


## Memorandum

*Making Conservation a  
California way of life*

**To:** RAY ZHANG  
Division Chief  
Division of Local Assistance

**Date:** September 22, 2017

**File:** P2535-0017  
P2535-0019  
P2540-0049

**From:** ALICE M. LEE   
Chief  
External Audits — Contracts  
Independent Office of Audits and Investigations

**Subject: AUDIT OF CITY OF INDIO PROPOSITION 1B PROJECTS**

Attached is the audit report pertaining to the audit performed on the following Proposition 1B (Prop 1B) projects:

<u>Project Name</u>	<u>Project number</u>	<u>P Number</u>	<u>Amount Audited</u>
Golf Center Parkway Pavement Rehabilitation and Traffic Signalization	SLPPL-5275(020)	P2535-0017	\$433,000
Monroe Street Improvements	SLPPL-5275(023)	P2535-0019	\$1,375,000
Jackson Street Over Indio Boulevard and Bridge Seismic Retrofit	STPLZ-5275(014)	P2540-0049	\$237,795

The projects' implementing agency is the City of Indio. The projects were funded using Proposition 1B State-Local Partnership Program Funds.

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the Department of Finance on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed. The audit disclosed the following findings:

- The City claimed ineligible and unsupported contractor and consultant expenditures totaling \$31,848.
- The City did not adhere to Caltrans requirements for procurement of consultant and construction contracts.

Please provide the Independent Office of Audits and Investigations a corrective action resolution on the audit findings within 90 days of this memorandum's date and reference the P Numbers identified above. If you have any questions, please contact Elena Guerrero, Acting Audit Manager, at (916) 323-7954.

Attachment

cc: Stephen Maller, Deputy Director, California Transportation Commission  
Rick Guevel, Associate Deputy Director, California Transportation Commission  
Reza Afhami, Acting Assistant Deputy Director, California Transportation Commission  
Coco Briseno, Deputy Director, Planning and Modal Programs  
Bruce De Terra, Division Chief, Transportation Programming  
Doris M. Alkebulan, Prop IB Specialist, Transportation Programming  
Sharon Bertozzi, Sr. Transportation Engineer, Division of Local Assistance  
Reza Fereshtehnejad, Sr. Bridge Engineer, Division of Local Assistance  
Carmen Wills, Audit Liason, Division of Local Assistance  
Elena Guerrero, Acting Audit Manager, Audits and Investigations



DEPARTMENT OF  
**FINANCE**

EDMUND G. BROWN JR. • GOVERNOR

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Transmitted via e-mail

August 28, 2017

Ms. Alice M. Lee, Chief  
External Audits – Contracts, Audits and Investigations  
California Department of Transportation  
1304 O Street, Suite 200  
Sacramento, CA 95814

Dear Ms. Lee:

**Revised Final Report—City of Indio, Proposition 1B Audit**

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
SLPPL-5275(020)	P2535-0017	Golf Center Parkway Pavement Rehabilitation and Traffic Signalization
SLPPL-5275(023)	P2535-0019	Monroe Street Improvements
STPLZ-5275(014)	P2540-0049	Jackson Street over Indio Boulevard and Bridge Seismic Retrofit

The enclosed report is for your information and use. The City's response to the report findings is incorporated into this final report. The City agreed with our findings. We appreciate their assistance and cooperation during the engagement, and their willingness to implement corrective actions. This report will be placed on our website.

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

Sincerely,

**ORIGINAL SIGNED BY:**

Jennifer Whitaker, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Luisa Ruvalcaba, Audit Manager, External Audits-Contracts, Audits and Investigations,  
California Department of Transportation  
Mr. Timothy Wassil, Public Works Director, City of Indio  
Mr. Tom Rafferty, Principal Engineer, City of Indio

# BACKGROUND, SCOPE AND METHODOLOGY

## BACKGROUND

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

Caltrans awarded \$1.8 million of Proposition 1B funds from the State-Local Partnership Program Account (SLPP) and \$238,732 from the Local Bridge Seismic Retrofit Account (LBSRA) to the City of Indio (City) for street improvements and rehabilitations. The three bond-funded projects were Golf Center Parkway Pavement Rehabilitation and Traffic Signalization (Golf Center Parkway) (SLPPL-5275 (020)), Monroe Street Improvements (Monroe Street) (SLPPL-5275 (023)), and Jackson Street Bridge over Indio Boulevard and Bridge Seismic Retrofit (Jackson Street Bridge) (STPLZ-5275 (014)). The City's Public Works Department administered these projects which supports its goal to provide responsible leadership and quality services in building, operating, and maintaining a world class city, and promoting safety and life enrichment.<sup>2</sup> Construction for these projects is complete.

### PROGRAM DESCRIPTIONS<sup>1</sup>

- **SLPP:** \$1 billion of bond proceeds made available to the SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar for dollar match of local funds.
- **LBSRA:** \$125 million of bond proceeds made available to the LBSRA to provide the 11.5 percent required match for federal Highway Bridge Replacement and Repair funds for seismic work on local bridges, ramps, and overpasses.

## SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the projects described in the Background section of this report. The audit period for each project is identified in Appendix A.

The audit objectives were to determine whether:

- Proposition 1B project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.
- Project deliverables (outputs) were consistent with the project scopes and schedules.

We did not assess the efficiency or effectiveness of program operations.

