

## Memorandum



October 13, 2020

MS. JEANIE WARD-WALLER  
DEPUTY DIRECTOR  
Planning and Modal Programs  
California Department of Transportation

Dear Ms. Ward-Waller:

The Independent Office of Audits and Investigations (IOAI) performed an interim incurred cost audit of the City of Perris (City) of five projects with costs totaling \$2,686,244 reimbursed by the California Department of Transportation (Caltrans). The audit was performed to determine whether project costs claimed by the City were allowable, and adequately supported in accordance with respective Caltrans agreement provisions and state and federal regulations. The final audit report, including the City's response, is enclosed.

Based on our audit we determined that project costs totaling \$990,967 were not in compliance with Caltrans agreement provisions and state and federal regulations. In addition, we identified deficiencies in management of construction contracts, consultant contracts, grants, and in the accuracy of accounting records.

Please provide our office with a corrective action plan addressing the recommendations in the enclosed report, including timelines, by December 31, 2020.

Ms. Jeanie Ward-Waller  
October 13, 2020  
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If you have any questions contact MarSue Morrill, Audit Chief, at  
[marsue.morrill@dot.ca.gov](mailto:marsue.morrill@dot.ca.gov).

Sincerely,

RHONDA L. CRAFT  
INSPECTOR GENERAL

Enclosures  
Final Audit Report

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P1575-0060



# City of Perris

## Interim Incurred Cost Audit

AUDIT REPORT

P1575-0060

OCTOBER, 2020



**PREPARED BY:**

Independent Office of Audits and Investigations – MS 2

Post Office Box 942874

Sacramento, California 94274-0001

<https://ig.dot.ca.gov>

**AUDIT TEAM:**

MarSue Morrill, CPA, Audit Chief, Planning and Modal Office

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Gerald Lee, Auditor

P1575-0060

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## SUMMARY, OBJECTIVE, SCOPE, AND METHODOLOGY

### SUMMARY

The Independent Office of Audits and Investigations (IOAI) performed an interim incurred cost audit of the City of Perris (City) on five projects with costs totaling \$2,686,244 reimbursed by the California Department of Transportation (Caltrans) as of April 18, 2019.

We identified disallowed costs totaling \$990,967 that were not in compliance with Caltrans agreement provisions and state and federal regulations. We also identified deficiencies in the City's management of construction contracts, consultant contracts and grants, and in the accuracy of accounting records.

See Attachment A for a summary of disallowed costs.

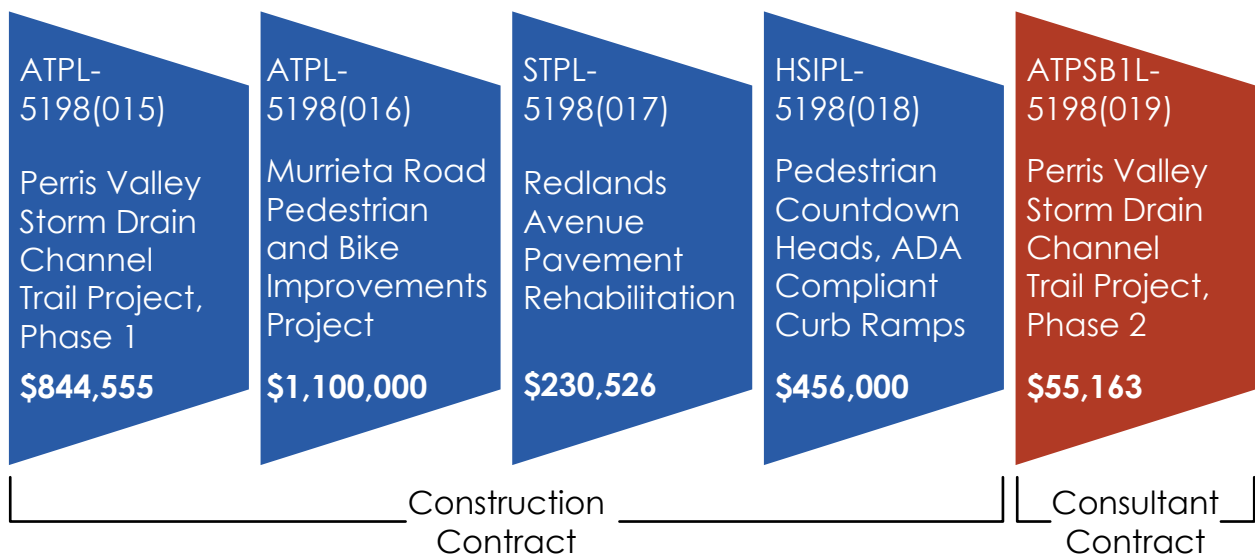
### OBJECTIVE

The audit was performed to determine whether project costs claimed by the City were allowable and adequately supported in accordance with respective Caltrans agreement provisions and state and federal regulations.

