Works Director before the contract could be extended for the additional year. The City was unable to provide the required evaluation. In addition, the contract did not specify the total amount to be reimbursed to Winton & Associates.

Finding 2 (Continued)

The City was not able to provide documentation to show that an adequate number of price or rate quotations were obtained to support the hiring of the other consultant tested, Waters Engineering. The total reimbursed amount for Waters Engineering was less than $32,999 but more than $5,000. City Ordinance 482 requires written or verbal quotes from prospective vendors, however, the City records only included the winning bidder's price quote in the contract file. Also, both state and federal regulations require that the City obtain at least three quotes or conduct discussions with at least three firms.

Material and Supply Vendors

The City originally attempted to perform some of the project work using its own workforces for two of the audited projects, RPSTPLE-5189(008) (Downtown) and CML-5189 (017) (Roundabout). To perform this work, the City purchased material and supplies from 36 vendors and one service provider.

Our audit found that in most instances, the City did not procure its material and supply vendors and services in accordance with state and federal regulations, the LAPM or its own procedures. As a result, we questioned materials, supplies, and service costs reimbursed to the City totaling $473,288. See Attachment IIIa for details. Specifically, we noted the following non-compliant purchases:

- The City did not retain any procurement documentation to show how two procurements that were for more than $100,000 individually were procured. The two included the service provider and one of the 36 vendors tested. With values over $100,000, both purchases would have had to follow the City's Formal Bid Procedures. Without any documentation to show how the contractors were procured the City is in violation of its own procedures as well as state and federal regulations.
- One of the vendor procurements tested was more than $33,000 but less than $98,999, and therefore should have followed the City's Informal Purchase Procedures which requires written quotations to be obtained from at least three prospective and qualified vendors or contractors. The City's records showed that written quotations were obtained from three different vendors. However, a review of the detail items listed on each of these quotes showed that they were different and not comparable. The City's records did not include justification or explanation as to how the City determined the winning bidder.
- Eight of the 36 vendor procurement tested were more than $5,000 but less than $32,990 and therefore should have followed the City's Informal Purchase Procedures. Our audit found that the City did not have any procurement documentation for five of these eight vendors. The City had only one quote on file for each of the other three vendor procurements and therefore could not support that it obtained price or

Finding 2 (Continued)

rate quotations from an adequate number of qualified sources as required by state and federal regulations. Also, the City could not support that it obtained three quotes and selected the lowest bidder as required by its own procurement procedures.

- Twenty six vendor procurement tested were for purchases of less than $5,000. The City did not maintain any procurement documentation for these purchases. While the City's procedures do not address the specific requirements for these purchases, Title 49 CFR Part 18.36 requires that the City obtain price or rate quotes from an adequate number of qualified sources for small purchases.

Vehicle Purchases

The City purchased eight hybrid vehicles for projects CML-5189 (022) and CML-5189 (025), utilizing a California Department of General Services (State) administered contract. The State contract only stipulated base costs for hybrid vehicles. However, the City purchased option items without conducting price negotiation or comparison for the option items. Since the option items were not stipulated in the State contract, the option price(s) from a dealer might not be competitive. Furthermore, the option items included Express Delivery, Delivery to Your Yard, and Extra Packages for items such as rear view cameras, moon roofs, sound systems and navigation systems. These option items do not appear to be necessary and reasonable. Therefore, the City is not in compliance with Title 49 CFR Part 18 and 2 CFR, Part 225 and costs reimbursed totaling $41,397 are questioned. (See Attachment IIIb for details.)

When questioned regarding the vehicle purchases, the City stated that inclusion of these items was due to the Tsunami in Japan, i.e. base vehicle products were unavailable, and therefore vehicles without the option packages were not available. The City also stated that they needed to purchase the vehicles at that time because there was a strong need to complete the project before the funding expired. The City provided an email from the dealer sent over a year after the transaction that stated the vehicles were hard to come by and they got what they could to meet the City's needs even if it included items such as moon roofs. However a review of the funding documentation shows that the funding was not about to expire.

Recommendation

The City should take the following corrective actions:

- Develop policies and procedures for procurements to ensure all procurements comply with state and federal regulations when the contract costs will be funded by state and / or federal funds.
- Ensure proper procurement procedures are followed in accordance with Title 49 CFR Part 18.36, Title 23 CFR, LAPM, the agreements between the City and Caltrans, and the City's procurement policies.
- Maintain adequate documentation to support procurement in accordance with required state and federal regulations.

Recommendation (Continued)

Caltrans DLA should take the following corrective actions:

- Consult with the Federal Highway Administration (FHWA) to determine if Caltrans should seek reimbursement from the City for questioned costs totaling $579,202, or identify Caltrans rationale for not seeking repayment.
- Prepare a Caltrans action plan to ensure that the City is addressing the audit recommendations.

The City Response

The City acknowledged the finding, and provided explanations for the use of the two consultant contracts, vendors Illuminate, Superior Pipeline, Silicon Constellations, and that a subsequent Request for Qualifications procurement process was used for the new City Engineer contract. In addition, the City provided a chronology of discussion with Caltrans staff prior to the completion of the vehicle purchase. The City agreed to review applicable state and/or federal procurement regulations and maintain adequate documentation. See Attachment VII for the City's full response.

Auditor's Analysis of the City Response

The procurement of the new City Engineer's contract was conducted in 2013 and therefore does not change the nature of the procurement finding noted during our audit period. The City stated in its response that its procurement of Winton and Associates and Water Engineering was based on their qualifications, however the City did not provide any documentation to support this statement. In addition, the City did not provide any addition documentation to demonstrate that the procurement of Illuminate, Superior Pipelines, and Silicon Constellations were conducted in accordance with state and federal regulations.

The City also claimed that the vehicle purchase was based on the advice from the Caltrans District 6 staff. However, based on the transcript of the call between the City staff and Caltrans District 6 staff provided in the City's response, the City did not communicate to Caltrans that the vehicle purchases included option items not stipulated in the State contract. Therefore the finding remains.

Finding 3 - Improper Construction Contract Change Orders

The City did not maintain adequate contract change order procedures and adequate controls to ensure Construction Contract Change Orders (CCO) were properly executed in accordance with state and federal requirements. As a result, the City processed CCOs without the required CCO documentation such as cost analysis, negotiations and approvals. (See Attachment II, Finding 1, 1c, 1d, 1h, Finding 2, 2c, 2d and Finding 3 for criteria). The City billed and was reimbursed unsupported CCO costs totaling $488,484 combined for the Downtown and Roundabout projects (see Attachment IV for details):

Finding 3 (Continued)

CCOs for Contract Bid Items

The City did not maintain documentation for significant changes made to original bid items included in contracts, including written CCOs, cost proposals, cost analysis and negotiations, and approval of the CCOs. Also, many of the contract bid item quantities increased a significant amount. Title 23 CFR Part 635 defines significant change as increased in excess of 125 percent or decreased below 75 percent of the original contract quantity for major item and requires formal approval in advance. In addition, LAPM section 16.13 defined a major / significant item as those bid schedule items with amounts exceeding five percent of the total bid amount.

- Our review of the bid item quantities for the Downtown Project revealed that quantities for 18 of the 24 original bid items changed and the changes for 12 of those 18 bid items were for more than 25 percent of the original contract quantity. As showed in Attachment IVa, item numbers 3, 5, 6 and 11 were considered major / significant items and changes for these items were for more than 25 percent of the original contract. As a result, we questioned costs totaling $221,574 as the City failed to prepare the required CCO documentations.
- Our review of the bid item quantities for the Roundabout Project revealed that quantities for 21 of the 51 original bid items changed and the changes for 9 of those 21 bid items were for more than 25 percent of the original contract quantity. As showed in Attachment IVb, item number 19 and 20 of Surface Improvements were considered major / significant items and changes for these items were for more than 25 percent of the original contract. As a result, we questioned costs totaling $35,642 as the City failed to prepare the required CCO documentations.

Extra Work CCOs

The City paid Extra Work CCOs for the Downtown and Roundabout projects without the required documentation prior to the work occurring such as: basis for the adjustment / cost proposals, proof of negotiations, and approval(s). In general, an Extra Work CCO is used for new and unforeseen work that is not part of the original scope of a contract.

Federal regulations require that adjustments to contracts be in writing, the basis of the adjustment adequately documented and analyzed and agreed upon prior to the performance of the work. The documentation surrounding the Extra Work CCO's for both the Downtown and Roundabout projects were lacking the required documentation to show they meet federal regulations.

Finding 3 (Continued)

Specifically, for the **Downtown Project,** we found the following exceptions:

- The City paid the contractor a total of $1,065,321 in Extra Work CCOs, or more than 131 percent of the original bid price of $808,936 through 21 Extra Work CCOs. The City then billed Caltrans $275,273 of the $1,065,321 Extra Work CCO costs. The majority of the work covered by the Extra Work CCO's was originally identified as work to be performed by the City's own workforce using force account as identified in the City's Plans, Specifications and Estimate (PS&E), and the Public Interest Finding (PIF) documents submitted to Caltrans. However, the City was unable to perform the work as scheduled alongside its contractor. As a result, the City assigned a significant amount of the work to its contractor through the 21 Extra Work CCOs. Therefore, the City failed to meet the requirements identified in the PS&E and PIF. In addition, the work included in the Extra Work CCOs was predictable and not a result of new or unforeseeable work or changes with contract site conditions. The cost of the extra work should have been determined through negotiations and should not have been awarded as force account Extra Work CCOs. Therefore, we questioned the $275,273 Extra Work CCO costs billed by the City.
- The City used Extra Work Daily Reports (Daily Reports) to support work performed by the Contractor. However, we found $179,896 of Extra Work CCO costs were not supported by Daily Reports because of discrepancies between the Extra Work CCOs and the Daily Reports or due to missing Daily Reports.
- In reviewing the available Daily Reports, we found all billings for Extra Work CCO's was performed prior to the contractor preparing and submitting the written Extra Work CCOs to the City.
- Not all Extra Work CCOs were signed by the Resident Engineer.

