



Memorandum

To:
Rihui Zhang
CHIEF
DIVISION OF LOCAL ASSISTANCE

Date: February 28, 2020

File: P2505-0053

From:
MARSUE MORRILL, CPA
CHIEF
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS
P.O. BOX 942874, MS-2
PHONE (916) 323-7111
FAX (916) 323-7123
TTY 711
<https://ig.dot.ca.gov>

Subject: Final Report - City of Commerce Proposition 1B Audit

At the request of the Independent Office of Audits and Investigations the California Department of Finance, Office of Audits and Evaluations (Finance) completed an audit of the City of Commerce (City) Proposition 1B funded project listed below.

Project Name	Project Number	Fund
Washington Boulevard Widening and Reconstruction Project	0700020324	TCIF

Based on the audit, Finance determined that the City claimed and was reimbursed for ineligible contractor, consultant, and City staff time expenditures totaling \$1,625,386 and that the City did not adhere to Caltrans requirements for procurement of consultant contracts.

The complete audit report is attached. Please provide our office with a corrective action plan, including timelines, by April 28, 2020.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, by email at luisa.ruvalcaba@dot.ca.gov.

Attachment:

c: Edgar P. Cisneros, City Manager, City of Commerce
Josh Brooks, Acting Director of Finance, City of Commerce
Dawn Cheser, Deputy Director, California Transportation Commission
John Bulinski, District Director, District 7, California Department of Transportation
Paul-Albert Marquez, Deputy District Director, Transportation Planning and Local Assistance, District 7, California Department of Transportation
Rambabu Bavirisetty, Chief, Office of Capital Improvement Programming, California Department of Transportation
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming, California Department of Transportation
Felicia Haslem, Acting Chief, Office of Guidance and Oversight, Division of Local Assistance, California Department of Transportation
Daniel Burke, Audits Liaison, Division of Local Assistance, California Department of Transportation
Paula Bersola, Audits Analyst, Division of Local Assistance, California Department of Transportation
Luisa Ruvalcaba, Audit Manager, Independent Office of Audits and Investigations

P2505-0053



City of Commerce

Proposition 1B Bond Program

Project Number 0700020324

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Chikako Takagi-Galamba, CFPM, Manager
Todd Vermillion, Supervisor
Brian Dunham, Lead
Cole Chev

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

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



February 20, 2020

Ms. MarSue Morrill, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Ms. Morrill:

Final Report—City of Commerce, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Commerce's (City) Proposition 1B-funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0700020324	P2525-0053	Washington Boulevard Widening and Reconstruction Project

The enclosed report is for your information and use. The draft report was issued January 3, 2020, and the City's response to the draft report required further analysis. As a result of our analysis, changes were made to Finding 2 to provide further clarification. This report will be placed on our website.

If you have any questions regarding this report, please contact Chikako Takagi-Galamba, Manager, or Todd Vermillion, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Mr. John Bulinski, District 7 Director, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.¹

PROGRAM DESCRIPTION¹

TCIF: \$2 billion of bond proceeds made available to the TCIF to finance infrastructure improvements along corridors that have a high volume of freight movement.

CTC awarded \$5.8 million in Proposition 1B funds from the Trade Corridors Improvement Fund (TCIF) to the City of Commerce (City) for the Washington Boulevard Widening and Reconstruction Project (0700020324). The project widened Washington Boulevard by one additional lane in each direction, increased vehicle turning radii, reconstructed pavement, removed a railroad crossing, updated traffic signals and street lighting, and improved sidewalks. The City was required to provide a dollar-for-dollar match of federal, local, or private funding sources. Construction is complete and the project is operational.

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the project described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit period and the reimbursed expenditures, is presented in Appendix A.

The audit objectives were to determine whether:

1. Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.
2. Deliverables/outputs were consistent with the project scope and schedule.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report (FDR).

¹ Excerpts obtained from the bond accountability website <https://bondaccountability.dot.ca.gov/>.