### SCOPE

We conducted an audit of the City's costs billed from June 23, 2016 through

April 18, 2019 on the following in progress projects:



The scope of the audit was limited to financial and compliance activities. The audit was less in scope than an audit performed for expressing an opinion on the City’s financial statements. Therefore, we did not audit and are not expressing an opinion on the City’s financial statements.

The City is responsible for the claimed costs and compliance with applicable agreement provisions and state and federal regulations and the adequacy of their financial management system to accumulate and segregate reasonable, allowable costs allocated to projects. Considering the inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected.

## **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 included interviews of City staff necessary to obtain an understanding of the City’s financial management system which includes accounting, procurement; and grant, contract, and construction management. Additionally, we reviewed the City’s financial records, reports, and transactions of reimbursed project costs for compliance with applicable state and federal regulations, and requirements stipulated in the agreements with Caltrans.

We reviewed internal controls as they relate to financial and compliance activities over project costs. We assessed the reliability of data from the City’s accounting system, Munis. Specifically, we reviewed project budget 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.

## **VIEWS OF RESPONSIBLE OFFICIALS**

Our findings and recommendations take into account the City’s response dated September 18, 2020, to our August 27, 2020, 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. A copy of the County’s full written response is included as Attachment B. For brevity purposes, the City’s attachments to their response were not included in this audit report.



The report is a matter of public record and will be placed on IOAI's webpage, which can be viewed at <http://ig.dot.ca.gov>.

If you have questions, please contact MarSue Morrill, Audit Chief, at (916) 323-7105, or at [marsue.morrill@dot.ca.gov](mailto:marsue.morrill@dot.ca.gov).

## FINDINGS AND RECOMMENDATIONS

### CONCLUSION

The Independent Office of Audits and Investigations (IOAI) performed an interim incurred cost audit of the City of Perris (City) on five projects with costs totaling \$2,686,244 reimbursed by the California Department of Transportation (Caltrans) as of April 18, 2019. All five projects were in progress during the time of the audit.

We identified disallowed costs totaling \$990,967 that were not in compliance with Caltrans agreement provisions and state and federal regulations. We also identified deficiencies in the City's management of construction contracts, consultant contracts and grants, and in the accuracy of accounting records.

See Attachment A for a summary of disallowed costs.

#### **FINDING 1 – The City Did Not Designate a City Employee as a Responsible Charge**

The City was not in compliance with federal regulations to designate a full time City employee as the responsible charge for two federally funded projects tested, HSIPL-5198(018) and STPL-5198(017). Instead, the City had their contracted City Engineer acting as the City's responsible charge.

Specifically, the City Engineer signed the Requests for Reimbursements submitted to Caltrans along with completing and approving the Local Agency Invoice Review Checklist as the responsible charge. The Caltrans, Division of Local Assistance, Local Assistance Procedures Manual (LAPM) Chapter 20.2 Unrecoverable Project Deficiency (January 2016) states in part, "...When the local agency hires a consultant to provide construction-engineering services for a project, the local agency is still required to provide a full-time employee of the agency to be in responsible charge of the project. Failure to do so shall make the construction phase ineligible for reimbursement with federal funds..." Construction costs for both projects totaled \$686,526 and are disallowed. See Attachment A for a summary of disallowed costs.

23 CFR 635.105 (4) states, "In those instances where a local public agency elects to use consultants for construction engineering services, the local public agency shall provide a full-time employee of the agency to be in responsible charge of the project."

Federal Master Agreement No. 08-5198F15, Article I.15 states, "ADMINISTERING AGENCY shall provide or arrange for adequate supervision and inspection of each project. While consultants may perform supervision and inspection work for project with a fully qualified

and licensed engineer, ADMINISTERING AGENCY shall provide a full-time employee to be in responsible charge of each project who is not a consultant.”

The City stated they were not aware of the responsible charge requirement. Without properly managing and administering projects by a full time City employee the City may not be able to ensure projects are executed in compliance with federal requirements and that costs billed are authorized and allowable.

### **RECOMMENDATIONS**

Reimburse Caltrans \$686,526 in disallowed costs due to issues related to the responsible charge.

Designate a City employee as the responsible charge to comply with the requirements of LAPM Chapter 20 and the Federal Master Agreement and regulations.