Specifically, for the **Roundabout Project,** we found the following exceptions:

- The City paid the contractor a total of $38,964 in Extra Work CCOs, or more than 11 percent of the original bid price of $331,689 through six Extra Work CCOs. The City then billed Caltrans $35,504 of the $38,964 Extra Work CCO costs for five of the six Extra Work CCOs. The extra work was originally identified as work to be performed by the City's own workforce using force account in the City's PS&E and PIF documents. However, the City was unable to perform as scheduled alongside its contractor. As a result, the City assigned a significant amount of the work to its contractor through the six Extra Work CCOs. The City failed to meet the requirements identified in the PS&E and PIF. The work included in the Extra Work CCOs was predictable and not a result of new or unforeseeable work or changes

Finding 3 (Continued)

with contract site conditions. The cost of the extra work should have been determined through negotiations and should not have been awarded as force account Extra Work CCOs. Therefore, we questioned the $35,504 Extra Work CCO costs billed by the City.

- The Contract Special Conditions Section 3.05 states, in part, that contract modifications will be authorized by a written amendment, a change order, or a work directive change. It further states that upon receipt of any such document, the contractor shall promptly proceed with the work involved. However, the City did not follow or provide support to show these steps were processed for the CCOs tested.

The City's Resident Engineer stated that the City did not negotiate CCOs but relied on the contractor to inform the City of the CCO work and associated costs. The Resident Engineer also stated that the City's foreman and project inspector usually met with the contractor to agree upon the work to be performed for the day.

Recommendation

The City should take the following corrective actions:

- Establish adequate written policies and procedures for construction contract change orders to ensure compliance with the applicable federal and state guidelines.
- Establish internal controls to ensure policies and procedures are followed.
- Maintain adequate documentation to support contract change orders are processed in compliance with Title 49 CFR Part 18, Title 23 CFR and Caltrans LAPM.
- Ensure that staff assigned as contract managers have knowledge of contract terms, and ensure contractor work is complete, accurate, and consistent with terms, conditions and specifications of the contract.

Caltrans DLA should take the following corrective actions:

- Consult with the FHWA to determine if Caltrans should seek reimbursement from the City for questioned costs totaling $488,484, or identify Caltrans rationale for not seeking repayment.
- Prepare a Caltrans Action Plan to ensure that the City addresses the audit recommendations.

The City Response

The City acknowledged that its force account crews were not able to meet the project schedule; therefore, the project contractor was requested to provide additional support to meet the project schedule. The City will review and confirm most current applicable state and/or federal processes and policies for future project. The City will also ensure project staff is properly trained for all future projects. See Attachment VII for the City's full response.

Auditor's Analysis of the City Response

The City did not provided additional information or supporting documents. Therefore, the finding remains.

Finding 4 - Unsupported Labor Costs

The City billed and was reimbursed $560,989 of labor and fringe benefit costs that were not supported by source documentation, or reconciled to its financial management system. Specifically, we determined that $417,393 out of $530,673 of labor and fringe benefit costs reimbursed for the Downtown project were not supported and therefore are disallowed. In addition, $143,596 out of $192,472 of labor and fringe benefit costs billed to the Lighted Cross Walk [STPLHSR-5189 (019)] project were not supported and therefore are disallowed. (See Attachment V for details and Attachment II Finding 1, 1a, 1c, 1d, and Finding 4 for criteria.)

Specifically, the City did not maintain an adequate payroll and timekeeping system as required by agreements and federal regulations. As a result, the City could not provide source documentation for labor costs claimed as follows:

- The City did not retain any timesheets, or the Foreman's Daily Work Reports (Foreman's Reports) to support the labor costs billed in Invoice numbers 1 through 3, 5 and 9 for the Downtown project and Invoice number 2E for the Lighted Cross Walk project. Further, for invoices that the City retained some support, costs and hours claimed exceeded the amounts shown on the timesheets and / or the Foreman's Reports.
- The City did not maintain documentation for the fringe benefit rate calculations. We recalculated the fringe benefit rates using information provided by the City and found that the City had billed rates higher than rates we calculated and therefore over billed Caltrans. This incorrect rate calculation further contributed to the total amount of labor costs found to be unsupported.
- The City procured a third party labor service provider to provide City construction laborers for the Downtown project, however, the City did not maintain or prepare timesheets for the payroll expenses paid to the contracted staff. In addition, the City was unable to provide any procurement documentation for the procurement of the third party labor service provider. A total of $56,592 in unsupported labor costs were reimbursed to the City for payments made to the labor force contractor on the Downtown project.

In addition, except for one labor cost line item for the Downtown project, all others labor costs billed by the City were not traceable to the payroll register.

Recommendation

The City should take the following corrective actions:

- Reimburse Caltrans $560,989 of unsupported labor costs.
- Implement adequate timekeeping procedures to ensure time worked by staff is accurately recorded on timesheets.
- Maintain adequate documentation, including timesheets, fringe benefit calculations, etc. to support all labor related costs billed.
- Implement a project costing system in order to properly accumulate and segregate allowable project costs in accordance with federal regulations.

Caltrans DLA should take the following corrective actions:

- Seek reimbursement from the City for unsupported labor costs totaling $560,989.
- Prepare a Caltrans Action Plan to ensure that the City addresses the audit recommendations.

City's Response

The City concurs with the finding and agrees to take certain corrective actions. See Attachment VII for the City's full response.

Finding 5 – Inadequate Grant Management

The City did not perform adequate grant management which resulted in the City erroneously billing Caltrans. We noted repeated occurrences of duplicate billings, applying incorrect reimbursement ratios, and billing for ineligible costs which resulted in a total overpayment of $160,618. See Attachment II, Finding 1, 1a, 1c, 1d, Finding 4, 4c and Finding 5 for criteria, and Attachment VI for details.

Specifically, we found the City was overpaid a total of $145,797 on the Downtown project based on the issues identified below:

- The City claimed ineligible costs in Invoice number 4 and 6 and later informed Caltrans by submitting revised invoices. However, Caltrans had issued the payment of the original invoices, resulted a total overpayment of $112,082.
- The City double billed the same labor costs totaling $77,957 in Invoice number 1 and number 2 for the Downtown project.
- The City paid a total of $38,095 to the Southern California Edison (SCE) for utility relocation services. However, the City was informed by SCE that the charges were incorrect and refunded the City of the charges. However, the City has not yet refunded the charges totaling $33,725 to Caltrans.
- The City applied incorrect reimbursement ratios in the first three billings. Specifically, the City applied 88.53 percent to PS&E costs instead of the 88.24 percent as specified in the agreement.

Finding 5 (Continued)

In addition, we found the City was overpaid a total of $14,540 on the Roundabout Project based on the issues identified below:

- The City claimed costs that were not applicable to the project in Invoice number 1 and later informed Caltrans of the error. However, Caltrans had already paid the original invoiced amount, which resulted in an overpayment of $8,682.
- The City billed and was reimbursed for the same CCO costs in Invoices number 4 and 5, which resulted in an overpayment of $5,858.

Also, the City applied an incorrect reimbursement rate of 88.53 percent instead of the 88.10 percent as stated in the Finance Letter for the **Vehicle Project**, CML-5189(023).

We believe the billing errors occurred because the City did not have an adequate project costing system to track allocable and allowable project costs. Moreover, the City's policies and procedures are inadequate to ensure state and federal projects are administered in accordance with applicable state and federal regulations and guidelines.

Recommendation

The City should take the following corrective actions:

- Reimburse Caltrans $160,618 for overpayment.
- Implement a project costing system in order to properly accumulate and segregate allowable project costs in accordance with Master Agreement requirements and federal regulations.
- Establish adequate grant management system to ensure compliance with state and federal regulations and guidelines.

Caltrans DLA should take the following corrective actions:

- Seek reimbursement from the City for the overpayment of costs totaling $160,618.
- Prepare a Caltrans Action Plan to ensure that the City addresses the audit recommendations.

City's Response

The City agrees with the finding in general and agrees to take certain corrective actions. See Attachment VII for the City's full response.

Auditor's Analysis of the City Response

The City did not include the new policies and procedures for grant management mentioned in its response therefore we did not review these new policy and procedures.

Finding 6 – Poor Contract Management

The City did not maintain adequate contract management system to ensure that costs billed and reimbursed are supported and in accordance with state and federal regulations, and the terms, conditions, and specifications of its contracts. As a result, the City risks billing Caltrans unallowable or unsupported costs.

We identified a number of deficiencies in the City's management of contracts and consultants and therefore questioned costs reimbursed totaling $11,443 (see Attachment VI for details and Attachment II, Finding 1, 1c, 1d, 1e, Finding 4, 4a, 4b, Finding 5, 5b, 5c and Finding 6 for criteria). Specifically, we noted the following:

- Eight of 11 invoices tested were not approved by a project manager.
- City management incurred travel costs totaling $7,458 for trips to New York and Disney Resort and billed these costs to the projects. However, the City did not maintain documentation for the purposes of the trips and was unable to support that these trips were reasonable and allowable as direct project costs.
- The City failed to take advantage of a trade discount provided in the State contract for the purchases of vehicles and overpaid the car dealer a total of $4,000 by not excluding the discount amount in its payments to the car dealer. Also, federal regulations required that for a cost to be allowable it should be net of all applicable credits.
- Hourly rates paid to the two consultants tested were greater than rates stated in the agreement fee schedules. Our sample testing identified $426 of project costs not supported by fee schedules.
- Equipment hours charged to the projects are not supported by Foreman's Reports, therefore, a total of $1,058 of equipment costs is questioned.