For audit objective 3, the benefits/outcomes for emissions reduction are not expected to be achieved until the year 2030. Accordingly, we did not evaluate whether these project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether the estimated project benefits/outcomes described in the executed project baseline agreement were adequately supported.

The City listed a construction completion date of May 2018 in its FDR submitted to Caltrans in March 2019. Although the project was operational, it is considered interim because the City had not submitted a Notice of Completion as of September 2019, the end of our audit fieldwork.

In performing our audit, we considered internal controls significant to the audit objectives. See Appendix B for a list of significant internal control components and their underlying principles.

The City's management is responsible for ensuring accurate financial reporting; compliance with executed project agreements, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. Caltrans and CTC are responsible for the state-level administration of the program.

METHODOLOGY

In planning the audit, we gained an understanding of the project and respective program, and identified relevant criteria, by reviewing the executed project agreements, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations, and interviewing Caltrans and City personnel.

We conducted a risk assessment, including evaluating whether the City's key internal controls relevant to our audit objectives, such as procurement, progress payment preparation, reimbursement request preparation, project deliverables/outputs completion, project benefits/outcomes reporting, and review and approval processes, were properly designed, implemented, and operating effectively. Our assessment included conducting interviews with City personnel, observing processes, and testing transactions related to construction expenditures, contract procurement, project deliverables/outputs, and project benefits/outcomes. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of data from the City's accounting system, Logos. Specifically, we reviewed vendor payment reports generated by this system. To assess the reliability of data contained in these reports, we interviewed City staff, examined supporting documents, and reviewed system controls. We determined the data were sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies on the following page.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the City's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.</p>	<ul style="list-style-type: none"> • Reviewed procurement records to verify compliance with the City's internal policies and procedures and the Caltrans' Local Assistance Procedures Manual (LAPM) requirements to determine if the project was appropriately advertised and awarded to the lowest, responsible bidder by reviewing bidding documents, contracts, and the project advertisement. • Selected two of the quantitatively significant reimbursement invoices from the construction category and reviewed nine contractor progress payments from those invoices. Additionally, selected five construction change orders (CCOs) based on quantitative and qualitative factors. <ul style="list-style-type: none"> ○ Determined if selected contractor and match expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing the City's accounting records, progress payments, cancelled checks, and comparing to relevant criteria. ○ Determined if CCOs were within the scope of work, not a contract duplication, incurred within the allowable time frame, and supported, by reviewing the project's scope of work, and comparing the work of the CCOs to the original construction contract. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreements by reviewing a list of other funding sources, project accounting records, vendor payment reports, and performing analytical procedures to identify possible duplicate payments.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> • Determined whether the project's deliverables/outputs were consistent with the project scope by reviewing the project baseline agreement, supporting documentation, and conducting a site visit to verify project existence. • Evaluated whether project deliverables/outputs were consistent with the project schedule as described in the project baseline agreement by reviewing quarterly progress reports and the FDR.
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the FDR.</p>	<ul style="list-style-type: none"> • Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDR with the expected project benefits/outcomes described in the project baseline agreement. • Evaluated whether project benefits/outcomes were adequately reported in the FDR by interviewing City staff and requesting documentation to support the reported benefits/outcomes. • Evaluated whether the estimated project benefits/outcomes for emissions reduction described in the executed project agreements were adequately supported by interviewing City staff and reviewing the emissions reduction methodology and the pre-and post-project data sheet.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the Proposition 1B expenditures, except as noted in Finding 1, were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC’s program guidelines, and applicable state and federal regulations cited in the executed agreements. We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scope. Although the project was behind schedule, the City appropriately informed Caltrans and CTC of the delay. However, as noted in Finding 2, certain procurement practices did not follow Caltrans/CTC’s program guidelines and applicable state and federal guidelines as cited in the executed agreement.

Additionally, project benefits/outcomes were adequately reported in the FDR, and the City achieved the expected project benefits/outcomes as described in the executed project agreements.

