

## Memorandum



**To:**  
KACEY RUGGIERO  
CHIEF  
Office of Resource Management  
and Administration  
Division of Transportation Programming

**Date:** June 10, 2020

**File:** P2535-0128

**From:**  
MARSUE MORRILL, CPA  
AUDIT CHIEF  
Independent Office of Audits  
and Investigations

### **SUBJECT: FINAL REPORT – CITY OF DINUBA 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 Dinuba (City) Proposition 1B funded project listed below.

#### **Project Name**

Avenue 416 Widening

#### **Project Number**

0613000238

#### **Fund**

TCIF

Based on the audit, Finance determined that the City was reimbursed for \$157,239 of unallowable construction expenditures, Financial Delivery Reports were not submitted timely, and the City's bid logs were not retained to support the contract award process. The complete audit report is attached. Please coordinate with the appropriate Caltrans program, and copy us, to provide our office with a corrective action plan, including timelines, by the end of August 2020.

Kacey Ruggiero  
June 10, 2020  
Page 2

If you have any questions, contact Nancy Shaul, Audit Manager, by email at Nancy.Shaul@dot.ca.gov.

Attachment:

c: Ismael Hernandez, Public Works Director, City of Dinuba

George Avila, Business Manager, City of Dinuba

Sharri Bender Ehlert, Director, District 6, California Department of Transportation

Jim Perrault, District Local Assistance Engineer, District 6, California Department of Transportation

Nancy Shaul, Audit Manager, Independent Office of Audits and Investigations

P2535-0128



## City of Dinuba

Proposition 1B Bond Program

Project Number 0613000238

### **Team Members**

Cheryl L. McCormick, CPA, Chief  
Rebecca G. McAllister, CPA, Assistant Chief  
Humberto E. Cervantes, CPA, Manager  
Cindie Lor, Supervisor  
Brown Moua

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, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

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June 5, 2020

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

**Final Report—City of Dinuba, Proposition 1B Audit**

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0613000238	P2535-0128	Avenue 416 Widening

The enclosed report is for your information and use. The draft report was issued April 3, 2020, and the City's response to the draft report required further analysis. As a result of our analysis, changes were made to the Results and Appendix A-1 sections. The City's response to the report findings and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Cindie Lor, Supervisor, at (916) 322-2985.

Sincerely,

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

cc: Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations  
Charles Meadows, Associate Management Auditor, Planning and Modal Office, Independent Office of Audits and Investigations

# BACKGROUND, SCOPE, AND METHODOLOGY

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## 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.<sup>1</sup>

### **PROGRAM DESCRIPTION<sup>1</sup>**

**SLPP:** \$1 billion of bond proceeds made available to the SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds.

CTC awarded the City of Dinuba (City) \$7.6 million of Proposition 1B funds from the State-Local Partnership Program (SLPP) Account for the Avenue 416 Widening Project (0613000238). The scope of the project was to widen Avenue 416 from two to four lanes between Road 56 to Road 8. The City was required to provide a dollar-for-dollar match of local funds. Construction for this project 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).

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

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 the 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 interviewing Caltrans and City personnel, and reviewing the executed project agreements and amendments, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations.

We conducted a risk assessment, including evaluating whether the City's key internal controls were properly designed, implemented, and operating effectively. Key internal controls evaluated included review and approval processes, procurement, progress payment review, reimbursement request preparation, project deliverables/outputs completion, and project benefits/outcomes reporting. Our assessment included conducting interviews with City personnel, observing processes, and testing transactions related to construction expenditures, and reviewing key process documents for 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.

We determined a reliability assessment of data from the City's financial systems, AS400 and New World Systems, was not necessary because other sufficient evidence was available 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><b>Objective 1:</b> To determine whether the City’s 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 agreements.</p>	<ul style="list-style-type: none"> <li>• Determined whether the project was appropriately advertised and awarded to the lowest responsible bidder by reviewing bidding documents, project advertisements, and the selected construction contractor’s contract, and comparing to Caltrans Local Assistance Procedures Manual (LAPM).</li> <li>• Selected the most quantitatively significant reimbursement claim to verify compliance with selected project requirements. From the three progress payments included in this claim, we selected the three most quantitatively significant transactions from each progress payment. <ul style="list-style-type: none"> <li>○ Determined if selected reimbursed construction expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, quantity count sheets, daily engineer logs, and copies of checks, and comparing to relevant criteria.</li> <li>○ Determined if selected match expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, quantity count sheets, daily engineer logs, and copies of checks, and comparing project reimbursed amounts with project expenditure reports.</li> </ul> </li> <li>• Selected four quantitatively significant contract change orders (CCO). Determined if selected CCOs were within the scope of work, not a contract duplication, completed, and supported, by reviewing CCOs, daily extra work reports, contractor correspondence, progress payments, and accounting records.</li> <li>• 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, Measure R reimbursement claims, and performing analytical procedures to identify possible duplicate payments.</li> </ul>
<p><b>Objective 2:</b> To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> <li>• Determined whether the project’s deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request, FDR, Notice of Completion, Google earth images, and conducting a site visit to verify existence.</li> <li>• Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing the Notice of Completion, FDR, and Caltrans quarterly progress reports.</li> </ul>