In addition, we found that the City's third party consultant agreements did not include the required fiscal provisions in accordance with the Master Agreement, state, and federal regulations. As a result, the City risks not being able to hold the consultants accountable for noncompliance to these regulations. Specifically, the third party agreements tested did not include the required fiscal provisions such as compliance to federal cost principles, standardized changed condition clauses, termination clause for cause or convenience, retention of records, right to audit, and requirements for subcontractors to be bound by all applicable regulations and provisions included in the Master Agreement.

Recommendation

The City should take the following corrective actions:

- Ensure that staff assigned as contract managers have knowledge of contract terms, and ensure contractor work is complete, accurate, and consistent with terms, conditions and specifications of the contract.

Recommendation (continued)

- Train staffs that engage in contract management functions on the applicable state and federal regulations and ensure the regulations are followed.
- Properly document changes in consultants' personnel and rates.

Caltrans DLA should take the following corrective actions:

- Consult with the FHWA to determine if Caltrans should seek reimbursement from the City for questioned costs totaling $11,443, or identify Caltrans rationale for not seeking repayment.
- Prepare a Caltrans Action Plan to ensure that the City addresses the audit recommendations.

City Response

The City acknowledged the finding and agrees to ensure staff is properly trained for management of future projects, including most current applicable state and/or federal regulations.

Analysis of the City Response

The City response did not provide additional information or supports, therefore the finding remains.

Audit Team

Zilan Chen, Chief, External Audits-Local Governments
Cliff Vose, Audit Manager
Kyungsun Gardiner, Auditor
Nicole Valdez, Auditor

ATTACHMENT I

Audit universe and Questioned / Unsupported Costs

Total Audit Findings by Project:

Project	Total Cost Audited	Questioned / Unsupported Costs	Supported Costs	Findings
RPSTPLE-5189 (008)/Downtown	$ 2,330,257	$ 1,465,362	$ 864,895	1,2,3,4,5,6
CML-5189 (017)/Roundabout	291,900	70,318	221,582	1,2,3,6
5TPLHSR-5189 (019)/Lighted Cross Walk	259,687	219,836	39,851	1,2,4,5,6
CML-5189 (022)/Vehicles	57,301	7,502	49,799	1,6
CML-5189 (023)/Vehicles	57,815	281	57,534	1,5
CML-5189 (O25)/Vehicles	200,964	37,437	163,527	1,6
Totals	**$ 3,197,924**	**$ 1,800,736**	**$ 1,397,188**	

Audit Findings by Project and Finding:

Project	Finding 2 Inadequate Procurement	Finding 3 Improper Construction CCOs	Finding 4 Unsupported Labor	Finding 5 Inadequate Grant Mgmt	Finding 6 Poor Contract Mgmt	Total Questioned / Unsupported
Attachment Details	Attachment IIIa & IIIb	Attachment IV	Attachment V	Attachment VI	Attachment VI	
RPSTPLE-5189 (008)/Downtown	$ 455,316	$ 439,859	$ 417,393	$ 145,797	$ 6,997	$ 1,465,362
CML-5189 (017)/Roundabout	6,836	48,625		14,540	317	70,318
STPLHSR-5189 (019)/Lighted Cross Walk	75,652		143,596		588	219,836
CML-5189 (022)/Vehicles	6,617				885	7,502
CML-5189 (023)/Vehicles				281		281
CML-5189 (O25)/Vehicles	34,781				2,656	37,437
Totals	**$ 579,202**	**$ 488,484**	**$ 560,989**	**$ 160,618**	**$ 11,443**	**$ 1,800,736**

ATTACHMENT II
AUDIT CRITERIA

Finding 1

1a. The Master Agreement Article IV, Provision 2 states, *"ADMINISTERING AGENCY, its contractors and subcontractors shall establish and maintain an accounting system and records that properly accumulate and segregate incurred Project costs and matching funds by line items for the Project. The accounting 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 payments vouchers or invoices sent to or paid by STATE."*

1b. Title 49 Code of Federal Regulations (CFR) Part 18.36(c)(3) states in part, "*Grantees will have written selection procedures for procurement transactions. ...*"

1c. Title 49 CFR Part 18.20(b)(3) states in part, "... *Effective control and accountability must be maintained for all grant ... cash, real and personal property, and other assets...*"

1d. Title 2 CFR Part 225, Appendix A Section A.2 states in part, "... *Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices... and assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. ...*"

1e. Title 49 CFR Part 18.36(b)(2) states, "*Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.*"

1f. Title 49 CFR Part 18.36(d)(2) states, "*...Any or all bids may be rejected if there is a sound documented reason..*"

1g. Title 49 CFR Part 18.12 (a) states, *"A grantee or subgrantee may be considered ''high risk'' if an awarding agency determines that a grantee or subgrantee: (1) Has a history of unsatisfactory performance, or (2) Is not financially stable, or (3) Has a management system which does not meet the management standards set forth in this part, or (4) Has not conformed to terms and conditions of previous awards, or (5) Is otherwise not responsible;...*"

1h. Title 23 CFR Part 635.120(e) states in part, *"A cost analysis must be performed for each negotiated contract change or negotiated extra work order. The method and degree of the cost analysis shall be subject to the approval of the Division Administrator."*

1i. Title 23 CFR Part 635.112(b) states "*The advertisement and approved plans and specifications shall be available to bidders a minimum of 3 weeks prior to opening of bids except that shorter periods may be approved by the Division Administrator in special cases when justified.*"

1j. Title 49 CFR Part 18.36(d)(1) . . . "*If Small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.*"

1k. Title 49 CFR Part 18.36(d)(2)(i)(B) "*Two or more responsible bidders are willing and able to compete effective and for the business;*" (2)(ii)(A) "*The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of know suppliers . . .* "

1l. Title 49 CFR Part 18.36(d)(3)(ii) "*Proposals will be solicited from an adequate number of qualified sources;*"

1m. Title 49 CFR Part 18.36(d)(3)(i) "*Request for proposals will be publicized . . .* "

1n. The California Department of Transportation (Caltrans) Local Assistance Procedures Manual (LAPM), Chapter 10, 10.4 Advertise for Consultant, states, "*The local agency advertises the availability of the RFP in a major newspaper of general circulation or technical publication of widespread circulation.*"

1o. LAPM, Chapter 10, 15.4 Project Advertisement, states, "*A minimum advertisement period of three weeks is required for all federal-aid projects.*" and "*The advertising period begins with publication of a "Notice to Contractors" in a newspaper receiving wide local circulation.*"

1p. Title 23 CFR Part 172.5 (a)(1) "*The proposal solicitation (project, task, or service) process shall be by public announcement, advertisement, or any other method that assures qualified in-State and out-of-State consultants are given a fair opportunity to be considered for award of the contract.*"

1q. Public Contract Code (PCC) 10340 (a) states "Except as provided by subdivision (b), *state agencies shall secure at least three competitive bids or proposals for each contract.*"

1r. PCC 10344 (a) states in part, "*...shall include in the request for proposal a clear, precise description of the work to be performed or services to be provided, a description of the format that proposals shall follow and the elements they shall contain, the standards the agency will use in evaluating proposals, the date on which proposals are due and the timetable the agency will follow in reviewing and evaluating them.*"

1s. Government Code(GC) 4527 (a) states, "*When the selection is by a state agency head, statewide announcement of all projects requiring architectural, landscape architectural, engineering, environmental, land surveying, or construction project management services shall be made by the agency head through publications of the respective professional societies. ...shall conduct discussions with no less than three firms regarding anticipated concepts and the relative utility of alternative methods of approach for furnishing the required services and then shall select therefrom, in order of preference, based upon criteria established and published by him or her, no less than three of the firms deemed to be the most highly qualified to provide the services required.*"

ATTACHMENT II
AUDIT CRITERIA

1t. GC 4528(a) (1) states *"... shall negotiate a contract with the best qualified firm for architectural, landscape architectural, engineering, environmental, land surveying, and construction project management services at compensation which ... determines is fair and reasonable to the State of California or the political subdivision involved."*

Finding 2

2a. The Agreement, Article IV, Provision 18 states in part, *"...Administering Agency agrees to comply with ... 48 CFR Chapter 1 Part 31 and 49 CFR, Part 18..."*

2b. Title 49 CFR Part 18.36(b)(9) states *"Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."*

2c. Title 49 CFR Part 18.36(f) states in part, *"...Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action... A cost analysis will be necessary... for sole source procurements...*

2d. Title 49 CFR Part 18.36(c)(1) states in part, *"All procurement transactions will be conducted in a manner providing full and open competition...*

2e. Title 49 CFR Part 18.36 (f)I(3) states in part, "*costs or prices based on estimated costs for contracts under grants will be allowable only to the extent that costs incurred or cost estimates included in negotiated prices are consistent with Federal cost principles*".

