

# City of Compton Active Transportation Program Audit Report



**Audit Report**

**June 2018**

## PREPARED BY:

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# SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

## SUMMARY

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations (A&I), audited an Active Transportation Program (ATP) allocation of \$996,000 awarded to the City of Compton (City). We found that reimbursed costs of \$257,338 were unsupported, and project deliverables and outcomes were not consistent with the project scope, schedule, and benefits described in the ATP application and executed project agreement ATPL-5078(034) (Agreement).

## OBJECTIVES

We performed our audit to specifically determine whether:

- The project costs incurred and reimbursed were in compliance with the Agreement, state and federal regulations, ATP application, and the California Transportation Commission (CTC) program guidelines.
- The project deliverables and outcomes were consistent with the project scope, schedule, and benefits described in the Agreement or approved amendments.

The audit included costs reimbursed for the project “Wilmington Avenue Safe Streets Pedestrian and Bicycle Safety Improvements” Agreement between Caltrans and the City. Our audit period was from June 25, 2015 through June 7, 2017.

## SCOPE

We conducted an audit of the ATP funds charged to the Agreement between Caltrans and the City to determine if the costs were in compliance with the Agreement, and applicable laws and regulations. We assessed the City’s financial management system to determine if it is capable of accumulating, segregating, and allocating allowable project costs. In addition, we conducted testing to determine whether deliverables and outcomes identified in the ATP application were completed.

The audit was comprised of transaction testing of reimbursed project costs to evaluate compliance with Office of Management and Budget Circular A-87, 49 Code of Federal Regulations (CFR) Part 18, (both superseded by Title 2 CFR Part 200), and requirements stipulated in the City’s Agreement with Caltrans. The audit was limited to financial and compliance activities. Our field work was

completed on April 18, 2018. Transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not include costs or credits arising after this date.

The City is responsible for the claimed costs and complying with applicable Agreement provisions and state and federal regulations. In addition, the City is responsible to ensure their financial management system is able to accumulate and segregate reasonable, allocable, and allowable costs. 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.

## **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 and 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.

The audit of the City's financial management system included interviews of City staff, review of prior audit reports, review of costs claimed, and obtaining an understanding of the City's financial management system. The audit was comprised of transaction testing of costs to evaluate compliance requirements stipulated in the City's Agreement with Caltrans. The audit of project deliverable and outcomes included interviews of City staff, review of project reports, and visits to project sites.

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 by the City, as well as evaluating the overall presentation of costs claimed.

## **BACKGROUND**

Caltrans has a legal and fiduciary responsibility to ensure that all state and federal funds passed through Caltrans are expended in compliance with state and federal laws, regulations, and agreements. The Independent Office of Audits and Investigations performs audits to ensure they are meeting their legal and fiduciary responsibilities and that state and federal funds are properly expended by local government entities.



**CONCLUSION**

Based on our audit, we determined the reimbursed project costs totaling \$257,338 were not in compliance with the Agreement, state and federal regulations, ATP application, and CTC program guidelines. In addition, project deliverables and outcomes were not consistent with the project scope, schedule, and benefits described in the ATP application and the Agreement. Specifically we identified the following deficiencies:

- The City completed only portions of the construction identified in their ATP application.
- The project phases were reported completed later than scheduled dates.
- Required semi-annual reports were not submitted.
- The City's accounting system is not adequate to accumulate, segregate, and allocate project costs.
- Various procurement and contract management issues were identified.

**VIEWS OF RESPONSIBLE OFFICIALS**

Our findings and recommendations take in account the City's response dated June 21, 2018, to our June 13, 2018 draft report. Our findings and recommendations, the City's response, and our analysis of the response are set forth in the Findings and Recommendations section of this report. The report is a matter of public record and will be placed on Caltrans' webpage, which can be viewed at <[www.dot.ca.gov/audits/INC.html](http://www.dot.ca.gov/audits/INC.html)>.

If you have questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.



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**Office of Audits and Investigations**

**June 29, 2018**

## FINDINGS AND RECOMMENDATIONS

### FINDING 1 – Performance and Delivery Report Not Met

The City of Compton's (City) project deliverables and outcomes were not consistent with the project scope, schedule and benefits as proposed in the City's Active Transportation Program (ATP) funding application. The project deliverables did not meet the outcome stated in the City's fund application. Specifically we identified the following deficiencies:

- No Class II bike lanes were installed.
- No wayfinding signage was installed.
- No improvements were made to the Compton Creek bikeway entry ramps.
- No pedestrian level lighting was installed.

