

# City of National City Financial and Management System Audit Report



Audit Report  
December 2018

## PREPARED BY:

California Department of Transportation  
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## AUDIT TEAM

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P1560-0020

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

## **SUMMARY**

The Independent Office of Audits and Investigations (IOAI), California Department of Transportation (Caltrans), audited the financial and management system (FMS) of the Active Transportation Program (ATP) grant recipient, the City of National City (City). We found that the City's accounting system is not capable of accumulating and segregating reasonable and allowable costs that can be allocated to projects, and it does not identify federal funds passed through Caltrans. In addition, we found deficiencies in the City's procurement process.

## **SCOPE**

The audit included testing transactions reimbursed from projects "18th St Bicycle and Ped. Enhancements" ATPL-5066 (026) and "1.75 mile El Toyon-Las Palmas Bicycle Corridor" ATPL-5066 (032). Our audit period was from July 1, 2016, through June 8, 2018.

We conducted our audit to determine if the City's FMS, which includes the consultant procurement process, complied with the requirements in the Master Agreement (Agreement) between the City and Caltrans and applicable laws and regulations. Specifically, we assessed the City's FMS to determine if it is capable of accumulating and segregating reasonable, allocable, and allowable project costs and tested the City's consultant procurement process.

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compliance with Office of Management and Budget Circular A-87, 49 Code of Federal Regulations (CFR) Part 18 (both superseded by Title 2 CFR Part 200), and requirements stipulated in the City's Agreement with Caltrans.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 July 12, 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 design and maintenance of their FMS. Because of inherent limitations in any FMS, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the FMS to future periods are subject to the risk that the FMS 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 included interviews of City staff, review of prior audit reports, review of transactions, and an understanding of the City's FMS. The audit was comprised of transaction testing of costs to evaluate compliance requirements stipulated in the City's Agreements with Caltrans.

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.

## **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. IOAI performs audits to ensure Caltrans is meeting their legal and fiduciary responsibilities and that state and federal funds are properly expended by local government entities.

IOAI also audits projects from the Active Transportation Program (ATP). ATP was created to encourage increased use of active modes of transportation. The ATP consolidated various transportation programs into a single program from a combination of state and federal funds. Most recently, the Road Repair and Accountability Act of 2017 (Senate Bill 1) added approximately \$100 million per year in available funds for the ATP.

## **CONCLUSION**

Based on our audit, the City's accounting system is not capable of accumulating and segregating reasonable, allocable, and allowable project costs, and it does not identify federal funds passed through Caltrans. Specifically:

- Project costs must be manually calculated, rather than being obtained from the City's accounting system.
- The City's labor costs cannot be identified by project.
- The City does not have a process to accumulate and segregate local match.

In addition, the City did not always follow required procurement processes.

## **VIEWS OF RESPONSIBLE OFFICIALS**

Our findings and recommendations take in account the City's response dated October 29, 2018, to our October 18, 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: [ig.dot.ca.gov](http://ig.dot.ca.gov).

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

**MARSUE MORRILL, CPA**  
**Chief**  
**Planning & Modal**  
**Independent Office of Audits and Investigations**

**December 18, 2018**

## FINDINGS AND RECOMMENDATIONS

### FINDING 1 – Weaknesses in the Accounting System

The City of National City's (City) accounting system is unable to accumulate and segregate reasonable and allowable costs that can be allocated to projects. Specifically, we found the following deficiencies:

- The City staff manually calculates project costs on a project-by-project basis when preparing its billings to the California Department of Transportation (Caltrans), rather than obtaining the billing information directly from the job cost system.
- The timekeeping system cannot identify incurred City labor costs by project.
- The Engineering and Public Works departments do not have a process in place to accumulate and segregate required local match funds.

The Master Agreement for Federal-Aid Project No. 11-5066F15 dated July 11, 2016, 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.*"

The City's accounting system was not designed to identify, accumulate, and segregate project costs. These deficiencies put Caltrans at risk of being billed inaccurately. In addition, although the City's accounting system can identify federal funds, the federal funds passed through Caltrans to the City were not identified in the accounting system causing the federal funds to not be included in at least the last two prior Single Audits.