2f. Title 49 CFR Part 18.36 (d)(1) states "*If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources."*

2g. Title 49 CFR Part 18.36 (d)(2)(ii)(D) states in part, *"A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder..."*

2h. Title 2 CFR Part 225 Appendix A, Section C states in part, *'...purchase should be necessary and reasonable for proper and efficient operation and administration of Federal awards and be adequately documented."*

2i. Title 23 CFR Part 635.115 (b)(1) states in part, *'...Bid item details for at least the low three acceptable bids..."*

2j. PCC 10301 states in part, *" ...all contracts for the acquisition or lease of goods in an amount of twenty-five thousand dollars ($25,000), ..., shall be made or entered into with the lowest responsible bidder meeting specifications."*

2k. PCC 20162, states, "When the expenditure required for a public project exceeds five thousand dollars ($5,000), it shall be contracted for and let to the lowest responsible bidder after notice.

2l. California Department of General Services State contract number 1-11-23-11, section 3: *"...all prices quoted to local agency shall reflect Stat Contract pricing, including any and all applicable discounts, and shall include no other add-on fees."*

Finding 3

3a. Title 23 CFR Part 635.109(a)(3) state in part that e*ngineer shall make adjustment to the contract in writing and the basis for the adjustment shall be agreed upon prior the performance of the work.*

3b. LAPM 16.13 states in part, "*Any change of the approved plans or specifications or work required which was not included in the contract must be covered by a contract change order. All change orders are to be approved by the administering agency in advance of any work being done on the change..."*

3c. Title 23 CFR Part 635.120(a) state in part, "*...all major changes in the plans and contract provisions and all major extra work shall have formal approval by the Division Administrator in advance of their effective dates..."*

3d. Title 23 CFR Part 635.109(a)(iv)(3)(B) state in part, significant change means "*...When a major item of work, as defined elsewhere in the contract, is increased in excess of 125 percent or decreased below 75 percent of the original contract quantity. Any allowance for an increase in quantity shall apply only to that portion in excess of 125 percent of original contract item quantity, or in case of a decrease below 75 percent, to the actual amount of work performed..."*

3e. Caltrans Standard Specifications 4-1.03D: ...new and unforeseen work will be classed as extra work when determined by the Engineer that the work is not covered by any of the various items for which there is a bid price or by combination of those items.

3f. Caltrans Construction Manual 5.302: Work that is outside the scope of an existing contract should be done in separate contract. However, if the contractor agrees to the contract change, it may be added to an existing contract.

3g. Caltrans Construction Manual 5.306: The contact change order must be clear, concise, and explicit. When appropriate, it must include what is to be done (describe extra work), location and limits of proposed work, any applicable specification changes and references to specifications, the proposed contract change order's effect on time of completion and method and method and amount of compensation.

ATTACHMENT II
AUDIT CRITERIA

Finding 4

4a. Title 49 CFR Part 18.20(b)(6) states, *"Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."*

4b. Title 49 CFR Part 18.36(b)(2) states *"Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."*

4c. Federal Highway Administration *Form 1273 Article V, Item (2) (b) states in part, "The payroll records shall contain... daily and weekly number of hours worked..."*

4d. 49 CFR Part 18.20(a) states in part, "... *Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to-- ... (2) Permit the tracing of funds to a level of expenditure adequate to establish that such funds have not be used in violation of the restrictions or prohibitions of applicable statues."*

4e. Title 2 CFR Part 225, Appendix B, 8. h. states *"(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h. (5) of this appendix . . . Such documentary support will be required where employees work on:*

(a) More than one Federal award,
(b) A Federal award and a non-Federal award,
(c) An indirect cost activity and a direct cost activity,
(d) Two or more indirect activities which are allocated using different allocation bases, or
(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,
(b) They must account for the total activity for which each employee is compensated,
(c) They must be prepared at least monthly and must coincide with one or more pay periods, and
(d) They must be signed by the employee."

ATTACHMENT II
AUDIT CRITERIA

Finding 5

5a. The Agreement, Article IV, Provision 19 states in part, *"Administering agency agrees to comply with Office of Management and Budget Circular A-87, Cost Principles for State and Local Government, ..."* Circular A-87 was codified as 2 CFR Part 225 on August 31, 2005.

5b. The Agreement, Article IV, Provision 7 states that payments to Administrative Agency can only be released by State as reimbursement of actual allowable project costs already incurred and paid for by Administer Agency.

5c. 49 CFR Part 18.20(b)(2) states, *"Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."*

5d. LAPM 5.5 Detailed Invoice Format: 6. Date project accepted by the local agency (for final invoice only). Show "On going" if project is not completed. 14. Cost breakdown by Federal Appropriation codes: total indirect and direct costs of project to date; and 15. Certification statement, printed name, title, and signature of the local agency representative. The certification statement on the invoice must be the same as shown on the sample invoice(s).

Finding 6

6a. Title 49 CFR Part 18.20(b)(5) states, *"Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."*

6b. Article V, Paragraph 3 of the Federal and State Master Agreements state in part, *"... ADMINISTERING AGENCY, ADMINISTERING AGENCY's contractors and subcontractors, and STATE shall each maintain and make available for inspection and audit all books, documents, papers, accounting records, and other evidence pertaining to the performance of such contracts, including, but not limited to, the costs of administering those various contracts. All of the above-referenced parties shall make such AGREEMENT and PROGRAM SUPPLEMENT materials available at their respective offices at all reasonable times during the entire PROJECT period and for three (3) years from the date of final payment to ADMINISTERING AGENCY under any PROGRAM SUPPLEMENT. ..."*

6c. Article V, Paragraph 7 of the Federal and State Master Agreements state in part, *"Any subcontract entered into by ADMINISTERING AGENCY as a result of this AGREEMENT shall contain all the provisions of ARTICLE IV... and this ARTICLE V..."*

ATTACHMENT IIIa
Consultants / Vendors / Service Providers

Item Number	Consultant / Vendor / Service Provider	RPSTPLE-5189 (008) Invoiced Amount	RPSTPLE-5189 (008) 88.24% P5&E 88.53% Con	CML-5189 (017) Invoiced Amount	CML-5189 (017) 87.88% for CE	STPLH5R-5189 (019) Invoiced Amount	STPLH5R-5189 (019) 90%	Total Reimbursed	Cost Estimate	Cost Analysis	Three Quotes / Bids / RFPs	Advertised / Publicized
Consultant												
1	James Winton	$ 67,104	$ 55,210	$ 7,778	$ 6,836			$ 62,046	n/a	no	no5	n/a
2	Waters Engineering	10,540	2,470					2,470	n/a	no	no6	n/a
	Total Consultant Procurement	**$ 77,644**	**$ 57,680**	**$ 7,778**	**$ 6,836**			**$ 64,516**				
Vendor / Service Provider												
Formal Bid Procedures												
1	Illuminate	$ 164,396	$ 145,540					$ 145,540	no	no	no	no
2	Superior Pipelines	145,000	128,369					128,369	no	no	no	no
	Subtotal Formal Bid Procedures	**$ 309,396**	**$ 273,908**					**$ 273,908**				
Informal Bid Procedures												
1	Silicon Constellations					$ 76,734	$ 69,060	$ 69,060	n/a	n/a	no1	n/a
Informal Purchase Procedures												
1	South Coast Lighting	$ 15,944	$ 14,115					$ 14,115	n/a	n/a	no2	n/a
2	CEMEX	11,186	9,903			$ 1,602	$ 1,442	11,345	n/a	n/a	no3	n/a
3	Bronco Electric Co.	22,385	19,818					19,818	n/a	n/a	no	n/a
4	Safety Networks, Inc.	21,413	18,957					18,957	n/a	n/a	no	n/a
5	United Rentals	18,380	16,272			2,730	2,457	18,729	n/a	n/a	no4	n/a
6	Medallion Supply	11,262	9,970					9,970	n/a	n/a	no	n/a
7	EZ-UP	6,341	5,613					5,613	n/a	n/a	no	n/a
8	White Cap	6,287	5,566					5,566	n/a	n/a	no	n/a
	Subtotal Informal Purchase Procedures	**$ 113,197**	**$ 100,213**			**$ 4,333**	**$ 3,899**	**$ 104,113**				
Less Than $5,000 Purchases												
1	Horizon	$ 3,766	$ 3,334					$ 3,334	n/a	n/a	no	n/a
2	Vulcan	3,302	2,923					2,923	n/a	n/a	no	n/a
3	Urban Tree Foundation	2,665	2,359					2,359	n/a	n/a	no	n/a
4	High Sierra Lumber	2,400	2,125					2,125	n/a	n/a	no	n/a
5	Jorgensen Company	2,297	2,033					2,033	n/a	n/a	no	n/a
6	*Dell Computer*	*2,270*	*2,003*					2,003	n/a	n/a	no	n/a
7	Purmax Oil	2,233	1,977					1,977	n/a	n/a	no	n/a
8	Silvas Oil	1,337	1,184					1,184	n/a	n/a	no	n/a
9	Western Air	1,226	1,085					1,085	n/a	n/a	no	n/a
10	*PPS Consultant Fee*	*1,000*	*882*					882	n/a	n/a	no	n/a
11	*Autocad*	*775*	*684*					684	n/a	n/a	no	n/a
12	Office Max HSBC Business	509	451					451	n/a	n/a	no	n/a
13	Miles Plumbing	500	443					443	n/a	n/a	no	n/a
14	*Sketchup Software*	*495*	*437*					437	n/a	n/a	no	n/a