### **SUMMARY OF CITY'S RESPONSE**

The City disagreed with the finding and responded with the following:

The City has contracted with Tri Lake Consultants, Inc. for the “full array of the City’s municipal engineering services, including construction management.” The City’s organizational chart reflects the Engineer Services Department is under the City Manager. The City through “Council Action” granted the City Engineer Department Head authority on November 7, 1988. Therefore, the City stated that the “City Manager is the full-time staff member in responsible charge of the two projects referenced...” The City also indicated their consultant was knowledgeable and qualified.

A compliance assessment program review was conducted by Caltrans and FHWA for project STPL-5198(017). One of the compliance assessment program questions (DQ1) asked if the “agency use(d) a consultant in a management support role.” The City replied, “Yes. Tri Lake Consultants, Inc., has a continuous contract with the City which includes the City Engineer. The City Manager is in responsible charge. According to Tri Lake, no federal funds are being used to pay for this contract...” The City also said that FHWA, “had no objection to this structure, because it was stated and understood that the City Manager would be the responsible charge...”

The City's structure was “openly presented and submitted to Caltrans since origination of the grant until completion of the project, and Cal Trans accepted the structure issuing reimbursement for project costs...”

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

Subsequent to the November 7, 1988 City Council Action the City and the consultant, acting as the City Engineer in the Engineering Services Department, entered into a contract service agreement in 2003 stating "Contractor shall perform all services required herein as an independent contractor of City..." and "Contractor shall not at any time or in any manner represent that it or any of its agents or employees are agents or employees of City." We had no issues with the qualifications of the consultant or that a consultant was performing in a management role. The issue was that it is not allowable for the consultant to act and sign as the full time local agency employee in responsible charge on Caltrans invoices involving federal funding.

This City's statement in their compliance assessment program review that no federal funds were used on STPL-5198(017) is inaccurate. Federal funds were used. The City also reported that "The City Manager is in responsible charge." but it was the consultant who signed invoices as the responsible charge.

We also had no issues with the organizational structure as documented in the City's organizational chart.

## **FINDING 2 – Construction Contract Management Deficiencies**

We found deficiencies with the City's management of construction contracts. Specific deficiencies identified are summarized below.

### **Adequate construction documents were not maintained**

The City was unable to consistently support construction contractor's costs and lacked documentation in their construction records for three projects tested as follows:

- On all three projects tested the quantities used were not identified in the daily work reports. Without quantity information the City cannot support construction materials billed to Caltrans were actually used.
- On two projects tested, the contract line item used and personnel who performed the work were not identified in the daily work reports. Including personnel names is required pursuant to LAPM chapter 16.7.

- On one project tested, daily work reports did not consistently identify the specific contracting firm that performed the work.
- Calculation sheets did not always support the costs claimed on the contractor's billings.
- Calculation sheets for two invoices tested were prepared 5 and 8 months, respectively, after the invoice dates.

We conferred with Caltrans who agreed that the information provided in the City's records could not support the costs billed. The unsupported construction costs tested totaled \$540,356 and are disallowed. See summarization of disallowed costs below:

Project	Contracting Firm	Unsupported Amount
ATPL-5198(016)	H&H General Contractors, Inc.	\$304,441
HSIPL-5198(018)	Calpromax Engineering	*172,620
STPL-5198(017)	All American Asphalt	*63,295
-	Total	<b>\$540,356</b>

\*These costs are also included in the disallowed costs identified in Finding 1.

2 CFR 200.302 (b)(3) states in part, "Records that identify adequately the source and application of funds for federally-funded activities. These records must... be supported by source documentation."

LAPM 16.9 Construction Records and Accounting Procedures (August 2014) states in part, "[system] must contain a file of source documents... [which] shall be any written record(s) prepared by the administering agency which clearly record: ...specified portion of work it applies... necessary measurements and/or calculations by which the quantity is determined..."

LAPM 16.9 Construction Records and Accounting Procedures (January 2016) states in part, "The calculations on source documents are to be checked in accordance with good engineering practice and the name of the checker included thereon. Checking should be performed as soon as practicable, but in any event prior to payment of a final estimate..."

The City stated they were not familiar with Caltrans standards and requirements.