### RECOMMENDATION

We recommend the City update their accounting system to ensure it has the capability of accumulating and segregating reasonable, allocable, and allowable project costs and match funds.

NOTE: If the City plans to bill Caltrans for direct labor costs in the future, the revisions to the FMS must include an adequate timekeeping system.

### RESPONSE FROM THE CITY

The City developed an inventory report of grant funded accounts to track all federal grants and ensure that the Finance Department has the correct funding source (federal, state, or local funding) when revenue is posted to FMS. In addition, a new module is being implemented in the City's FMS that will identify all funding sources and costs related to a project; accumulate and segregate reasonable, allocable, and allowable project costs; match funds; and capture and record staff time spent on the project. The City scheduled staff training for the new module in February 2019.

See Attachment II for the City's complete written response.

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

We appreciate the City's efforts to update their accounting system. We have not audited or reviewed any processes implemented subsequent to our fieldwork.

### **FINDING 2 – Lack of Proper Procurement Practices**

The City did not procure a consultant contract in accordance with the procurement requirements stipulated in the Master Agreement for Federal-Aid Project No. 11-5066F15. Several required processes were not completed when the City contracted with Kimley-Horn and Associates, Inc. for architecture and engineering services. See Attachment I for specific deficiencies and criteria identified.

The City was not aware of the procurement requirements stipulated in the Local Assistance Procedures Manual (LAPM) and believed they were properly following the One-Step Request for Qualifications procurement process. As a result of the deficiencies noted above, the City is unable to ensure that there was fair and open competition during the procurement of consultant Kimley-Horn and Associates, Inc. and that a reasonable price was obtained.

### **RECOMMENDATION**

We recommend the City:

- Update their procurement policies and procedures to ensure the City's process conforms with the procurement requirements stipulated in the Agreement between the City and Caltrans and train staff accordingly.
- Have staff working on procurements take the Caltrans, Division of Local Assistance Online Architectural and Engineering Procurement training at:  
<http://www.dot.ca.gov/hq/LocalPrograms/AE/index.htm>.

### **RESPONSE FROM THE CITY**

The City takes exception to the statement that a fair and open competitive process was not followed, although the City recognizes that some items were inadvertently missed. Per the City, on January 27, 2017, they were notified of the LAPM's revision. Three business days later, the City's RFQ was advertised. As a result, changes in the January 2017 LAPM were not reconciled and incorporated into that RFQ. Additionally, in that version of the LAPM conformance letter, this requirement was added, but the City's RFQ process had started in December 2016. As a result, the City did not have to adhere to the conformance letter requirement. The City does state that conformance letters for any upcoming federal/state projects administered by Local Assistance will now be obtained. In addition, steps have been taken to ensure that an independent cost estimate is prepared prior to requesting consultants' cost proposals, a consultant's cost proposal be analyzed



and documented, profit negotiation is performed, and the consultant's cost proposal will provide an itemized list of costs before being accepted.

See Attachment II for the City's complete written response.

**ANALYSIS OF THE CITY'S RESPONSE**

The reference that fair and open competition cannot be ensured or supported is a potential effect or impact to Caltrans. It is not a finding or an exception in itself.

As the LAPM requirements were in effect during our audit period, the procurement deficiencies remain as stated in audit report.

We noticed the City's response mentioned RFP. The City clarified that it was a clerical error, and the City was referring to RFQ.