Audit Objective	Methods
<p><b>Objective 3:</b> 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"> <li>• Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes reported in the FDR with the expected project benefits/outcomes described in the executed project agreement.</li> <li>• Evaluated whether the project benefits/outcomes were adequately reported and supported in the FDR by interviewing City staff to determine how the City assessed whether the project improved safety and efficiency, and maintained an acceptable level of service.</li> </ul>

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 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 project agreements, except as noted in Finding 1. Additionally, as described in Finding 3, we observed a weakness in the City's procurement practices that require improvement.

We also obtained reasonable assurance 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. Additionally, the FDR was submitted late, as noted in Finding 2.

Project benefits/outcomes were adequately reported in the FDR and the City achieved the expected benefits/outcomes as described in the executed project agreement.

## FINDINGS AND RECOMMENDATIONS

### Finding 1: Unallowable Construction Expenditures

The City claimed and was reimbursed \$157, 239 (\$10,554 + \$146,685)<sup>2</sup> in unallowable construction expenditures as follows:

- a) CCO expenditures of \$10,554 were unsupported. The total approved amount for CCO No. 39 was \$160,113. However, the daily extra work reports (DEWR) included with the CCO only supported \$136,370 in extra work costs. Each DEWR identified total costs incurred per day of extra work (labor, material, and equipment). As a result, \$23,743 (\$160,113 - \$136,370) was not supported. According to the City, some of the DEWRs could not be provided because the system used to store CCO documents was no longer accessible. The City was reimbursed \$10,554 (\$23,743 x 44.45 reimbursement percent) for the unsupported CCO expenditures.
- b) CCO expenditures of \$146,685 (\$330,000 CCO amount x 44.45 percent) had insufficient supporting documentation. Specifically, we noted the following inconsistencies for CCO No. 115R1:
  - The corresponding DEWRs did not support the entire approved amount of \$330,000.
  - The CCO was missing an approval signature from the City Engineer.

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<sup>2</sup> Caltrans reimbursed the City up to 44.45 percent of the claimed project expenditures. The unallowable expenditures reflect the amount reimbursed by Caltrans.

- The CCO appeared to be a duplicate of CCO No. 115.1. Both CCOs had the same scope of work and DEWR dates and amounts.

According to the City, approval of CCO No. 115R1 did not result in actual costs paid to the contractor because all related extra work was approved for payment under the subsequent CCO No. 115.1. However, our review of the City's final payment calculation found that the contractor was paid for expenditures incurred for both CCOs. Sufficient documentation and explanation could not be provided by the City to demonstrate a clear audit trail to support the eligibility of expenditures.

LAPM, Chapter 5, section 5.2, states that amounts claimed must reflect the cost of completed work, and section 5.5, requires all supporting backup documentation to be maintained for costs incurred and claimed for reimbursement in the project files. Further, LAPM Chapter 19, section 19.2, and Master Agreement 00371S article V, section 3 require project records to be retained for a period of three years from state payment.

Unfamiliarity with Proposition 1B funding provisions in the project agreement and claiming unallowable costs places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers, increases oversight monitoring and post audit resolution costs, and reduces the number of fundable Proposition 1B transportation projects.

**Recommendations:**

- A. Remit \$157,239 to Caltrans.
- B. Ensure a clear audit trail exists for claimed CCO expenditures. The audit trail should facilitate the tracing of claimed expenditures to the source documents and include clearly documented explanations for corrections and revisions.

**Finding 2: Final Delivery Report Not Submitted Timely**

The FDR was not submitted to Caltrans within six months of the project becoming operable (Notice of Completion date). The project's FDR was due January 2018 and was submitted to Caltrans April 2019, 15 months late. According to the City, new project staff was not aware of the FDR requirement.