Various construction contract provisions were missing

The City did not include contract provisions required by the State Master Agreement No. 08-00488S and Federal Master Agreements No. 08-5198F15 as follows:

Missing Provisions	State Master Agreement No. 08-0488S ATPL-5198(015)	State Master Agreement No. 08-0488S ATPL-5198(016)	Federal Master Agreements No. 08-5198F15 HSIPL-5198(018)	Federal Master Agreements No. 08-5198F15 STPL-5198(017)
Invoices submitted on letterhead.	X	X	X	X
Supporting backup documentation for costs incurred.	-	X	-	-
Travel expense not in excess of DPA rates.	X	X	X	X
Comply with 48 CFR, Chapter 1, Part 31.	X	X	X	X
Comply with 2 CFR, Part 200.			X	X
Unallowable cost (determined by audit is subject to repayment.	X	X	-	X
Any overpayment shall be returned.	X	X	-	-
If funds not returned agency may withhold amount from future invoice.	X	X	-	-
Right to audit by State, State Auditor or duly authorized representative.	-	X	-	-
Establish and maintain accounting system to accumulate and segregate cost.	X	X	X	X
Record retention 3 years after final payment.	-	X	-	-

Legend: X = Provisions Missing

The City stated that they were unaware the incorrect contract templates were used. By not including all required provisions in contracts the City may not be able to enforce controls or adequately oversee contracts.

Verification of debarment was missing

Two project files did not contain debarment certifications or documentation to support that the City verified awarding firms were not debarred or ineligible for participation in Federal assistance programs.

2 CFR 180.300 states, "When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by: (a)

Checking SAM Exclusions; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person.”

Without verifying prospective contractor's debarment and suspension, the City increases its risk of contracting with firms who are not qualified to perform the work.

### **RECOMMENDATIONS**

- A. Reimburse Caltrans for the \$540,354 disallowed construction costs identified. Note: \$235,915 of these costs are also included in the disallowed costs identified in finding 1.
- B. Use the correct templates to Include the required construction contract provisions.
- C. Include verification documentation in the contract files that contractors are not debarred or suspended.

### **SUMMARY OF CITY'S RESPONSE**

The City disagreed with the construction disallowed costs and submitted the following:

- Sample of daily work reports.
- Daily reports identifying contractor personnel.
- A claim that "Highly Detailed" calculation sheets must support costs claims or they are asked to be revised.

The City indicated they gave the auditors a tour at the completed projects sites to “verify that the work was completed and to explain how the quantities were verified and how the bid items were tracked.”

The City disagreed the calculation sheets were prepared 5 and 8 months after the invoice date. Rather, the calculation sheets originally used were not an updated version and the forms had to be redone to comply with the LAPM. The City indicated the original calculation sheets verified the quantities and work completed.

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

The City's additional documentation did not provide any new detailed information to support the materials billed. The additional documentation

included summaries and did not include material quantities to support the payment amounts.

The fact that projects were completed was not an issue.

We did not have an issue with the format and version of the calculation sheets as we were looking for the required content and support, which was not provided.

### **FINDING 3 – Accounting Process Deficiencies**

The City's accounting process did not accurately allow for the segregation of allowable contractor's project costs on eleven invoices tested. However, we did determine that Caltrans was properly billed, therefore, no costs are disallowed. Specific deficiencies identified are summarized below.

- Multiple non-Caltrans contractors' project costs were erroneously recorded to a specific Caltrans' contractor account. Additionally, some of these comingled costs were found to be non-participatory project costs.
- Contractor project costs from invoice payments were improperly recorded to other City funds.
- Contractor project costs from invoice payments could not be traced to the accounting records. These errors occurred when the City changed their accounting system.
- A contractor's invoice was recorded twice resulting in duplicate entries.

State Master Agreement 08-00488S and Federal Master Agreement 08-5198F15, Article V.2 states, "ADMINISTERING AGENCY, its contractors and subcontractors shall establish and maintain an accounting system (financial management system) and records that properly accumulate and segregate incurred PROJECT costs and matching funds by line item for the PROJECT."

The City's policy and procedures states that the City's Finance Department is "to review all grant expenditures for allowable costs and applicable funding" on a bi-monthly basis. The City acknowledge that they failed to follow their own policies and procedures. By not reviewing the fund account coding and properly recording costs in the accounting system puts the City at risk of billing Caltrans for unallowable costs.



**RECOMMENDATION**

Train staff to properly record and segregate allowable costs in their accounting system in compliance with the City's policies and procedures and in alignment with state and federal master agreements.

**SUMMARY OF CITY'S RESPONSE**

The City stated they have since taken actions to ensure segregation of costs in their financial system, including testing and internal audits put in place to ensure full compliance with all future Caltrans projects.

**ANALYSIS OF CITY'S RESPONSE**

We appreciate the City's acknowledgement and any steps the City has taken to address the issue. Any processes implemented subsequent to our fieldwork have not been audited or reviewed.