The City's prior Public Work Director, who prepared the ATP grant application, did not ensure the proposed outcomes stated in the ATP grant application were met, and other City staff were unaware of the project requirements. As the expected outcomes and benefits were not met, the ATP funds totaling \$257,338 reimbursed to the City are disallowed.

Program Supplement No. N72 Rev.1 to Administering Agency-State Agreement for State Funded Project No. 00355S states *“This project will be administered in accordance with the applicable CTC STIP Guidelines and the Active Transportation Program Guidelines as adopted or amended, the LAPM and this Program Supplement.”*

California Transportation Commission (CTC) 2014 ATP Guidelines states *“Project applicants nominate Active Transportation Program projects for funding consideration. If awarded Active Transportation Program funding for a submitted project, the project applicant (or partnering implementing agency if applicable) has contractual responsibility for carrying out the project to completion and complying with reporting requirements in accordance with federal, state, and local laws and regulations, and these guidelines.”*

Program Supplement No. N72 Rev.1 to Administering Agency-State Agreement for State Funded Project No. 00355S states *“WHEREAS, the proposed pedestrian and bicycle safety improvements include the following: ...Installation of... enhanced pedestrian lighting... Installation of Class II bike lanes with advisory signage...Installation of Class II bike lanes with way-finding signage...”*

The Photographic Summaries of Existing Conditions in the Grant Application for City of Compton Wilmington Avenue Safe Streets Pedestrian and Bicycle Safety Improvements states *“Looking north onto Compton Creek Class I bike path at Rosecrans Av. Portions of Class I is unpaved. Improvement would include paving Class I to extend onto Rosecrans Av...”*



Additionally, during the audit we noted three out of the five Milestone Dates were delayed, as summarized below:

Milestone	Proposed Date of Completion	Actual Date of Completion	Days Behind the Schedule
Environmental Document (NEPA and/or CEQA)	7/13/2015	7/13/2015	N/A
Final PS&E	10/15/2014	4/26/2016	559
Right of Way Certification	3/3/2016	3/3/2016	N/A
Construction Award	6/30/2015	7/26/2016	392
Contract Acceptance / Project Completion	10/10/2016	10/10/2017	365

We also noted that the City did not submit Project Progress Reports semi-annually. The City’s fund allocation was effective June 25, 2015 and the first Project Progress Report was not submitted until November 16, 2017. According to the City’s project manager, he was not aware of the reporting requirements.

2014 ATP Guidelines, adopted March 20, 2014, states *“As a condition of the project allocation, the Commission will require the implementing agency to submit semi-annual reports on the activities and progress made toward implementation of the project and a final delivery report.”*

Local Assistance Programs Guidelines (LAPG), Chapter 22, ATP, Section 22.17, Project Reporting states *“As a condition of the project allocation, the CTC will require the implementing agency to submit semi-annual reports, to their District Local Assistance Engineers, on the activities and progress made toward implementation of the project and a final delivery report. The purpose of the reports is to ensure that the project is executed in a timely fashion and is within the scope and budget identified when the decision was made to fund the project.”*

**RECOMMENDATION**

We recommend the City:

- Reimburse Caltrans \$257,338 for the disallowed costs identified above.
- Establish and implement policies and procedures to help City employees understand the requirements associated with ATP funds, project schedules, and deliverables.

**RESPONSE FROM THE CITY**

The City of Compton will establish and implement policies and procedures to help City employees understand the requirements associated with ATP funds, project schedules, and deliverables.



**ANALYSIS OF THE CITY'S RESPONSE:**

The City did not address the disallowed costs. We still recommend the City reimburse Caltrans the disallowed costs identified in the finding.

**FINDING 2 – Financial Management System Weaknesses**

The City's financial management system is unable to accumulate, segregate, and allocate allowable project costs. The City does not have a job cost system in place to generate the Caltrans billing information directly from the job cost system. Rather, the City has to manually calculate project information on a case-by-case basis to bill Caltrans. As a result of the City's limited ability to accumulate and segregate costs only by purchase orders instead of projects, there is a high likelihood of Caltrans being overbilled by the City. In addition, even though the City did not bill labor costs incurred by City staff, the City's timekeeping system is not capable of accumulating and segregating labor costs by different projects. Lack of a labor system also puts Caltrans at the risk of being overbilled on projects.