ATTACHMENT IIIa
Consultants / Vendors / Service Providers

Item Number	Consultant / Vendor / Service Provider	RPSTPLE-S189 (008)		CML-5189 (017)		STPLHSR-5189 (019)		Total Reimbursed	Cost Estimate	Cost Analysis	Three Quotes / Bids / RFPs	Advertised / Publicized
		Invoiced Amount	88.24% PS&E 88.53% Con	Invoiced Amount	87.88% for CE	Invoiced Amount	90%					
15	L. McQueen	397	351					351	n/a	n/a	no	n/a
16	Colson Auto Parts	240	213					213	n/a	n/a	no	n/a
17	Office Depot	230	204					204	n/a	n/a	no	n/a
18	Ken's stakes & supplies	220	195					195	n/a	n/a	no	n/a
19	Lindsay Equipment Rental	190	168					168	n/a	n/a	no	n/a
20	Porterville Electric Co.	149	132					132	n/a	n/a	no	n/a
21	Ag Irrigation Sales	145	128					128	n/a	n/a	no	n/a
22	Data Print (CAD paper)	115	102					102	n/a	n/a	no	n/a
23	True Value	115	102					102	n/a	n/a	no	n/a
24	ICI Paints					$ 1,920	$ 1,728	1,728	n/a	n/a	no	n/a
25	Sherwin Williams					761	685	685	n/a	n/a	no	n/a
26	High Sierra Lumber					311	280	280	n/a	n/a	no	n/a
	Subtotal Less than $5,000	**$ 26,575**	**$ 23,514**	**-**	**-**	**$ 2,992**	**$ 2,692**	**$ 26,207**				
	Subtotal Vendors / Service Providers	**$ 449,169**	**$ 397,636**	**$ -**	**$ -**	**$ 84,058**	**$ 75,652**	**$ 473,288**				
	Total Question Costs	**$ 526,813**	**$ 455,316**	**$ 7,778**	**$ 6,836**	**$ 84,058**	**$ 75,652**	**$ 537,804**				

Comments

1 The City obtained three written quotations from three different vendors. However, items on the three quotations are different. No other justifications included.

2 The City had received only one quote from the winning bidder. The file showed that the City faxed the request to two other companies.

3 The file had only one quote from one bidder. No quote from the winning bidder.

4 Records show that a quote from a different vendor have a low price than the winning bidder. No other justifications included.

5 Original total invoiced amount of $67,104 for James Winton for the downtown project is reduced by $4,728 ($4,185 after applying reimbursement rate of 88.53%) as this amount is disallowed in finding 5 as part of the $73,122 ineligible costs reimbursed to the City.

6 Original total invoiced amount of $10,540 for Waters Engineering for the downtown project is reduced by $7,750 ($6,861 after applying reimbursement rate of 88.53%) as this amount is disallowed in finding 5 as part of the $73,122 ineligible costs reimbursed to the City.

ATTACHMENT IIIb

Procurement Practices Vehicle Purchases

Project	#	Vehicle	Extra Package	Express Delivery	Delivery to Your Yard	Sales Tax 8.75%	Subtotal	Federal Reimbursement Rate	Total
CML-5189 (022)	1	Ford Fusion Hyb		$ 1,579	$ 715	$ 138	$ 2,432	88.53%	$ 2,153
	2	Ford Fusion Hyb	$ 2,400	1,579	715	348	5,042	88.53%	4,464
		Subtotal	**2,400**	**3,158**	**1,430**	**486**	**7,474**		**$ 6,617**
CML-5189 (022)	1	Ford Fusion Hyb	$ 2,400	$ 1,579	$ 715	$ 348	$ 5,042	88.53%	$ 4,464
	2	Ford Fusion Hyb	2,400	1,579	715	348	5,042	88.53%	4,464
	3	Ford Fusion Hyb	5,470	1,579	715	617	8,381	88.53%	7,419
	4	Ford Fusion Hyb	2,400	1,579	715	348	5,042	88.53%	4,464
	5	Chevrolet Silverado *		6,115	715	1,060	7,890	88.53%	6,985
	6	Chevrolet Silverado *		6,115	715	1,060	7,890	88.53%	6,985
		Subtotal	**$ 12,670**	**$ 18,546**	**$ 4,290**	**$ 3,781**	**$ 39,287**		**$ 34,781**
		Total Questioned Costs	**$ 15,070**	**$ 21,703**	**$ 5,720**	**$ 4,268**	**$ 46,761**		**$ 41,397**

* The Extra Package was initially quoted as $12,115 per vehicle, but a discount of $6,000 was given to the City. However, the City was charged sale tax on the $6,000 discount.

ATTACHMENT IV
Summary of Unsupported CCO Costs

Project Number/Name	CCO - Contract Bid Items		CCO - Extra Work Orders	Total Questioned Costs		Federal Reimbursement 88.53%	
RPSTPLE-5189 (008) / Downtown	$ 221,574	a	$ 275,273	$ 496,847		$ 439,859	
CML-5189 (017) / Roundabout	35,642	b	35,504	61,541 *	c	48,625*	d
Totals	**$ 257,216**		**$ 310,777**	**$ 558,388**		**$ 488,484**	

Comments:

a. For details, see Attachment IV.a.

b. For details, see Attachment IV.b.

c. Of the total amount of $331,689 paid to the construction contractor for the Roundabout project, $287,155 (86.50 percent) is federally funded. Therefore, we applied 86.5 percent to the initial total questioned costs of $71,146 to arrive at the adjusted questioned costs of $61,541 billed to Caltrans.

d. We excluded the double billing amount of $5,858 which is identified in Finding 5 from the total reimbursed amount of $54,483 to arrive at the net amount of $48,625 of unsupported CCO costs for the Roundabout project.

ATTACHMENT IVa
CCOs on Contract bid Items by Halopoff Sons
RPSTPLE-5189 (008) Downtown Project

Description		Halopoff & Sons (Contracted)			Halopoff & Sons (Paid)									
Line item #	Item Description	Quantity (A)	Unit Price	Amount (B)	Quantity (C)	Amount (D)	Increase or Decrease = (D)-(B)	Increase or decrease =(C)/(A)	Changes > 25%	(B) / Contract Total	(D) / Contract Total	Item >5% of Total Bid	CCO, Cost Proposal Prepared	Analysis Negotiation Approval
3	Demolition	25,000	$ 3.92	$ 98,000	43,100.00	$ 168,952	$ 70,952	172%	Yes	12%	13%	Yes	No	No
4	6" Barrier Curb & Gutter	7,000	22.37	156,590.00			2,382	94%	No	19%		Yes	No	No
	a. Colored Concrete				6,378.00	154,475					12%			
	b. Non-Color Concrete				201.00	4,496					0%			
5	Alley Approach	1,920	7.95	15,264.00	8,524.75	67,772	52,508	444%	Yes	2%	5.4%	Yes	No	No
6	Exposed Aggregate (Coalinga Mix)	14,000	3.43	48,020.00	9,156.20	31,406	(16,614)	65%	Yes	5.9%	2%	Yes	No	No
7	Raised Truncated Dome	28	287.20	8,041.60	38.00	10,914	2,872	136%	Yes	1%	1%	No	No	No
8	Concrete Cross Gutter	600	9.43	5,658.00	386.00	3,640	(2,018)	64%	Yes	1%	0%	No	No	No
9	New Palm Trees - 20' tall	16	1,831.84	29,309.44		-	(29,309)	0%	Yes	4%	0%	No	No	No
11	Asphalt Pavement at intersections.	25,000	2.95	73,750.00	63,891.10	188,479	114,729	256%	Yes	9%	15%	Yes	No	No
13	Grinding (Milling)	140,000	0.25	35,000.00	110,000.00	27,500	(7,500)	79%	No	4%	2%	No	No	No
14	Storm Drain Catch Basin	22	1,985.00	43,670.00	25.00	49,625	5,955	114%	No	5%	4%	Yes	No	No
15	18" Storm Drain Pipe	1,574	51.10	80,431.40	1,572.00	80,329	(102)	100%	No	10%	6%	Yes	No	No
16	12" Storm Drain Pipe	910	53.55	48,730.50	966.00	51,729	2,999	106%	No	6%	4%	Yes	No	No
17	Manhole Installation	8	2,965.00	23,720.00	10.00	29,650	5,930	125%	No	3%	2%	No	No	No
20	Electrical Service Connection	6	4,500.00	27,000.00		-	(27,000)	0%	Yes	3%	0%	No	No	No
21	Adjust Manholes to Finish Grade	4	325.00	1,300.00	25.00	8,125	6,825	625%	Yes	0%	1%	No	No	No
22	Adjust Water Valves to Finish	15	325.00	4,875.00	27.00	8,775	3,900	180%	Yes	1%	1%	No	No	No
23	Adjust Gas Valves to Finish Grade	4	325.00	1,300.00		-	(1,300)	0%	Yes	0%	0%	No	No	No
24	Install 18" long Roof Drains in Sidewalk. Rectangular 3x8x3/16	42	137.50	5,775.00		-	(5,775)	0%	Yes	1%	0%	No	No	No
			Contract Total	**$ 808,937**		**$ 1,263,642**								

Total for Major/Significant items = Line Items changes more than 25% and Line Item is 5% or more of total contract price (Items 3, 5, 6 and 11) **$ 221,574**

ATTACHMENT IVB
CCOs on Contract Bid Items by Halopoff Sons
CML-5189 (017) Roundabout Project