**FINDING 4 – Missing Consultant Contract Provisions**

The City did not include certain consultant contract provisions required by the State Master Agreement No. 08-00488S. Missing provision are as follows:

- Costs are to be billed monthly or quarterly in arrears.
- Bill a minimum of every six months.
- Invoices must be submitted on letterhead.
- Payments can only be made for costs incurred and paid by the consultant.
- Agency will withhold the greater of 2% of Federal Funds or \$40,000 until final report of expenditures.
- Travel expense are not to exceed DPA rates.
- Comply with OMB A-87 (2 CFR, Part 225).
- Comply with 49 CFR, Part 18.
- Comply with 48 CFR, Chapter 1, Part 31.
- Unallowable cost (determined by audit) is subject to repayment.
- Any overpayment shall be returned.
- If funds are not returned, agency may withhold amount from future invoices.
- Right to audit by State, State Auditor or duly authorized representative.
- Must conform to GAAP.
- Establish and maintain accounting system to accumulate and segregate cost.
- Record retention 3 years after final payment.

The City stated that they were unaware an incorrect contract template was used. By not including all required provisions in contracts, the City may not be able to enforce controls or adequately oversee contracts.

### **RECOMMENDATION**

Use the correct templates to include the required consultant contract provisions.

### **SUMMARY OF CITY'S RESPONSE**

The City contended that "not all outlined provisions pertain to contracts between the City and its consultants..."

The City stated, "they are unable to respond to each individual charge... as the outline is general and overly broad in nature." The City did state that a missing provision, "Invoices must be submitted on letterhead" was being used and submitted an example.

The City also stated that they are committed to exercising additional care in their contract administration processes.

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

The contract provisions identified as missing were required in the contracts we reviewed.

We appreciate the City's acknowledgement and any steps the City has taken to address the issue. Any processes implemented subsequent to our fieldwork have not been audited or reviewed.

### **FINDING 5 – Grant Management Deficiencies**

We found deficiencies with the City's management of their state and federal funded grants received from Caltrans. Specific deficiencies identified are summarized below:

#### **Request for Reimbursement were submitted more than six months apart**

Four out of eight Requests for Reimbursement tested were not submitted within the required six months. Requests were submitted three to fourteen months late.

State Master Agreement 08-00488S, Article IV.4 / Federal Master Agreement 08-5198F15, Article IV.4 states in part, "...as a minimum, to submit invoices at least once every six months commencing after the funds encumbered on either the

project-specific program supplement or through a project-specific finance letter approved by state.”

The City did not have policies and procedures to require timely submissions of Requests for Reimbursement.

### **The City's Semi-Annual report was not submitted timely**

The City's fund allocation for two ATP projects were awarded July 8, 2016 and November 12, 2015, respectively, however, the first Project Progress Report for the two ATP projects were not submitted until March 26, 2018 and

February 15, 2017, respectively.

Local Assistance Programs Guidelines (LAPG) Chapter 22, ATP Section 22.17 Project Reporting (April 2016) states in part, “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 City did not have policies to ensure compliance with reporting requirements.

By not submitting Request for Reimbursements and Project Progress Reports timely, Caltrans may deem a project inactive and suspend funding. Furthermore, if Caltrans does not receive the semi-annual reports timely, Caltrans may not be able to ensure projects are executed timely and within scope and budget.

### **RECOMMENDATION**

Develop and implement policies and to ensure reimbursement requests and semi-annual reports are submitted timely and comply with state and federal requirements; and train staff accordingly.

### **SUMMARY OF CITY'S RESPONSE**

The City responded stating that the delays were caused by the suspension of the project due to a prime contractor abandoning the site and the City had to replace the contractor.

The City stated they had policies and procedures in place for the request of reimbursement of funds. They also indicated they will continue to improve existing procedures.

**ANALYSIS OF CITY'S RESPONSE**

At issue was not the lack of policies and procedures for request and reimbursement of funds, rather their policies and procedures did not adequately address reporting requirements.

We appreciate the City continues to improve existing procedures on an ongoing basis.