## ATTACHMENT I

## Deficiencies in Procurement of Kimley-Horn and Associates, Inc.

Deficiency	Criteria
No Conformance Letter before executing the contract.	The Request for Qualifications was advertised on February 2017 so the Local Assistance Procedures Manual (LAPM) effective on January 2017 is applicable (although the same requirement was included in the 2016 LAPM version). LAPM, Chapter 10 effective January 2017, Section 10.3 states, "Contracts cannot be executed until the Conformance Letter is issued and noted deficiencies that address requirements, are corrected."
No independent cost estimate with cost breakdown was done prior to reviewing most qualified consultant's cost proposal.	Title 23 Code of Federal Regulations (CFR), Section 172.7 (a) (1) (v) (B) states "Prior to receipt or review of the most highly qualified consultant's cost proposal, the contracting agency shall prepare a detailed independent estimate with an appropriate breakdown of the work or labor hours, types or classifications of labor required, other direct costs, and consultant's fixed fee for the defined scope of work."
No evidence of proposed price/cost being analyzed and negotiated.	2 CFR Section 200.323 (a) states, "The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications." Local Assistance Procedures Manual, Chapter 10 effective January 2017, Section 10.6 states, ". . . the local agency reviews the cost proposal and enters into negotiations. The goal of negotiation is to agree on a final contract . . . at a fair and reasonable cost."
No evidence of proposed profit being negotiated.	2 CFR Section 200.323 (b) states, "The non-Federal entity must negotiate profit as a separate element of the price for each contract."
The cost proposal did not break down job classifications and types of costs by amount and/or rates.	Local Assistance Procedures Manual, Chapter 10 effective January 2017, Section 10.6 states, "A cost proposal (see Exhibit 10-H: Sample Cost Proposal), must include the costs of materials, direct salaries, payroll additions, other direct costs, indirect costs, fees, and backup calculations."
No verification of scoring panel member's independence.	LAPM, Chapter 10 effective January 2017, Section 10.6 states, "Local agency Contract Administrator ensures that all committee members meet the conflict of interest requirements (23 CFR 172) by completing and signing a conflict of interest statement prior to selection process initiation."
No verification that winning bidder was not suspended or debarred.	23 CFR Section 172.7 (b) (3) states, "A contracting agency shall verify suspension and debarment actions and eligibility status of consultants and subconsultants prior to entering into an agreement. . ."
No protest/dispute procedures in the RFQ.	LAPM, Chapter 10 effective January 2017, Section 10.6 states, "As a minimum, the RFQ generally includes the following: ... Protest procedures and dispute resolution process per 2 CFR Part 200.318(k)."
RFQ does not require interviewing top-ranked consultants.	LAPM, Chapter 10 effective January 2017, Section 10.6 requires interviewing top-ranked consultants.
The result of review was not sent to all parties.	LAPM, Chapter 10 effective January 2017, Section 10.6 states, "All consultants that submitted an SOQ must be notified of the result of the review. The notification also identifies those consultants (short list) that will be requested to attend interviews."

**ATTACHMENT II**



October 29, 2018

MarSue Morrill, CPA  
California Department of Transportation  
Independent Office of Audits and Investigations – MS 2  
Post Office Box 942874  
Sacramento, CA 94274-0001

Subject: Response to "City of National City Financial and Management System Audit Report"

Dear Ms. Morrill,

This letter is in response to the findings of the "City of National City Financial and Management System Audit Report", dated October, 2018. The audit included testing transactions reimbursed from project numbers ATPL-5066(026) and ATPL-5066(032) and project names "18th St Bicycle and Ped. Enhancements" and "1.75 mile El Toyon-Las Palmas Bicycle Corridor" respectively. The audit period was from July 1, 2016 through June 8, 2018.

The City takes the findings described in the Audit Report very seriously and is committed to implementing policies, processes, and procedures to ensure that grant funds are fully identified and accounted for, and that procurement of contract and consultant services follow all statutory requirements and regulations. The City has already taken steps to address the findings identified in the Audit Report, including the development and implementation of a project accounting module in our financial system, and ensuring that securing future consultant services will adhere to all statutory requirements.

A more detailed response to the findings and areas of concern raised in the Audit Report is included as an attachment to this letter. Should you have any questions about this response, please feel free to contact me directly at (619) 336-4382.