Description			Halopoff & Sons		Halopoff & Sons (Paid)									
Line Item #	Item Description	Quantity (A)	Unit Price	Amount (B)	Quantity (C)	Amount (D)	Increase or decrease = (D)-(B)	Increase or decrease % =(C)/(A)	Changes > 25%	(B) / Contract Total	(D) / Contract Total	Item >5% of Total Bid	CCO, Cost Proposal Prepared	Analysis Negotiation Approval
	DEMOLITION IMPROVEMENTS													
1	Remove 4" thick Concrete sidewalk	11,200	$ 0.40	$ 4,480	11,840.00	$ 4,736	$ 256	106%	No	1%	1%	No	No	No
2	Remove concrete curb and gutter and barrier	1,299	2.20	2,857.80	1,363.00	2,999	141	105%	No	1%	1%	No	No	No
7	Remove and relocate existing sign & light	1	250.00	250.00	0.50	125	(125)	50%	Yes	0%	0%	No	No	No
9	Roadway excavation (4" AC/8"AB)	1,324	11.60	15,358.40	1,446.00	16,774	1,415	109%	No	5%	4%	Yes	No	No
11	Remove and relocate existing fire hydrant	1	1,750.00	1,750.00	-	-	(1,750)	0%	Yes	1%	0%	No	No	No
	SURFACE IMPROVEMENTS													
1	Barrier type curb and gutter (City Std St-6)	1,145	16.30	18,663.50	1,284.00	20,929	2,266	112%	No	6%	5%	Yes	No	No
2	Barrier type curb (City Std St-14)	1,397	13.21	18,454.37	1,087.00	14,359	(4,095)	78%	No	6%	4%	Yes	No	No
5	Mountable curb	186	28.31	5,265.66	180.00	5,096	(170)	97%	No	2%	1%	No	No	No
6	Modified commercial driveway (City Std St-12)	1,125	5.36	6,030.00	1,330.00	7,129	1,099	118%	No	2%	2%	No	No	No
7	Commercial driveway (per detail on sheet C-2)	235	5.36	1,259.60	596.00	3,195	1,935	254%	Yes	0%	1%	No	No	No
8	6" Thick stamped concrete	1,242	9.50	11,799.00	1,509.50	14,340	2,541	122%	No	3.6%	3.5%	No	No	No
9	4" thick concrete sidewalk (City std st-9)	9,051	3.50	31,678.50	9,105.00	31,868	189	101%	No	10%	8%	Yes	No	No
10	6" thick concrete flatwork	995	4.25	4,228.75	1,169.00	4,968	740	117%	No	1%	1%	No	No	No
11	4" thick concrete flatwork	1,166	5.54	6,459.64	2,061.00	11,418	4,958	177%	Yes	2%	3%	No	No	No
12	6" thick concrete sidewalk	910	4.25	3,867.50	1,064.00	4,522	655	117%	No	1%	1%	No	No	No
14	Adjust gas valve frame and cover to finish	1	375.00	375.00	9.00	3,375	3,000	900%	Yes	0%	1%	No	No	No
17	Retaining curb (per detail on sheet C-2)	430	23.56	10,130.80	530.00	12,487	2,356	123%	No	3%	3%	No	No	No
18	Bollards	3	262.00	786.00	-	-	(786)	0%	Yes	0%	0%	No	No	No
19	Type B asphalt concrete	616	77.02	47,444.32	804.01	61,925	14,481	131%	Yes	14%	15%	Yes	No	No
20	Class II aggregate base	608	51.22	31,141.76	1,021.14	52,303	21,161	168%	Yes	9%	13%	Yes	No	No
DRAINAGE IMPROVEMENTS & IRRIGATION IMPROVEMENTS														
5	Install 17ft long roof drain in sidewalk.	1	570.00	570.00	2.00	1,140	570	200%	Yes	0%	0%	No	No	No
			Contract Total	**$ 331,689**		**$ 407,049**								

Total for Major/Significant items = Line Items changes more than 25% and Line Item is 5% or more of total contract price (Items 19 & 20) **$ 35,642**

ATTACHMENT V

Unsupported Labor and Fringe Benefit Costs

RPSTPLE-5189 (008)/ Downtown Project

Invoice Number	Amount Claimed	Employee Name	Hours Claimed	Hours Supported by Timesheet	Hours on Foreman's Daily Work Report	Amount Supported	Amt Not Supported	Reimb Ratio *	Amount Reimbursed	Issues
1	$ 77,957	No details provided	No details	None	None	$ -	$ 77,957	88.24%	$ 68,789	PS&E: Payroll 1/2-2/1/08. Claimed again in the invoice #2. No support provided.
2	108,417	No details provided	No details	None	None	-	108,417	88.24%	95,667	PS&E: Payroll 1/2-6/20/08 No support provided.
3	19,276	No details provided	No details	None	None	-	19,276	88.24%	17,010	PS&E: No support provided.
	52,686	No details provided	No details	None	None	-	52,686	88.53%	46,643	Construction: No support provided.
4	24,079	Various	535	462	429	14,007	10,072	88.53%	8,917	Hours and names not on foreman's report or did not agree with timesheets. Payroll records not available and fringe benefit discrepancy.
	5,408	Proteus Workers	n/a	None	N/A	-	5,408	88.53%	4,788	No timesheets and procurement documents provided.
5	41,207	No details provided	No details	None	None	-	41,207	88.53%	36,481	No support provided.
6	29,723	Various	1,233	160	458	13,081	16,643	88.53%	14,734	Hours and names not on foreman's report or did not agree with timesheets. Payroll records not available and fringe benefit discrepancy.
	9,310	Proteus	n/a	None	N/A	-	9,310	88.53%	8,242	No timesheets and procurement documents provided.
7	40,294	Various	0	343	633	15,296	24,999	88.53%	22,131	Hours and names not on foreman's report or did not agree with timesheets. Payroll records not available and fringe benefit discrepancy.
	21,332	Proteus	n/a	None	N/A	-	21,332	88.53%	18,885	No timesheets and procurement documents provided.
8	42,647	Various	0	359	671	16,145	26,502	88.53%	23,463	Hours and names not on foreman's report or did not agree with timesheets. Payroll records not available and fringe benefit discrepancy.
	27,874	Proteus	n/a	None	N/A	-	27,874	88.53%	24,677	No timesheets and procurement documents provided.
9	30,462	No details provided	No details	None	None	-	30,462	88.53%	26,968	No support provided.
Total	**$ 530,673**					**$ 58,529**	**$ 472,145**		**$ 417,393**	

STPLH5R - 5189 (019)/ Lighted Cross Walk Project

1A	$ 39,592	Various	1,683	1,410	1,410	$ 32,921	$ 6,671	90%	**$ 6,004**	No support for some hours.
2E	152,880	Various	4,317	*None*	*None*	-	152,880	90%	**137,592**	No support provided.
Total	**$ 192,472**					**$ 32,921**	**$ 159,551**		**$ 143,596**	
Combined Total	**$ 723,146**								**$ 560,989**	
Total Proteus Labor Charges Indentified Above						**$ -**	**$ 63,924**		**$ 56,592**	

ATTACHMENT VI
Inadequate Grant Management / Poor Contract Management

Inadequate Grant Management

	Incorrect Reimbursement Rates	Ineligible/Not Applicable Cost Billed	Refund by SCE	Double billing of Construction Costs	Total
RPSTPLE-5189 (008)/Downtown *	$ (10)		$ 33,725		$ 33,715
- Invoice 4 ineligible costs		$ 38,960			38,960
- Invoice 6 ineligible costs		73,122			73,122
Subtotal	**$ (10)**	**$ 112,082**	**$ 33,725**		**$ 145,797**
CML-5189 (017)/Roundabout *		$ 8,682		$ 5,858	$ 14,540
CML-5189 (023)/Vehicles *	$ 281				$ 281
Total	**$ 271**	**$ 120,764**	**$ 33,725**	**$ 5,858**	**$ 160,618**

* All costs are net of reimbursement ratio for Grant Management finding.

Poor Contract Management

	Travel Costs not within Project Scope	Trade Discount not taken	Equipment costs not supported	Rate not agreed with Contract	Subtotal	Reimbursement Rate	Total
RPSTPLE-5189 (008)/Downtown *	$ 7,458		$ 405	$ 65	$ 7,928	88.24 or 88.53%	$ 6,997
CML-5189 (017)/Roundabout				361	361	87.88%	317
STPLHSR-5189 (019)/Lighted Cross Walk			653		653	90%	588
CML-5189 (022)/Vehicles		$ 1,000			1,000	88.53%	885
CML-5189 (O25)/Vehicles		3,000			3,000	88.53%	2,656
Total	**$ 7,458**	**$ 4,000**	**$ 1,058**	**$ 426**	**$ 12,942**		**$ 11,443**

* The amount for hourly rates not in agreement with contracts was $7,638. However since $7,573 was already questioned in Finding 2, we excluded this amount here.

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City of Lindsay Response

May 2014

Lindsay
All-America City

City of Lindsay

Enterprise Zone

P.O. Box 369 — Lindsay, California 93247 — 251 Honolulu Street
559 • 562 • 7117
559 • 562 • 7139 fax

May 30, 2014

Zilan Chen
Chief External Audits – Local Governments
Audits and Investigations
California Department of Transportation

Ms. Chen,

The City of Lindsay appreciates the opportunity to respond to the Incurred Cost Audit completed by California Department of Transportation staff. Please accept this document to allow the City to take steps to close out the identified projects and to demonstrate appropriate measures have been have been put in place to allow successful delivery of future projects and our willingness to constantly improve and adapt our policies to State and Federal standards.

The cover photo of this submittal is not meant to disrespect in any way. It is recognition of exceptionally hard work by all people involved in the evolution of significant projects in the City of Lindsay. As the award identifies, Tulare County Association of Governments recognized the significance of the completed project in 2012. Initial project designs were simple; but as the City web site and symbol declares, we are the "City of Innovation". This innovative mindset created projects that changed the face and economic structure of the City. Projects like the new Library, McDermont Field House, Wellness Center and Aquatics Facility, our New City Park and Skate Park and of course, the Downtown project and roundabout have changed how our residents feel about their City.