## Attachment A

### Summary of Disallowed Costs

Project	Billing No.	Contractor	Description	Amount	Finding
ATPL-5198(016)	3	H&H General Contractors, Inc.	Unsupported construction costs	\$304,441	2
HSIPL-5198(018)	All	Calpromax Engineering	Cost oversight by inappropriate responsible charge	\$456,000	1
STPL-5198(017)	All	All American Asphalt	Cost oversight by inappropriate responsible charge	\$230,526	1
-	-	-	Total Disallowed Costs	\$990,967	-



# CITY OF PERRIS

Office of the City Manager

101 NORTH "D" STREET  
PERRIS, CALIFORNIA 92570  
TEL: (951) 943-6100  
FAX: (951) 943-4246

September 18, 2020

**Via Electronic Mail Delivery**

Rhonda L. Craft  
Inspector General  
Independent Office of Audits and Investigations  
P.O. Box 942874 – MS-2  
Sacramento, CA 94274-0001

**RE: City of Perris Interim Incurred Cost Audit Draft Report – City Responses**

Dear Ms. Craft:

The City of Perris ("City") is in receipt of the original Interim Incurred Cost Audit Draft Report ("Audit Report") dated August 25, 2020 and thereafter a corrected Audit Report received on August 27, 2020 via email correspondence. The City participated in an exit conference on August 27, 2020 which included representatives of the Independent Office of Audits and Investigations ("IOAI").

By way of background, the City is a small hometown-feel but growing city nestled in Riverside County with a population of approximately 75,000. With many acres of vacant land, development activity includes residential and some commercial with retail business activity lagging behind as compared to our neighboring cities. Without a commensurate growth in sales tax revenues, the City relies heavily on other funding sources, including grants, to build and develop city infrastructure, parks, trails, and other community amenities. Without those funding sources, the City could not provide modern infrastructure to its underserved minority population.

The City has reviewed the Audit Report which includes findings and recommendations on five specific projects constructed in recent years. The recommendations resulted in the conclusion to disallow project costs totaling \$990,967.00 based on alleged procedural issues. The City disagrees with the findings and recommendations and hereby takes the position that the determination for said disallowable costs is incorrect in parts, harsh, severe, and not commensurate with the procedural issues presented by the IOAI.

The following are the City's responses to the proposed disallowed cost totaling \$990,967.00:

**Finding 1 – The City did not designate a City Employee as a Responsible Charge**

**HSIPL-5198(018) – Pedestrian Countdown Heads, ADA Compliant Curb Ramps,**

**HSIP – Federal Funded Project, \$456,000.00**

**Grant funding disallowed cost \$456,000.00 based on Finding 1**

**AND**

**STPL-5198(017) – Redlands Avenue Pavement Rehabilitation**

**STP – Federal Funded Project, \$230,526.00**

**Grant funding disallowed cost \$230,526.00 based on Finding 1**

Since 1988, the City has contracted with Tri Lake Consultants, Inc. (“TLC”) for the full array of the City’s municipal engineering services, including construction management. As part of that long term and standing agreement, the City through Council Action granted the City Engineer Department Head authority through the Minute Action dated November 7, 1988 attached hereto as (Exhibit No. 1). Just like any other City Department, the Engineering Department is under the direct supervision of the City Manager as presented in the City’s organizational chart attached hereto as (Exhibit No. 2). Therefore, the City hereby states and affirms that the City Manager is the full-time staff member in responsible charge of the two projects referenced and subject to Finding 1 in the Audit Report.

The City further affirms that TLC has qualified engineers knowledgeable of the state and federal requirements associated with grant funding management. The Resident Engineers who are assigned to the capital improvement projects, partially funded by state and federal monies, attend the federal-aid series classes. They also subscribe to the Local Technical Assistance Program (“LTAP”) notifications receiving periodic updates on changes to the Local Assistance Procedural Manual (“LAPM”) and Local Assistance Procedural Guidelines (“LAPG”). The Caltrans Local Assistance Engineer attends the Riverside County Transportation Commission Technical Advisory Committee (“RCTC TAC”) meetings and provides updates on changes and grant funding opportunities to the member cities in Riverside County, which includes the City.

In 2016, the City underwent the entire grant origination process, which included various forms, questionnaires, budgets, and responses that were all made part of the application process for the subject grant funding. The City was transparent with regards to this process and the application was approved and funded by Cal Trans as presented by the City. Specifically, on January 3, 2018, Caltrans Local Assistance District 8 and the Federal Highway Administration (“FHWA”) conducted a Compliance Assessment Program (“CAP”) review of STPL-5198(017). One of CAP questions included in that questionnaire and report asked if the “agency use(d) a consultant in a management support role” (23 CFR 172.7(5)). The City therein disclosed its engineering contract support services from TLC, and specifically reported that the City Manager was the responsible charge of the project in its response reference attached hereto as (Exhibit No. 3). The report specifically read as follows:

*Tri Lake Consultants, Inc. has a continuous contract with the City which includes the City Engineer. The City Manager is in responsible charge. According to Tri Lake, no federal funds are being used to pay for this contract and the City has not charged this project for CE cost.*

FHWA, the funding agency, had no objection to this structure, because it was stated and understood that the City Manager would be the responsible charge in addition to the fact that the City Engineer's time was not a reimbursable cost submitted under federal funds. Documentation to support the City's statements including the CAP was provided to the auditors and was included in the STPL-5198(017) project files.