Sincerely

Stephen Manganiello  
City Engineer/Director of Public Works

Enclosure: Response to October, 2018 Audit Report

cc: Roberto Yano, Deputy City Engineer  
Jose Lopez, Assistant Engineer - Civil  
Arnold Ocana, Acting Financial Services Officer  
Ray Roberson, Management Analyst II

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## Response to October, 2018 Audit Report

The October, 2018 Summary, Scope, Methodology, Background, and Conclusion Audit Report Letter for the City of National City's (City) Financial and Management System, dated October, 2018, contains a cover letter prepared by Independent Office of Audits and Investigation staff, the Finding and Recommendation Report, and an attachment listing procurement deficiencies and areas of concern. This response letter has been prepared to address the findings and areas of concern noted in the Audit Report. For the purposes of this response each finding and area of concern has been presented in *bold italics* with the corresponding description as noted on the Audit Report table in *italics*. The City's response in plain text follows each italicized item. Findings are discussed first, in the order in which they are listed in the Findings and Recommendations and in Attachment 1. Each City response explains how the City either will address or has already begun addressing the finding or area of concern.

### *Finding 1 – Weaknesses in Financial and Management System*

- *The City staff manually calculate project costs on a project-by-project basis when preparing its billings to the California Department of Transportation (Caltrans), rather than obtaining the billing information directly from the job cost system.*
- *The timekeeping system cannot identify incurred City labor costs by project.*
- *The Engineering and Public Works Departments do not have a process in place to accumulate and segregate required local match funds.*

*The Master Agreement for Federal-Aid Project No. II-5066F15 dated July 11, 2016 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"*

- An inventory report of grant funded accounts has been implemented to keep track of all federal grants to make sure that the Finance Department has the correct funding source (federal, state or local funding) at the time of posting revenues to the financial management system and assure that federal grants are included on the Single Audit.
- Additionally, Engineering and Public Works staff, in conjunction with Finance Staff, is working with the City's financial system program provider, Tyler Technologies, Inc., to develop a Project Accounting module for the City's current financial system, EDEN. The new module will identify all funding sources and costs related to a project, accumulate and segregate reasonable, allocable, and allowable project costs and match funds, and capture and record staff time spent on the project. Staff training on the new Project Accounting module is scheduled for February, 2019.

**Finding 2 – Lack of Proper Procurement Practices**

- **The City did not procure a consultant contract in accordance with the procurement requirements stipulated in the Master Agreement for Federal-Aid Project No. H-5066F15. Several required processes were not completed when the City contracted with Kimley-Horn and Associates, Inc. for architecture and engineering services.**
  - The Engineering & Public Works Department advertised a Request for Qualifications (RFQ) for various engineering, architectural and construction support services on February 2, 2017. The RFQ was advertised on the City's website, published in the San Diego Union Tribune, and e-mailed to over 100 professional consulting firms. The Department received 51 Statement of Qualifications (SOQs) from various firms. A shortlist of qualified firms was prepared, with all firms on the shortlist interviewed, followed by cost negotiations, and City Council Award. Individual task orders are then issued to the consultant, and their cost proposal is compared against the cost estimate that the City submitted during the grant application phase. The City followed the processes identified in the version of the Local Assistance Procedures Manual (LAPM) current at the time when the RFP was prepared. The City's intent was to carry out a comprehensive and competitive consultant procurement, though we recognize that there were a couple of items that were inadvertently missed. The City recognizes that it is required to follow the latest LAPM, however, with the notification of the revised LAPM received by the City on January 27, 2017, and the advertising of our RFQ taking place on February 2, 2017 (three business days after), all of the changes were not reconciled and incorporated into the RFQ.
- **The City was not aware of the procurement requirements stipulated in the Local Assistance Procedures Manual and believed they were properly following the One-Step Request for Qualifications procurement process. As a result, the City is unable to ensure that there was fair and open competition during the procurement of consultant Kimley-Horn and Associates, Inc., and that a reasonable price was obtained.**
  - The City takes exception to the statement that a fair and open competitive process was not followed. Please see the City's previous response.
- **No Conformance Letter before executing the contract**
  - As previously stated, the RFQ was published within three business days of receiving notice of a revised Local Assistance Procedures Manual (LAPM) becoming effective. Here is the timeline of events: The preparation of the RFQ process started in December, 2016; the updated Local Assistance Procedures Manual, Chapter 10 which added the "Conformance Letter" requirement, became effective January 2017; the City received notification of a revised LAPM on January 27, 2017; and, the City's RFQ was published February 2, 2017. Effective the date of this Audit Response, the City will obtain Conformance Letters for any upcoming federal/state funded project administered by Local Assistance.