SLPP Guidelines, section 15, states that within six months of the project becoming operable, the implementing agency is required to submit the FDR. Late submission of the FDR decreases transparency of the project status and outcomes, and prevents Caltrans/CTC from determining whether project benefits and outcomes, were met.

**Recommendations:**

- A. Review the project agreements and program guidelines to ensure a clear understanding of the reporting requirements.
- B. Submit FDRs for completed projects to Caltrans within the specified time frames as required.

### **Finding 3: Bid Log Not Retained**

The City did not retain the bid log supporting the date and time stamp of bids received. The City stated it was unable to locate the bid log due to the length of time since contract award. Without the bid log, the City was unable to substantiate the number of responsive bids received by the deadline. Properly documenting timely submissions of bids reduces the risk of bid protests and improperly awarded contracts.

LAPM, Chapter 15, section 15.5 requires the receipt of bids to be logged in and stamped with the time and date. Further, LAPM Chapter 19, section 19.2, and Master Agreement 00371S article V, section 3 require project records to be retained for a period of three years from state payment.

#### **Recommendations:**

- A. Review program guidelines, project agreement, and master agreement to ensure a clear understanding of the requirements.
- B. Ensure documentation is maintained to support the contract award process.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Dinuba: City
- Final Delivery Report: FDR
- State-Local Partnership Program: SLPP

### Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0613000238	\$7,551,000	C	P	Y	Y	Y	A-1

**Legend**

C = Construction is complete and the project is operational.

P = Partial

Y = Yes

**Project Number:** 0613000238

**Project Name:** Avenue 416 Widening

**Program Name:** SLPP

**Project Description:** Avenue 416 widening from Road 56 to Road 8, three miles of widening from two to four lanes with areas of paved and raised medians, reconstruction of an at-grade rail crossing and the realignment of an irrigation channel.

**Audit Period:** June 11, 2013 through September 21, 2018 for audit objective 1<sup>3</sup>  
June 11, 2013 through April 22, 2019 for audit objectives 2 and 3<sup>4</sup>

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

#### Schedule of Proposition 1B Expenditures

Category	Reimbursed	Unallowable Expenditures
Construction	\$7,551,000	\$157,239
<b>Total Proposition 1B Expenditures</b>	<b>\$7,551,000</b>	<b>\$157,239</b>

#### 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 agreements, except for \$157,239 in unallowable construction expenditures, as noted in Finding 1. Additionally, the match requirement was met.

##### Deliverables/Outputs

The construction phase of the project was completed in July 2017. At the time of our fieldwork in October 2019, project deliverables/outputs were consistent with the project scope. As noted in Finding 2, the FDR was due January 2018 and was submitted 15 months late. Additionally, the project was behind schedule and completed 47 months late; however, the City appropriately updated Caltrans and CTC of the delay.

##### Benefits/Outcomes

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

<sup>3</sup> The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

<sup>4</sup> The audit period end date reflects the FDR submission date.

Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Ease traffic congestions and eliminate sight distance problems	Avenue 416 was a two-lane arterial route that is now a four-lane road with a center turning lane. The four lane has decreased delays with the increase of traffic volume. Safety was a problem on this high speed and volume route at intersections and driveways as motorist would make unsafe passing maneuvers. The two lanes allow the slower motorists to drive on the slower right lane allowing other motorists to pass on the second lane available.	Yes

## APPENDIX B

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

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







City Manager's Office  
559/591-5904

Development Services  
559/591-5906

Parks & Community Services  
559/591-5940

City Attorney  
559/734-6729

Public Works Services  
559/591-5924

Fire/Ambulance Services  
559/591-5931

Administrative Services  
559/591-5900

Engineering Services  
559/591-5906

Police Services  
559/591-5914

May 14, 2020

Cheryl L. McCormick, Chief  
Department of Finance  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814

**RE: CITY OF DINUBA RESPONSES TO REPORT NUMBER: 20-2660-005**

Dear Ms. McCormick:

The City of Dinuba would like to submit the following responses to the findings identified in the subject report for Project Number 0613000238.

**Finding 1: Unallowable Construction Expenditures**

- a) The report includes the finding that \$360,569 were unallowable construction expenditures because the final claim was submitted for reimbursement on January 18, 2019 which was approximately seven (7) months from the project reversion date of June 30, 2018.
- b) CCO No. 39 was approved in the amount of \$160,113 but only \$136,370 was supported by adequate documentation. Given the reimbursement rate of 44.45%, a total of \$10,554 was reimbursed with insufficient supporting documentation.
- c) CCO No. 115R1 in the amount of \$330,000 did not include adequate supporting documentation. With a reimbursement rate of 44.45%, a total of \$146,685 was reimbursement with insufficient supporting documentation.