It is important to emphasize that City Engineer and City Manager communicated on a daily basis in order to be apprised of and to discuss on-going and planned capital improvement project activities. The City Engineer's office is located across the street from City Hall allowing ongoing open communications. Field visits to the project sites by the City Manager were also a normal practice through project completion. There were also bi-weekly project meetings between the City Manager and City Department Heads, including the City Engineer. Updates to City Council on major capital improvement projects are presented bi-annually. This information was also conveyed to the auditors.

Because the structure of the City administration was openly presented and submitted to Cal Trans since origination of the grant until completion of the project, and Cal Trans accepted the structure issuing reimbursements for project costs, the City finds the Auditor's determination to disallow the entire cost of both projects, which were built and constructed to be unfounded and inappropriate.

**Finding 2 – Construction Contract Management Deficiencies**

**ATPL-5198(016) – Murrieta Road Pedestrian and Bike Improvements**

**ATP State-Only funds provided \$1,100,000.**

**Grant funding disallowed cost \$304,441.00 based on Finding 2**

**AND**

**HSIPL-5198(018) – Pedestrian Countdown Heads, ADA Compliant Curb Ramps**

**HSIP – Federal Funded Project, \$456,000.00**

**Grant funding disallowed cost \$172,620.00 based on Finding 2 (these costs are disallowed in Finding 1)**

**AND**

**STPL-5198(017) – Redlands Avenue Pavement Rehabilitation**

**STP – Federal Funded Project, \$230,526.00**

**Grant funding disallowed cost \$63,295.00 based on Finding 2 (these costs are disallowed in Finding 1)**

The alleged deficiency findings noted on the Audit Report received are not reflective of the entirety of the project records on file. The City hereby presents the following documents to refute the allegations on said deficiencies and hereto incorporates said documents as (Exhibit No. 4) to this response. Specifically, these documents include:



- Sample of daily work reports that include materials testing, quantity tracking, and documentation of emails between contractor and Engineering Department regarding invoice reviews.
- Daily reports identifying contractor personnel performing work and documenting the work completed, per LAPM Chapter 16.7.
- Highly detailed calculation sheets must support costs claimed on the contractor's billing process. If a Contractor submits a billing that is not consistent with the Resident Engineer's daily report(s) and corresponding calculation sheets and measurements taken in the field, which quantify and justify the costs, the Contractor is asked to revise and re-submit. An example of this type communication between City Engineering Department and Contractor is attached.

During the auditing process, City staff offered a tour of all project sites for the auditors to verify that the work was completed and to explain how the quantities were verified and how the bid items were tracked. Three of five of the projects completed, and subject to the audit findings, were toured and verified by the Auditors.

The Audit Report alleges that "Calculation sheets for two invoices tested were prepared 5 and 8 months, respectively, after the invoice dates." The City informed the Auditors that the City had in fact prepared timely calculation sheets for said invoices. However, during a site visit from the Caltrans Local Assistance Oversight Engineer, Chad Yang, he noted that the calculation sheets used were not updated versions and the forms were redone thereafter to comply with LAPM. It is important to note that the original calculation sheets used also verified the quantities and work completed but was not the approved LAPM format, thus the information was transferred into the updated calculation forms in conjunction and under the supervision of the Caltrans Oversight Engineer. This exercise merely shows that the City was fully invested in compliance and following proper procedures throughout the process.

As City Manager of a governmental agency, I realize the importance of checks and balances and transparency in the work and processes I oversee. I affirm that checks and balances practices are in place at the City. The Engineering Department has several layers of staff reviewing the invoice and payment process as does the Accounting Division in ensuring accounting standards are in compliance. The inspector and Resident Engineer and/or Assistant Resident Engineer review and verify the contractor's billing to ensure supporting documentation exists before recommending approval to the City Engineer for payment processing by the City's Finance Department. At the City Finance Department, there are also several levels of review to ensure the funding is in the approved budget and the cost does not exceed the authorized contract amount and contingency. This process includes electronic approvals from accountants, the Finance Manager, the Director of Finance, and me as City Manager.