The Downtown project now provides a foundation for existing businesses and to entice new businesses.

We acknowledge and recognize the level of importance and the severity of the findings of the Incurred Cost Audit. The City has gone through many audit processes in the last 4 years. The audits were critical of procedure and lack of internal control and oversight. It is our belief that we have implemented changes to our procedures that will prevent the past from being repeated. As this audit has reported, we must continue to upgrade our policies and procedures as State and Federal standards are amended.

The high profile projects that have been completed in the last 7 years are now providing jobs, economic opportunity, economic diversity, recreational and wellness supporting programs and have created open public spaces that all citizens can share and enjoy.

I look forward to your review and response of this document. If you have any questions, I and my staff are available to meet at your convenience.

Respectfully,

Rich Wilkinson
City Manager

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Incurred Cost Audit
City of Lindsay Response

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- Finding 3. Improper Construction Change Orders/Extra Work Construction Change Orders
- Finding 4. Unsupported Labor Costs
- Finding 5. Inadequate Grant Management
- Finding 6. Poor Contract Management

Closing

Attachments

- Project Financial Standings Spreadsheets
  - Downtown Project
  - Roundabout Project
  - Lighted Crosswalk Project

- Public and direct Contractor Notification
  - Downtown Project
  - Roundabout Project

- Vehicle Purchase Correspondence (e mail and recorded conference phone call transcript)
- February 11, 2007 Los Angeles Times Article
- Downtown Parking and Circulation Study and Designs
- City of Lindsay City Council Response to Annual Audit, 2009-2010
- Independent Accountants Report on Applying Agreed-Upon Procedures
- July 18, 2011 Letter of Request for Investigation
- April 12, 2012 Response from the Office of the District Attorney of Tulare County
- Before and after photos, Downtown and Roundabout projects

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City of Lindsay Response

Timing of projects, City of Lindsay Downtown Renovation and Roundabout Project;
These projects involved major renovation of the downtown retail area. As part of the project, city staff held many meetings before the construction started outlining lack of street parking and direct access to the businesses. The downtown Lindsay business area encompasses 4x3 city blocks. The existing businesses ranged from restaurants, insurance sales, hardware store, furniture store, jewelry store, doctors office and small dollar type stores. There was tremendous concern about the parking and access to each of these businesses (understanding the small town and direct access parking mentality). The message to the businesses was that our project time frame would be one year, from start to finish. There would be times of very difficult access due to the nature of the project; once underground improvements were completed, access would get better.

This was a very sensitive economic balance with all of the downtown businesses; they were in support of the improvements, but the lack of access could provide additional hurdles in their already delicate economic state.

The following paragraphs were provided in Section 3-01, Scope of Work, in the project specifications;

> *"IT IS INTENDED FOR THE PROJECT TO PROGRESS IN A "BLOCK BY BLOCK" BASIS AND THE CONTRACTOR SHALL MAKE ALLOWANCES FOR CONSTRUCTION TO PROGRESS IN THIS MANNER (SEE MAP FOR BLOCK LAYOUT). THE SCHEDULING OF WORK SHALL FOLLOW THIS MAP AS CLOSELY AS PRACTICAL. IT IS THE INTENT THAT ONCE STARTED IN A BLOCK; ALL WORK SHALL BE COMPLETED PRIOR TO MOVING TO THE NEXT CONSTRUCTION BLOCK.*
> *THE CITY WILL PROVIDE ITS OWN WORK FORCES AND MATERIALS FOR THE CONSTRUCTION OF SUPPORTING ELECTRICAL, LANDSCAPE AND LANDSCAPE IRRIGATION SYSTEMS WITHIN EACH CONSTRUCTION BLOCK.*
> *COOPERATION BETWEEN THE CONTRACTORS WORK FORCES AND THE CITY WORK FORCES WILL BE REQUIRED.*
> *THE SUCCESFUL BIDDER AND THE CITY WILL ESTABLISH A WORK PLAN AND SCHEDULE AS A GUIDE FOR THE COLLABORATIVE EFFORTS. THIS WORK PLAN WILL BE ESTABLISHED DURING THE REQUIRED PRE CONSTRUCTION MEETING.*
> *IT IS NOT INTENDED FOR THE CITY TO HINDER THE PROGRESS OF THE CONTRACTOR IN ANY WAY."*

As required, the project specifications and plans were submitted to local assistance prior to the project beginning.

Scope of project;
Lindsay Downtown: curb, gutter, oversize and enhanced sidewalks, lighted pedestrian corridors, street lighting, street and pedestrian way, landscaping and irrigation.

The project was completed within the one year time frame. Prior to construction, the Lindsay downtown area had a 75% vacancy rate. As of February, 2014 the Lindsay downtown vacancy rate is 45%. While there were many goals of the project (enhanced pedestrian corridors, enhanced lighting and streetscape), developing surface infrastructure to encourage continued investment with our existing downtown businesses and provide a new, appealing area for new businesses to invest was also considered a goal for the entire City.

Project Financial Standings
Downtown project.
At the conclusion of the Downtown project, City staff prepared a spreadsheet of the costs associated with the project. The spreadsheet identifies invoice dollar amounts that were billed as well as the adjusted invoice amount that was found to be either double billed or should not have been included with the invoice. The invoice identifies a total construction value of $2,167,296. There is a balance of $32,038.73 left available in the project budget, however there is also $141,939.68 identified to be double billed or should not have been included.

Roundabout project.
At the conclusion of the Roundabout project, City staff prepared a spreadsheet of the costs associated with the project. The spreadsheet identifies invoice dollar amounts that were billed. The invoice identifies a total project value of $291,000. The project expended 100% of the project funds.

Lighted crosswalk project.
At the conclusion of the Lighted crosswalk project, City staff prepared a spreadsheet of the costs associated with the project. The spreadsheet identifies invoice dollar amounts that were billed with the invoice. The invoice identifies a total project value of $344,000. There is a balance of $19,419.59 left available in the project budget.

The spreadsheets are included as attachments.

Response to Findings

Finding 1. Inadequate Financial Management System and Procedures.
The City recognizes the deficient and inadequate measures and procedures that were in place in 2008 and 2009. However to reply to specific items noted in the audit please accept the following responses relating to Finding 1.

- *The purchasing procedures state "it is desirable to seek bids from a reasonable number of prospective bidders."*
- *The purchasing procedures state in part "copies of written invitations for bids shall be posted on a bulletin board available to the public."*
- *The purchasing procedures do not specify a minimum of three weeks prior to opening bids as required by Title 23 CFR, 635.112".*

For the downtown project, a public notice was published in our general circulation newspaper, The Porterville Recorder, on October 24th and 31st, 2008. Bids were accepted on November 12, 2008, 20 calendar days after first published.

The Notice Inviting Bids was also faxed directly to 51 (53 for the roundabout project) qualified contractors (our list of qualified contractors at that time) alerting them to the availability of plans and specifications for the project. The project plans and specifications were also mailed directly to the following builders exchanges (plan houses);

- Reed Construction Data
- Kern County Builders Exchange
- Tulare/Kings Builders Exchange
- Fresno County Builders Exchange
- McGraw Hill Construction
- Sierra Contractors Exchange
- Contractors Information Network

This process of direct notification to our current contractors list as well as to builder's exchanges has been, and continues to be, one of the standard practices of project notification of the City.

Response/Corrective Actions.
The City will review existing procurement policies to confirm conformance with future projects. The City will review and confirm most current applicable State and/or Federal procurement processes and policies for future projects.

Finding 2. Inadequate Procurement Procedures and Practices
Consultant agreements.

Winton contract response.
James Winton has provided engineering services to the City for many years. As a principal with R.L. Schafer and Associates, he provided city engineer services from the late 1960's through 1990. He has considerable understanding of city history and infrastructure as well as all aspects of general engineering design, land surveying and construction surveying.

In 2003, a contract was developed and executed by previous city management. As the Winton contract expiration was discovered, city staff developed a Request for Qualifications (RFQ) and released this RFQ in February 2013. There were a total of 6 local engineering firms contacted and 4 submittals were received (one of which was from Winton). The 2 firms that did not submit responded that they respectfully declined as they would not compete against Mr. Winton. The 4 RFQ's received were all capable with many years of experience. There was staff identified to complete projects or tasks from each firm. There was however, no firm with the level of local knowledge and experience to match James Winton. Winton's RFQ also identified the lowest cost per hour on his fee schedule. On March 27, 2013, a 2 year contract was signed with Winton and Associates.

Waters contract response.

As the City had used Vincent Waters for electrical engineering design work in the past and time was of the essence, this coupled with his ability to deliver the project within our specified time frame, the project electrical design was completed by Mr. Waters. The design of the in ground LED lighting system was a component to the project that evolved with the previous city manager.

The engineering design work provided by Winton and Associates and Water Engineering was based on their qualifications, competence, experience, ability to deliver on time and overall price for the downtown project.

Vendors;

1. Illuminate (downtown); provided the in ground LED lighting system.
   This was a complex procurement process. Previous administration and city staff met with several LED lighting companies to review what was available on a commercial basis at that time. The selection process included number of colors available, size and reliability of lighting unit and lenses and overall warranty. Previous city staff met with several vendors and based on the recommendation of previous city staff, the in ground LED lighting system was purchased from Illuminate.

2. Superior Pipelines (downtown); provided the street lights and bollards.
   Street lighting was purchased from Superior Pipelines. Superior Pipelines is a Class A contractor that contacted several cities regarding custom street lighting that they purchased for a defunct subdivision in Kern County. City staff did an analysis of costs of what the street lights would have cost from a similar manufacture versus what the contractors asking price. The purchase price from Superior Pipelines was notably lower than that of other vendors.