FINDINGS AND RECOMMENDATIONS

Finding 1: Ineligible Expenditures Claimed for Reimbursement

The City contracts with consultants to assist in performing various project management activities. Specifically, the City relies on two separate consultants: one to oversee construction management of the project and a second to provide grant administrative duties, including the preparation of reimbursement invoices by allocating payment from multiple funding sources. The consultants refer to the project baseline agreement which include attachments encompassing the general aspects of the project which incorporate schedule and cost, project scope, project benefits, and other project specific provisions and conditions. However, the contractor and the City did not consider the specific unauthorized uses of TCIF funding noted in ancillary documents to the project baseline agreement when submitting and approving reimbursement invoices, or the project scope limitations related to TCIF funding when requesting and approving CCOs. Specifically, the City claimed and was reimbursed for ineligible contractor, consultant, and City staff time expenditures totaling \$1,625,386 as noted in Table 1 and described below:

Table 1: Summary of Ineligible Expenditures

Construction Engineering*	\$ 554,780
City Staff Time	812,314
Contract Change Orders	258,292
Total	\$1,625,386

* \$554,780 includes duplicate billing of \$3,742.

- **Construction Engineering and City Staff Time** – The City claimed and was reimbursed \$554,780 for construction engineering costs and \$812,314 in TCIF funds for the City’s staff time supporting construction engineering for the project. The City contends its consultant requested and received guidance from Caltrans’ TCIF Coordinator (TCIF Coordinator) regarding the eligibility of construction engineering costs and City staff time, and provided evidence of guidance received. Specifically, the TCIF Coordinator stated in an email that TCIF does not differentiate construction engineering and City staff’s time from construction capital costs for reimbursement. Based on the guidance received, the City assumed that construction engineering costs and City staff time supporting construction engineering would be allowable. However, the Caltrans Finance Letter and CTC Vote List² both state the TCIF allocation shall be zero for construction engineering and \$5,800,000 for construction capital.
- **Contract Change Orders** – The City claimed and was reimbursed for two CCOs totaling \$258,292. CCO No. 27, included \$56,925 in TCIF funds, was for painting the Interstate 5 Highway Bridge over Washington Boulevard. However, bridge painting costs were outside the project’s scope listed in the TCIF project baseline agreement. CCO No. 40, included \$201,367 for decorative landscaping and hardscape including irrigation, flagstone, beach pebble, cobble, mulch, copper canyon gravel, concrete flatwork, concrete bands, and retaining curbs. However, the decorative landscaping and hardscape costs were outside the project’s scope listed in the TCIF project baseline agreement.
- **Duplicate Billing** – The City claimed and was reimbursed twice for two vendor invoices totaling \$3,742. City staff stated the duplicate billing occurred due to the invoices not being properly referenced as previously submitted for reimbursement. As a result, City staff identified the vendor invoices as two new invoices resulting in duplicate billing.

LAPM Chapter 5.2 states the local agency may submit monthly invoices for reimbursement of participating costs. Amounts claimed must reflect the cost of completed work, which has been paid.

It is critical that as the grant recipient, the City is fully aware of all requirements outlined in the project baseline agreement and ancillary documents.

Recommendations:

- A. Remit \$1,625,386 to Caltrans.
- B. Develop and implement policies and procedures to ensure invoices and CCOs are properly and consistently reviewed for accuracy and compliance with the project baseline agreement prior to submitting for reimbursement.

² The Caltrans Finance Letter and CTC Vote List include the cost breakdown of the project.

- C. Review all requirements as outlined in the project baseline agreement and ancillary documents and use these documents as a guide to develop policies and procedures.

Finding 2: Contract Procurement and Management Needs Improvement

The City did not adhere to Caltrans requirements for procurement of consultant contracts. Specifically, the City did not retain sufficient documentation supporting the selection of the consultant including the records of negotiations for the consultant contracts. LAPM, Chapter 10 requires project records and documentation be kept for three years after payment of the final federal or state voucher. The records to be retained consist of the Request for Proposals, Request for Qualifications, advertisement records, identification of the selection committee members, evaluation and ranking records, and records of negotiations.