We have also reviewed the additional comments included in the Audit Report dated August 27, 2020 and are providing you with the responses to Findings 3-5:

### **FINDING 3 - Accounting Process Deficiencies**

As alleged in the Audit Report, "The City's accounting process did not accurately allow for the segregation of allowable contractor's project costs on eleven invoices tested. However, we did determine that Caltrans was properly billed, therefore, no costs are disallowed. "

The City has since incorporated the segregation of cost in the City’s financial system which will ensure that its current accounting system can accurately account for the segregation of allowable contractor project costs on all invoices going forward. In addition, testing and internal audits have been put in place to ensure full compliance with all future CalTrans projects.

**FINDING 4 - Missing Consultant Contract Provisions as presented in the Auditor’s Report**

As alleged in the Audit Report, “The City did not include certain consultant contract provisions required by the State Master Agreement No. 08-00488S.” The Audit Report further outlines 16 alleged missing provisions.

The City contends that not all the outlined provisions pertain to contracts between the City and its consultants, and some of said provisions are directly in the State Master Agreement between the City and Caltrans.

Throughout the process, the City reviewed its own work, or in conjunction with Caltrans worked on correcting any deficiencies. Some delays were not in the City’s plan or control and did affect delay the billing process. As an example, there was at least one major contractor issue, wherein the contractor lost his contractor license and the City had to halt and restart the project when the issue was cured through procurement of a new Contractor by the surety company who had issued a bond for the original contract. These incidents did cause delays in some of the billings because in fact the work itself was delayed.

The City is unable to respond to each individual charge determined in Finding 4, as the outline is general and overly broad in nature. However, one of the missing provisions cited was that “invoices must be submitted on letterhead”. Attached hereto as (Exhibit No. 5), please find a sample of an invoice on letterhead obtained from the project file.

Nonetheless, the City is committed to exercising additional care into its contract administration processes with any future grants.

**FINDING 5 - Grant Management Deficiencies as presented in the Auditor’s Report**

As alleged in the Audit Report, “We [the Auditors] found deficiencies with the City’s management of their state and federal funded grants received from Caltrans.” Specific deficiencies identified are summarized below:

**Request for Reimbursement were submitted more than six months apart**

- Four out of eight Requests for Reimbursement tested were not submitted within the required six months. Requests were submitted three to fourteen months late.

City of Perris Interim Incurred Cost Audit Draft Report – City Responses

As stated in the response to Finding 4, the fourteen month delay was caused by the suspension of the project due to a prime contractor abandoning the site and requiring the City to work with the surety company to replace the contractor. This issue was extensive and required actions by various project firms and ultimately required City Council action and took months to cure.

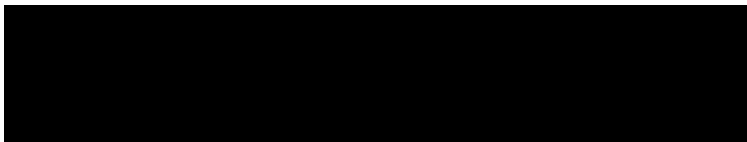
Lastly, the Audit Report alleges that “The City did not have policies and procedures to require timely submissions of Requests for Reimbursement.”

The City contends that there are explicit and practical procedures in place for the request and reimbursement of funds. Since the Auditor’s report, the City continues to improve existing procedures on an ongoing basis and is committed to these efforts in perpetuity. The City further emphasizes that the subject projects were never considered inactive according to Caltrans Division of Local Assistance and were in fact responsible works in progress under Caltrans oversight until project completion.

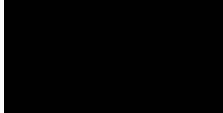
As aforementioned, the City wholly disagrees with the findings and determinations that resulted in the preliminary disallowed costs of \$990,967 recommended by the Independent Office of Audits and Investigations. The City hereby respectfully requests that all cost impacts be reversed in their entirety and looks forward to an amended final report reflective of the projects delivered and the overall processes undertaken and approved by Caltrans that resulted in the original payment of funds.

Thank you for your consideration and attention to this matter.

Sincerely,



Richard Belmudez  
City Manager



Attachments:

- Exhibit 1 – City of Perris Council Appointing Habib Motlagh as City Engineer, Nov. 7, 1988
- Exhibit 2 – City of Perris Organizational Chart
- Exhibit 3 – Federal Highway Administration Compliance Assessment Program PY18 STPL-5198(017)
- Exhibit 4 – Sample of RE & ARE Daily Reports, Quantify Calculations, Contractor Invoice, TLC Daily Work Reports, and communications between TLC and Contractor regarding invoice reviews
- Exhibit 5 – Sample of Caltrans Final Report of Expenditure Invoice

Cc:

- Isabel Carlos, Assistant City Manager
- Eric Dunn, City Attorney
- Habib Motlagh, City Engineer