3. Silicon Constellations (lighted crosswalks); provided the in ground strobe lighting.
   Similar to the LED lighting system; technology upgrades in this time period was quickly evolving. The City had experience with in ground, wired strobe crosswalk systems and the sensitivity and installation complexities of these systems. The wireless systems available at

the time were few and the selection was based on the limited availability of systems at that time.

Vehicle Purchase.
The City placed an order for Toyota Highlander Hybrids in 2010. As a result of the catastrophic tsunami that effected Japan, our Toyota order was canceled. The Japan Toyota factory was destroyed, and no pending orders would be filled. The City then decided to explore other vehicle availability.

Stew Sonnenberg with the Department of Transportation was contacted to advise him that the City needed to move forward with our Congestion Mitigation and Air Quality (CMAQ) award and desired to purchase hybrids for our Public Safety First Response Units. Mr. Sonnenberg was informed that another hybrid vehicle that would fit our Public Safety needs was identified. This vehicle was on the Environmental Protection Agency (EPA) approved list and we would be moving towards purchasing them (e mail correspondences attached).

The City attempted many times to coordinate a conference call with District 6 Local Assistance (LA) to review the 2 CMAQ projects (022 and 025); there was little time left to fulfill the requirements of these projects. On May 26, 2011, the conference call took place. Transcript of this call is included as an attachment.

District 6 LA requested that vehicles to be purchased needed to be from the approved EPA list. The City had made arrangements to acquire the vehicles from a State Contract approved dealership (Wondries Ford) and this dealership had access to the hybrid vehicles selected. We did however inform them we had to move quickly. Because of the tsunami, many hybrids were difficult to come by. We were told by Wondries Ford the vehicles were quickly being sold and "flying off the lots" as we were waiting for the authorization from Caltrans. District 6 LA advised us we could move forward and use a purchase order if the dealership (Wondries Ford) was agreeable to that, which they were. Jim Perrault advised us to go ahead with the purchases because it met all Caltrans requirements. Purchase orders were sent over to Wondries Ford (see attached PO's & also emails dated June 7, & 10, 2011). The City received clear direction from this conference call.

In December 2011, an email arrived from Kyungsun Gardiner to Tamara Laken, Finance Director for the City. One bullet point was the *express delivery charges* from Wondries Ford. The attached email from Clarke Cooper dated July 20, 2012, explains the affected shortages of vehicle production due to the Japan disaster, as well as the difficulty he had in acquiring them. Wondries Ford executed dealer trades/swaps to get us the vehicles needed to satisfy our E-76 in a timely manner.

The catastrophic tsunami that crippled Japan also created worldwide effect in the automotive industry. If the devastating event had not occurred, the City would have had delivery of base model vehicles as requested. Unfortunately, the City could not predict this Force Majeure; we

took possession of the vehicles Wondries Ford obtained. These vehicles are in service with our Public Safety Department.

Due to the extenuating circumstances, the City made certain that District 6 LA was involved with the final approval and acquisition of the vehicles.

Response/Corrective Actions.
The City will review existing procurement policies to confirm conformance with future projects. The City will review and confirm most current applicable State and/or Federal procurement processes and policies for future projects.

The City will also create and maintain adequate project documentation and ensure project staff is properly trained for all future projects.

Finding 3. Improper Construction Change Orders/Extra Work Construction Change Orders.
At the onset of the construction, the City assumed a level of force account construction responsibility. The project plans and specifications identified the scope of work required of the contractor and the collaborative efforts required of the contractor and the force account crews. The purpose was well intended; it became quickly apparent that the force account crews were not able to maintain the same level of production as the contractor work crews. With the project time frame being delayed by the inability of force account crew to maintain pace, additional work was requested of the contractor to assist the force account crews. The force account work crews provided by the City were a combination of city staff as well as supporting Proteus (http://www.proteusinc.org/) program participants.

The 2007 freeze in the central valley created havoc (the third year of freeze damage since 1990) with the Lindsay economy. Again. As the citrus industry in Tulare County is the second highest value product in Tulare County (2010 values; dairy is number one with $1.6 billion dollar value to the citrus value of $616 million dollar value), the effect on our local economy and our citizens was devastating. Higher than normal unemployment rates and dwindling downtown businesses sought some sort of solution from the local government (article attached) (http://articles.latimes.com/2007/feb/11/opinion/op-rodriguez11). Previous administration saw the potential of the downtown project to provide opportunity for local citizens.

While manpower availability and opportunity was created to support local unemployed workforce (and create a more diversely trained workforce), the training curve for this project was severely overestimated. The project timeframe was defined and the local downtown businesses were invested in the project. As it was determined the force account crews would not be able to meet the project schedule, the project contractor was requested to provide additional support to meet the project schedule.

The process of City force account workforce and the inability to maintain the project schedule was consistent with the downtown project and the roundabout project.

Response/Corrective Actions.
The City will review existing policies to confirm conformance with future projects related to construction change orders. The City will review existing internal control policies and procedures to confirm conformance with future projects.

The City will review and confirm most current applicable State and/or Federal processes and policies for future projects.

The City will also ensure project staff is properly trained for all future projects.

Finding 4. Unsupported Labor Costs.
It is not disputed that some of the supporting payroll and timekeeping process noted in this finding was not obtained or able to be reviewed. At the time of the project, management (administration) time was allocated by percentage rather than daily recording of time via time sheet. This process has been changed and all personnel are required to record time spent on projects that authorize reimbursement.

The third party labor service provider referenced in the audit would be Proteus program participants referenced in Finding 3 response above. There were 25 Proteus program participants involved in the downtown project for a period of the project. As identified above the ability to contract, employee and pay workers was a far better alternative to providing "hand outs, credit vouchers or EBT recipients".

Record keeping for the third party labor was the responsibility of Proteus, Inc. Unfortunately, the Proteus office in Visalia that retained records for the workers assigned to the Lindsay project suffered a fire in the this office. The records were lost in that fire event.

Response/Corrective Actions.
The City will review existing time tracking policies and retention of these documents to confirm conformance with future projects.

The City will review and confirm most current applicable State and/or Federal processes and policies for future projects.

Finding 5. Inadequate Grant Management.
The double billing that occurred was discovered once the project was completed. When the City error was identified, District 6 Local Assistance was notified. The verbal response to our

discovery at the time was "we will catch up with this on the project closeout". As an audit team was assigned to these projects, the close out has yet to occur.

Policies and procedures for grant management have been developed and implemented to ensure proper layers of oversight are in effect. These policies and procedures are evaluated annually to ensure they meet all current Office of Business Management (OBM) standards.

Response/Corrective Actions.
The City will implement cost accounting systems to track and segregate project costs for all projects.

The City will review and confirm applicable State and/or Federal regulations and policies for future projects.

The City will also create and maintain grant management compliance systems for all future projects.

Finding 6. Poor Contract Management.
The incurred travel costs noted in the audit to New York and the Disney Resort were tied to design of the downtown area. The connection to our adjacent McDermont Field House recreational facility to the downtown was a design that was considered and conceptual drawings produced. Initial design criteria considered were emulating the ability to move people from one locale to another with minimal effort (emphasis on existing City parking facilities). Designs of a downtown "open rail" or "light rail system was developed; this idea is effectively utilized at Disney properties. The limited right of way as well as an accessible maintenance area for the rail system near the downtown hindered further design commitments to this project.

These designs are included as an attachment.

Response/Corrective Actions.
The City will ensure staff is properly trained for management of future projects, including most current applicable State and/or Federal regulations.

Closing
2008 through 2012 were tumultuous times for the City of Lindsay. With the changeover of management staff, we instigated the difficult process of cleaning up "our house". The City of Lindsay has prided itself our ability to deliver large and small projects alike. During these same years, many substantial projects were undertaken by the City. These projects are now completed and the City has learned an extremely costly lesson. The projects however, were delivered by hardworking employees and contractors. Contractors that were retained or awarded projects were paid for what was asked and nothing more. Employees were asked to

work beyond standard hours and did so knowing there is little recognition beyond a job well done.

Acknowledging past administrations lack of full communication led to a response published by the Lindsay City Council with regard to the 2009-2010 Annual Audit. The Council openly recognized mistakes of the past and the new administration that is tasked with the principal job of correcting those mistakes.

This response to the annual audit, 2009-2010, included as an attachment.

Tulare County Association of Governments (TCAG) administers funding collected as part of Measure R, a local sales tax collected for transportation purposes. Measure R funds were used to fund a portion of the downtown project. TCAG staff had monitored and approved the invoicing of the downtown project, but not until the final reimbursement submittal, ever questioned previous invoicing. This led to a very drawn out examination of documents and allegations. The end result was an independent audit which both parties ultimately agreed to in settlement.

The independent accountants report is included as an attachment.

On a parallel process, on July 18, 2011, City Manager Rich Wilkinson requested that Tulare County District Attorney, Phillip J. Cline investigate previous city administration with regard to potential criminal acts. The investigation reviewed state grant funds from CalHFA. The investigation concluded that while guidelines were not followed, no criminal activity was found.

This letter and the response is also included as an attachment.

Were there shortcomings and processes that were not followed? Yes. Were the projects delivered to design criteria? Yes. We hope this audit will be the last of the negative chapters of the City of Lindsay.

The City appreciates this opportunity to submit response to Incurred Cost Audit, P1575-0021, and the ability to potentially reduce the amount of reimbursement requested.