Recommendations:

- A. Maintain records of negotiations for a minimum of three years after final payment.
- B. Develop and implement procurement policies and procedures to ensure compliance with the LAPM and applicable laws.

APPENDIX A

The following acronyms are used throughout Appendix A:

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Commerce: City
- Final Delivery Report: FDR

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved ³	Benefits/ Outcomes Adequately Reported ³	Page
0700020324	\$5,799,990	I	P	Y	Y	Y	A-1

Legend

I = Construction is complete and the project is operational; however, the City had not submitted a Notice of Completion as of September 2019.

P = Partial

Y = Yes

³ Project benefits/outcomes for emissions reduction have measurements that are expected to be achieved in the year 2030; therefore, we did not evaluate whether these benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether the estimated projected benefits/outcomes described in the executed project agreements were adequately supported.

Project Number: 0700020324

Project Name: Washington Boulevard Widening and Reconstruction Project

Program Name: Trade Corridors Improvement Fund

Project Description: Widen and reconstruct Washington Boulevard by one additional lane in each direction, increase turning radii/shorten medians, reconstruct pavement, reconstruct railroad grade crossing at the Commerce Way, update traffic signals/street lighting, and improve sidewalks.

Audit Period: December 3, 2014 through September 1, 2018 for audit objective 1⁴
December 3, 2014 through March 4, 2019 for audit objectives 2 and 3⁵

Project Status: Construction is complete and the project is operational.⁶

Schedule of Proposition 1B Expenditures

Category	Reimbursed	Ineligible Expenditures
Construction	\$5,799,990	\$1,625,386
Total Proposition 1B Expenditures	\$5,799,990	\$1,625,386

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations cited in the executed project agreement, except for \$1,625,386 in ineligible construction expenditures, as noted in Finding 1. Additionally, the match requirement was met.

Deliverables/Outputs

The City listed a construction completion date of May 2018 in its FDR dated March 2019. At the time of our site visit in September 2019, project deliverables/outputs were consistent with the project scope and schedule. Although, the project was behind schedule and completed 80 months late, the City appropriately informed Caltrans and CTC of the delay.

⁴ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁵ The audit period end date reflects the FDR submission date.

⁶ The project is considered interim because the City had not submitted a Notice of Completion as of September 2019, the end of our audit fieldwork.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. The City has a mechanism to track and maintain supporting documentation, including the written methodology and the pre-and post-project data sheet. The project benefits/outcomes for emissions reduction described in the project baseline agreement are expected to be achieved in 2030 and were adequately supported.

Project Benefits/Outcomes Category	Expected Benefits/Outcomes	Benefits/Outcomes Reported per FDR	Benefits/Outcomes Achieved
Safety	Reduction in truck-involved collisions.	Project included safety improvements at Commerce Way and Telegraph Road to reduce truck involved collision rates.	Yes
Velocity	Change in average weekday speed for trucks and vehicles.	Project included improvements to allow for increasing speed limits to 40 miles per hour.	Yes
Throughput	Change in highway volume.	Project included improvements to absorb the peak hour truck volumes, which were increased by 177 in a.m. and 1252 in p.m.	Yes
Reliability	Reduction in the variability of travel time for commuters and truck traffic.	Project included improvements to reduce travel time for commuters and trucks.	Yes
Congestion Reduction	Reduction in daily vehicle and truck hours of delay.	Project included improvements to reduce vehicle and truck hours of delay.	Yes
Emissions Reduction	The emissions benefit of the project in 2030 is calculated to be a reduction of 60 tons combined per year of Particulate Matter, PM10, RGO & NO _x , and reduce by 86,900 tons per year of CO ₂ .	Expected to be achieved in 2030.	Not Applicable

APPENDIX B

We considered the following internal control components and underlying principles significant to the audit objectives:

Internal Control Component	Internal Control Principle
Control Activities	<ul style="list-style-type: none">• Management designs control activities to achieve objectives and respond to risks.• Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none">• Management uses quality information to achieve the entity's objectives.• Management externally communicates necessary quality information to achieve the entity's objectives.