State Master Agreement NO. 00355S, dated August 8, 2011, Article V Section 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 item for the PROJECT.*"

**RECOMMENDATION**

We recommend the City update their financial management system to enable it to accumulate, segregate and allocate allowable project costs.

In addition, the City will need to ensure any enhancements to their financial management system include revisions to their labor system if they plan on billing Caltrans for labor in the future.

**RESPONSE FROM THE CITY**

The City of Compton will update their financial management system to enable it to accumulate, segregate and allocate allowable project costs. The City will also ensure that the financial management system include revisions to the labor system for billing labor cost in the future.

**FINDING 3 – Lack of Proper Procurement Practices**

The City did not procure contracts in accordance with procurement requirements stated in the Agreement in the two contracts tested. The City neglected to perform several required processes when they contracted with CivilSource, Inc. for architecture and engineering services. See Attachment I for criteria and specific deficiencies identified.

The City lacked policies and procedures to ensure proper procurement practices as stipulated in the Agreement between the City and Caltrans. Without proper procurement processes, the City may not be able to ensure fair and open competition, or that a reasonable price was received.

## RECOMMENDATION

We recommend the City:

- Establish policies and procedures to ensure the City's procurement process conforms with procurement requirements stipulated in the Agreement between the City and Caltrans.
- Develop and implement a plan to review and update policies and procedures to provide guidance for the requirements in the fund agreements with other local agencies.
- Take the Caltrans, Division of Local Assistance online A&E Procurement training at: <http://www.dot.ca.gov/hq/LocalPrograms/AE/index.htm>.

## RESPONSE FROM THE CITY

The City of Compton will establish policies and procedures to ensure the City's procurement process conforms with procurement requirements stipulated in the Agreement between the City and Caltrans. The City will also develop and implement a plan to review and update policies and procedures to provide guidance for the requirements in the fund agreements with other local agencies. Finally, City staff will take the Caltrans A&E Procurement training provided.

## FINDING 4 – Scope Changed without Prior Approval

The City changed the project scope without approval and constructed Class III bikeways when Class II bikeways were outlined in the ATP grant application. The City's prior Public Work Director authorized the consultant CivilSource, Inc. to change the project design from constructing Class II bikeways to constructing Class III bikeways on December 5, 2015, without receiving approval from Caltrans for changing ATP project scope and without amending the consultant contract. Construction was finished on July 14, 2017, but Caltrans was not made aware of the scope changes until the City submitted their first Project Progress Report on November 16, 2017.

Title 2 Code of Federal Regulations Section 200.308 (b) states in part, "*Recipients are required to report deviations from budget or project scope or objective, and request prior approvals...*"

Local Assistance Procedures Manual, Chapter 10 effective October 22, 2013 Section 10.8 states "*Contract administration activities help to ensure that contractual obligations are completed satisfactorily. Generally, these activities include: ...Identifying changes to the scope of work and preparation of amendments...*"



## RECOMMENDATION

We recommend the City develop and implement guidelines in their policies and procedures to instruct the City staff to be in conformance with the project reporting requirements in the Agreement between the City and Caltrans.

## RESPONSE FROM THE CITY

The City will develop and implement guidelines in their policies and procedures to instruct City staff to be in conformance with the project reporting requirements in the Agreement between the City and Caltrans.

Please note, current CTC ATP Guidelines require CTC prior approval for any scope changes.

## FINDING 5 – Contract Management Process Needs Improvement

During our audit, we determined that the City did not adhere to the contract management requirements in the Agreement. Specifically, we identified the following deficiencies:

- The City was unable to support costs on two contract change orders (CCO) we tested. The City's Resident Engineer's daily report indicating where CCO work was performed was missing. In addition, one CCO tested did not have the City's approval for the change.

Local Assistance Procedures Manual (LAPM), Chapter 16 effective January 2016, Section 16.7 states, "*The administering agency's Resident Engineer, Assistant Resident Engineers, and construction inspectors shall keep daily reports to record work in progress... The narrative portion of the report should include a description of the contractor's operation and the location where the work was performed*".