- *No independent cost estimate with cost breakdown was done prior to reviewing most qualified consultant's cost proposal*
  - *At the time of the grant application, the City prepares a construction cost estimate which establishes the amount of funding being requested. The City then applies a factor to the construction estimate that ranges from 20% to 25%, based on past similar projects as well as the type of project, in order to estimate the project development costs (PA&ED, PS&E, and R/W). When the consultant submits the cost proposal, the City reviews it against the estimate that was prepared at the grant application phase, to ensure the cost is acceptable. As such, although an Independent Cost Estimate was not officially prepared, the City does take steps to ensure consultant proposals are within the estimated amount submitted during the grant application. Steps have been taken to ensure an Independent Cost Estimate is prepared prior to requesting cost proposal from consultants.*
  
- *No evidence of proposed price/cost being analyzed and negotiated*
  - *When the consultant submits the cost proposal, the City reviews it against the estimate that was prepared at the grant application phase, to ensure the cost is acceptable. As such, although an Independent Cost Estimate was not officially prepared, the City does take steps to ensure consultant proposals are within the estimated budget submitted during the grant application. Steps have been taken to ensure that the consultant's cost proposal is analyzed and documented.*
  
- *No evidence of proposed profit being negotiated*
  - *Steps have been taken to ensure profit negotiation is performed prior to the next phase of consultant contract awards. Exhibit 10-H2 is now on file with the City for Kimley Horn & Associates, as well as all consultants.*
  
- *The cost proposal did not break down job classification and types of costs by amount and/or rates*
  - *It is standard practice for the City to request a full breakdown of consultant costs. Staff has reviewed its quality control processes to ensure that prior to accepting a consultant's cost proposal, an itemized break down will be accepted and on hand.*

- *No verification of scoring panel member's independence*
  - The City takes exception to this deficiency. While we failed to execute a Panel Member Conflict of Interest Statement, the City has standard processes in place to prevent a conflict of interest. Per the City's Municipal Code, Chapter 3.16.030 -- Conflict of Interest Prohibited - "A city employee shall not engage in any employment, activity or enterprise which has been determined to be inconsistent, incompatible or in conflict with his duties as a city employee or with the duties, functions or responsibilities of his department. Each department head shall determine and prescribe subject to approval of the commission, those activities which, for employees under his jurisdiction, will be considered inconsistent, incompatible or in conflict with their duties as city employees." Additionally, all members of the interview panel are required by the City to file a Statement of Economic Interest annually. Moving forward, all panel members will sign a Conflict of Interest Statement prior to selection process initiation.
  
- *No verification that winning bidder was not suspended or debarred*
  - The standard process for construction contracts is to verify that the selected contractor is not suspended or debarred prior to contract award. The same process has now been adopted for consultant contracts. Additionally, a check has been conducted, and Kimley-Horn and Associates is not suspended or debarred.
  
- *No protest/dispute procedures in the RFQ*
  - The City defers to the Public Contract Code for protest/dispute procedures for our construction contracts. The same process has now been implemented for all consultant contracts. Protest/dispute procedures will be incorporated in future published RFQs.
  
- *RFQ does not require interviewing top-ranked consultants*
  - Although the RFQ was not written to state it was required to interview top-ranked consultants, all top ranked consultants were interviewed. The statement will be changed from "may be interviewed" to "will be interviewed" on the City's next published RFQ.
  
- *The result of review was not sent to all parties*
  - The City notified all consultants that submitted SOQ's with a list of all contract awards on December 19, 2017. However, the City acknowledges that a separate notification for consultants placed on the shortlist to be interviewed was not carried out. This separate notification will be incorporated into future RFQ's.