CITY OF COMMERCE

Department of Finance
Josh Brooks, Acting Director

January 15, 2020

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA. 95814

RE : Response to City of Commerce Proposition 1B Bond Program Audit, Project Number 0700020324

Dear Ms. McCormick:

The City of Commerce is in receipt of the Office of State Audits and Evaluations Draft Report for the Washington Boulevard Widening and Reconstruction Project.

We have reviewed this Draft Report, and are providing the City's responses to the Audit Findings.

Finding 1: Ineligible Expenditures Claimed for Reimbursement.

The summary of Ineligible Expenses:

Construction Engineering	\$554,780
City Staff Time	\$812,314
Contract Change Orders	<u>\$258,292</u>
Total	\$1,625,386

Construction Engineering \$554,780:

Finding: The City claimed and was reimbursed \$554,780 for construction engineering costs, and \$812,314 for the City Staff Time supporting construction engineering for the project. The City contends its consultants requested and received guidance from Caltrans' TCIF Coordinator regarding the eligibility of construction engineering costs, and City staff time, and provided evidence of guidance received. Based on the guidance received the City assumed that construction engineering costs and City staff time supporting construction engineering would be allowable.

Clarification: This was a locally administered project, and did not identify local or state funds for CE, and traditionally, locally administered projects combine construction and CE, and do not separate between local and state funds. This project was consistent with the construction policies the City had in place with the Baseline Agreement Amendments in 2008 and 2013.

City Response: The City coordinated all TCIF project issues directly with the TCIF Coordinator, covering many different items throughout the project. Therefore, the City checked with the TCIF Coordinator to see if Construction Engineering costs were allowable, as the City did not want to proceed with billing for these costs unless clearance and written approval was received from the TCIF Coordinator. This approval was received from the TCIF Coordinator, as well as approval from the Caltrans District 7 Local Assistance Engineer. The City, acting in good faith having received written approval from the necessary TCIF Coordinator, then submitted the Construction Engineering costs of \$554,780. At no time was the City informed by the TCIF Coordinator or Caltrans that the City's CE costs were not allowable. All local funds were programmed as part of the construction, and there was definitely a misunderstanding as a project programmed with STP guidelines requires local agencies to call Construction and CE together. Recognizing at this time the vote box did not mirror the programming expectation, otherwise the City could have used Local funds for CE, and less for construction. The City does not believe these costs should be deemed ineligible, based on the guidance provided in writing by the TCIF Coordinator allowing the CE costs to be eligible for reimbursement.

City Conclusion: Allow \$554,780 in Construction Engineering costs to be eligible costs, based on the TCIF Coordinator's approval for these as allowable costs, as this was not a City error.

City Staff Time - \$812,314:

Clarification: Construction Engineering is the management of the Construction Contractor to ensure the approved Design Plans are implemented. City Staff Time is to provide City services to manage the project on behalf of the City, and its residents, it is not managing the construction contractor.

City Response: The City identified the City Staff time costs as Construction, they were not identified as Construction Engineering. The City has previously informed the TCIF Auditors that these City Staff Time costs are construction costs, and not construction engineering costs, so we are surprised this amount was considered ineligible. The City also checked with the TCIF Coordinator to be sure City Staff time for Construction would be eligible, and received written approval from the TCIF Coordinator that City Staff time for construction was an eligible expense. These costs are allowable for construction as City Staff time was required for invoicing payments, management for compliance with specifications, police monitoring, and other City staff time that was necessary to carry out the construction of this complex project.

City Conclusion: Allow \$812,314 in City Staff Time to be eligible for Construction.

Contract Change Orders \$258,292:

Finding: The City claimed and was reimbursed from 2 CCO's totaling \$258,292, one for painting the I-5 Overcrossing at Washington Boulevard for \$56,925, and the other for "decorative landscaping and hardscaping" for \$201,367, also at the I-5/Washington Blvd. interchange, which were out of the TCIF Baseline Agreement Scope.