LAPM, Chapter 16 effective January 2016, Section 16.7 states, "*All change orders are to be approved by the administering agency in advance of any work being done on the change.*"

- The City paid excessive costs on their construction contract with Sully-Miller Contracting Company that were subsequently billed to Caltrans. We tested all 12 invoice line items and found that 3 of the line items exceeded the contract amount. We noted the same finding was reported in the California State Controller's Office's (SCO) review on the City's Administrative and Internal Accounting Controls dated March 15, 2018. The review reports that the City paid for contract change order work without advanced approval. As of April 18, 2018, the City had not implemented any corrective action to the SCO finding.

LAPM, Chapter 16 effective January 2016, Section 16.7 states, "*Any change of the approved plans or specifications or work required which not included in the contract must be covered by a contract change order*".

The City's procedure did not provide guidelines for the staff to follow the contract management requirements in the agreements between the City and Caltrans and the City staff lack knowledge of the contract management requirements. Without a proper contract management process, Caltrans runs the risk of paying unallowable costs.

### **RECOMMENDATION**

We recommend the City:

- Establish policies and procedures to ensure that costs for services and goods are within the contractual requirements and in conformance with the requirements in the Agreement between the City and Caltrans.
- Train staff on proper invoice review and contract management practices in compliance with requirements in the Agreement between the City and Caltrans.
- Develop and implement a plan to review and update their policies and procedures to provide guidelines for the requirements in the fund agreements with other agencies.

### **RESPONSE FROM THE CITY**

The City of Compton will establish policies and procedures to ensure that costs for services and goods are within the contractual requirements and in conformance with the requirements in the Agreement between the City and Caltrans. The City will also train staff on proper invoice review and contract management practices in compliance with requirements in the Agreement between the City and Caltrans. Finally, the City will develop and implement a plan to review and update our policies and procedures to provide guidelines for the requirements in the fund agreements with other agencies.



## ATTACHMENT I

### Deficiencies in CivilSource Procurement

Deficiency	Criteria
The Evaluation Criteria in the Request for Proposal (RFP) for qualified consultants to provide design services did not match the criteria in the Evaluation Sheet.	Local Assistance Procedures Manual, Chapter 10 effective October 22, 2013, Section 10.5 states, "Failure ... to use the same criteria and weights during the evaluation will result in the contract costs being ineligible for federal or state reimbursement".
Documentation to support all proposals were received before the deadline, e.g. date/time stamped or logged to support date/time of receipt.	Local Assistance Procedures Manual, Chapter 10 effective October 22, 2013, Section 10.5 states "Documentation of when each proposal was received must be maintained in the project files".
No independent cost estimate prepared prior to acceptance of proposals.	Government Section 4528 states "(a)The state agency head shall negotiate a contract with the best qualified firm...at compensation which the state agency head determines is fair and reasonable...(b) When the selection is by a local agency head, the local agency head may undertake the procedures described in subdivision (a)".
No evidence of proposed price/cost being negotiated.	LAPM Chapter 10 effective October 22, 2013, Section 10.5 states "The goal of negotiation is to agree on a final contract that delivers to the local agency the services or products required at a fair and reasonable cost... The items typically negotiated include: ...Classification, wage rates, and experience level of personnel to be assigned; Cost items, payments and fee".
No evidence of proposed price/cost being analyzed.	LAPM Chapter 10 effective October 22, 2013, Section 10.2 states "An independent estimate for cost or price analysis is needed for all consultant contracts (49 CFR 18.36(f)) to ensure that consultant services are obtained at a fair and reasonable price".
No verification of scoring panel member's independence.	Government Code Section 4529.12 states, "All architectural and engineering services shall be procured pursuant to a fair, competitive selection process which prohibits governmental agency employees from participating in the selection process when they have a financial or business relationship with any private entity seeking the contract, and the procedure shall require compliance with all laws regarding political contributions, conflicts of interest or unlawful activities".
No verification that winning bidder was not suspended or debarred.	Master Agreement, Article VI - Miscellaneous Provisions, Paragraph 6 states "ADMINISTERING AGENCY certifies that neither ADMINISTERING AGENCY nor its principals are suspended or debarred at the time of the execution of this AGREEMENT, and ADMINISTERING AGENCY agrees that it will notify STATE immediately in the event a suspension or a debarment occurs after the execution of this AGREEMENT".
No evidence of proposed profit being negotiated.	LAPM Chapter 10 effective October 22, 2013, Section 10.5 states "the items typically negotiated include: ...Cost items, payments and fee".