**Response:** The City does not dispute that the final claim was submitted late. However, the City would like to request special consideration given some unanticipated circumstances. Project delivery and, as a result, final invoicing was delayed in large part due to a deficient general contractor. The City had to invest many resources both in terms of money and staff hours to get this Project completed. Particularly the City spent a lot of time negotiating outstanding claims which given the size and scope of this Project, is not entirely uncommon. Additionally, during the course of this Project the City experienced unusually high staffing turnover. The manager on this Project changed at least four times due to vacancies or retirements. This made it challenging for the incumbent City representative to have the full historical context of the Project.

Further, it is the City's understanding that Department of Finance typically offers local agencies the opportunity to apply for a two-year time extension through the Cooperative Work Agreement (CWA) process. However, the City was not offered the opportunity to apply for a CWA time extension because the Department of Finance had indicated to Caltrans that the CWA process was not necessary for State and Local Partnership Program (SLPP) funded projects and instead that the funds would

automatically be re-appropriated. If this is accurate then it appears that the City would have two additional years from June 30, 2018 to submit our final reimbursement request(s).

Regarding items b & c above the City believes these are legitimate expenses that are eligible for reimbursement. However, the construction management firm that the City contracted with on this Project is not making all of the Project files available to the City. The City is working with the firm and legal counsel to ensure all files are made readily available. Unfortunately, at this moment, the City does not have all of the documentation needed to reconcile the apparent discrepancies. In an effort to address this matter while also mitigating the impact to the City's already limited resources, the City proposes to repay the \$157,239 but then would like to request that SLPP funds reimburse the City the true 44.45% reimbursement rate. As cost increased and change orders for participating expenses were approved, the SLPP reimbursement rate began to shrink since the 44.45% was calculated using the original contract amounts. Adhering to the approved reimbursement rate for all participating costs (not just contract award) should offset the funds the City is being asked to return.

**Finding 2: Final Delivery Report Not Submitted Timely**

**Response:** The City takes responsibility for the report being submitted late. The City commits to improving internal controls so that future reports are submitted timely.

**Finding 3: Bid Log Not Retained**

**Response:** The City takes responsibility for this oversight. The referenced bid log was retained just like all other project bid logs are retained but due to change in City personnel, current staff was unable to locate it. Additional internal controls will be implemented so that this oversight is not repeated.

Thank you for providing the City an extension to submit these responses. In these unprecedented times we greatly appreciate the support and cooperation of other government agencies. Like all other municipalities, the City of Dinuba is projecting major revenue impacts as a result of the covid-19 pandemic. As you will certainly understand we are working hard to ensure that we can retain current service levels and that the effects to our community are deflected as much as possible. However, as a small rural agency our fiscal elasticity is minimal. We implore you to please be cognizant of that as you review our responses included herein. As always, we value and respect the work you are doing to make certain that all government agencies are good stewards of public funds.

Sincerely,



Ismael Hernandez  
Public Works Director

## EVALUATION OF RESPONSE

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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 Findings 1b (renumbered to Finding 1a), 1c (renumbered to Finding 1b), 2, and 3. In evaluating the City's response to Finding 1, we provide the following comments:

### **Finding 1: Unallowable Construction Expenditures**

- a) Expenditures of \$350,015 were claimed after the eligible reimbursement period.

The City agreed the final claim totaling \$350,015 was submitted late and stated the CWA process was not applicable. Caltrans provided documentation on April 9, 2020, clarifying the CWA was not necessary because the funds were reappropriated in the Budget Act. Based on the additional clarification provided by the City and Caltrans, Finding 1a and Recommendation 1B will be removed, and Recommendation 1A will be revised.

- b) CCO No. 39 expenditures totaling \$10,554 were unsupported.

Comments are combined with Finding 1c below.

- c) CCO expenditures of \$146,685 had insufficient supporting documentation.

The City believes CCO No. 39 and 115R1 are legitimate expenses and is working with the construction management firm and legal counsel to obtain the files. However, the City has agreed to repay the \$157,239 (\$10,554 + \$146,685). The City also states the 44.45 reimbursement rate decreased due to increased project expenditures and believes there are eligible unreimbursed expenditures that can reduce the \$157,239 owed to Caltrans. We appreciate the City's plan to repay the questioned expenditures. However, a reduction of the amount owed must be reviewed and approved by Caltrans; and as a result, questioned expenditures totaling \$157,239 will remain unchanged.