Clarification on Change Orders: A Change Order is allowable as part of the environmental approvals, and results when an item is identified which is not known until the project is underway, and is necessary to complete the project. The definition of the Washington Boulevard Widening and Reconstruction Project is just that, widening and reconstruction, and the City is required to return the project area in better or equal condition as part of the construction.

City Response: The Change Orders for landscaping and bridge painting are consistent with the Environmental Document, and the City has a requirement to be responsible to the Environmental Document and Project Study Report Scope. Further, this specific landscaping was not "decorative" it was functional, drought tolerant landscaping, the same functional, drought tolerant landscaping completed for the entire Project from the I-5 to 710. The Bridge painting is also part of the reconstruction of the project, as it was in poor condition and was consistent with the City's requirement to return the project area in better or equal condition. This landscaping and bridge painting at the I-5/Washington Blvd. interchange was within the Caltrans right of way, and required a permit from Caltrans in order to proceed. This permit was secured, and the landscaping was approved by Caltrans.

City Conclusion: Allow \$201,367 in Landscaping and \$56,925 for Bridge Painting Change Orders as part of the Landscaping required for this project, as they were necessary to the overall reconstruction of Washington Boulevard.

Duplicate Billing:

The City claimed and was reimburse for two invoices totaling \$3,742.

City Conclusion: The City agrees with this duplicate billing, and will remit this amount to the State.

Finding 2: Contract Procurement and Management Needs Improvement

Finding: The City did not retain sufficient documentation supporting the selection of the Construction Engineering consultant including evaluation and ranking records, or the records of negotiations for the consultant contracts.

Clarification: To be clear, this finding is directly related to the Construction Engineering Contract, not the Construction Contract.

City Response: The City did provide the Auditors with the advertisement, ranking and City Council Award Package for the Construction Engineering Consultant. Although the City did have management changes during the project, and many of the Project files were scanned electronically and filed, the City has additional information regarding evaluation and ranking, which is included here.

City Conclusion: Remove this finding.

In conclusion, the City of Commerce appreciated the opportunity to participate in the Prop 1B program, which contributed to the success of the Washington Boulevard Widening and Reconstruction Project. We also appreciate the opportunity to host the State Auditors, and provide our responses to their questions.

The City recommends the removal of the Construction Engineering, City Staff Time, and Change Order charges that this audit found ineligible for reimbursement, and the Contract Procurement and Management finding, based on our response to this Draft Audit, and we welcome the next steps in this process to conclude this Audit.

Best Regards,

"Original signed by Josh Brooks"

Josh Brooks
Acting Director of Finance
City of Commerce

EVALUATION OF RESPONSE

The City's response to the draft report has been reviewed and incorporated into the final report. We acknowledge the City's willingness to implement our recommendations specific to the Duplicate Billing portion of Finding 1. In addition, the City provided additional documentation in response to Finding 2. The Attachment to the response was removed for brevity and consisted of consultant contract evaluation and ranking records. In evaluating the City's response and after analysis of the additional documentation provided, we provide the following comments:

Finding 1: Ineligible Expenditures Claimed for Reimbursement

- **Construction Engineering and City Staff Time** – The City disagrees the \$554,780 in construction engineering and \$812,314 in City staff time expenditures claimed were ineligible. However, because the Caltrans Finance Letter and CTC Vote List both state the TCIF allocation shall be zero for construction engineering and \$5,800,000 for construction capital, the finding and our recommendation will remain unchanged.
- **Contract Change Orders** – The City disagrees the two CCOs totaling \$258,292 claimed for bridge painting and decorative landscaping and hardscaping were ineligible. However, because these costs were outside the project's scope listed in the TCIF project baseline agreement, the finding and recommendation will remain unchanged.

Finding 2: Contract Procurement and Management Needs Improvement

The City provided consultant contract evaluation and ranking records after the draft report was issued. The finding and recommendation has been modified to reflect this additional documentation. However, the City did not provide records of negotiations, and therefore, this part of the finding and recommendation will remain unchanged.