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

<sup>2</sup> Excerpts were taken from the City's website [www.indio.org](http://www.indio.org)

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

## **METHODOLOGY**

To achieve the audit objectives, we performed the following procedures:

- Examined the project files, master agreements, program supplements, program guidelines, and applicable policies and procedures.
- Reviewed procurement records to ensure compliance with applicable state and federal procurement requirements.
- Reviewed accounting records, progress payments, cancelled checks, and electronic fund transfer documents.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported.
- Reviewed a sample of contract change orders to ensure they were within the scope of the projects, properly approved, and supported.
- Evaluated whether other revenue sources were used to reimburse expenditures already reimbursed with bond funds.
- Verified the match requirement was met.
- Evaluated whether project deliverables (outputs) were met by reviewing supporting documentation and conducting site visits to verify project existence.
- Evaluated whether project deliverables (outputs) were completed on schedule by reviewing project files, project agreements or amendments, Baseline Agreements, and Final Delivery Reports.

In conducting our audit, we obtained an understanding of internal control, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed, implemented, and operating effectively. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, Proposition 1B costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines. In addition, the project deliverables/outputs were consistent with the project scopes and schedules. Although the Monroe Street and Jackson Street Bridge projects were behind schedule, the City appropriately informed Caltrans of the delays. The Summary of Projects Reviewed is presented in Appendix A.

## **Finding 1: Questioned Contractor and Consultant Expenditures**

The City claimed ineligible and unsupported contractor and consultant expenditures totaling \$31,848. Specifically:

- For the Golf Center Parkway project, the City claimed \$9,264 in ineligible contractor costs. The City awarded a construction contract in January 2010 prior to receiving required encroachment permits in May 2010. As a result, additional unanticipated costs were incurred. These additional costs could have been avoided by securing the right-of-way permit prior to awarding the contract. Further, the City did not request appropriate supporting documentation for the claimed costs from the contractor. Specifically, timesheets did not accurately trace to labor and equipment costs claimed, material costs were not supported by a price analysis, and materials and labor were not supported by a pricing breakdown showing how the total amount was derived.
- For the Monroe Street project, the City claimed \$22,584 in consultant engineering costs. However, the claimed consultant costs could not be traced to supporting vendor invoices or funding sources. Further, consultant invoices tested did not have sufficient details for pay rate charges. Specifically, the consultant contract assigns pay rates for each position; however, the consultant invoices did not identify the positions for each pay rate used. Therefore, the City could not substantiate that accurate personal rates were charged for the work performed. These consultant invoices are paid for by multiple funding sources including Proposition 1B funds, local match, and other non-participating costs. While the City provided several invoices, the City did not maintain a sufficient audit trail to identify which of these invoices apply to the claimed amount. Therefore, the entire amount of \$22,584 construction engineering costs claimed is questioned.

The City did not have sufficient policies and procedures to maintain and review supporting documentation for reimbursement invoices to Caltrans.

Per the Master Agreement IV.18, an Administering Agency agrees and will assure that its contractors and subcontractors will be obligated to comply with federal administrative procedures in accordance with the Code of Federal Regulations (CFR) 49, Part 18. CFR 49, Part 18, Section 18.20 states adequate records should be maintained to identify the source and application of funds provided for financially assisted activities and accounting records must be supported by such source documents.

Further, Master Agreement, Article II.1 states construction contracts for State funded projects should not be awarded until all necessary rights-of-way have been secured.

**Recommendations:**

- A. Remit \$31,848 to Caltrans.
- B. Ensure an adequate audit trail is maintained to facilitate the tracing of all claimed expenditures to the City's accounting records and supporting documentation.
- C. Ensure the accounting system is structured to properly segregate and account for project funding sources and costs.
- D. Develop and maintain adequate policies and procedures to ensure claimed expenditures are allowable and supported prior to submitting reimbursement invoices to Caltrans. The project agreements and applicable state and federal provisions should be used as a guide in developing such policies and procedures.
- E. Ensure all necessary rights-of-way permits are secured prior to awarding construction contracts to avoid unnecessary costs.

**Finding 2: Contract Procurement and Management Needs Improvement**

The City did not adhere to Caltrans requirements for procurement of consultant and construction contracts. Specifically:

- For the Monroe Street project, the City did not advertise consultant contracts nor retain documentation to support the price analysis for any of the consultant contracts.
- For the Monroe Street and Jackson Street Bridge projects, the City was not able to provide scoring sheets for evaluating consultants' request for qualifications (RFQs) and request for proposals (RFP). Additionally, the City was not able to provide proof that the RFQ process was based on documented evaluation criteria.
- For the Monroe Street project, the City did not maintain supporting documentation for the price analysis of change orders awarded for the construction contract. The City also did not retain documentation for the price analysis for the consultant contract awarded for the Jackson Street Bridge project.
- For Jackson Street Bridge and Golf Center Parkway projects, the City did not retain time stamped envelopes for sealed bids for construction contract bids.

The City does not have written policies and procedures and lacks training for employees to ensure consistent contract procurement and required supporting documentation is retained.

Absent price analysis, solicitations from other qualified vendors, scoring sheets for RFQs or RFPs, the City is unable to substantiate if it received the best price for the work performed. Additionally, lacking the time stamped envelopes, there is a risk that the City could have accepted disqualified bids, or late bids from vendors with information about prices from other bidders.

CFR 49, Part 18, Section 18.36 requires grantees to have written selection procedures for procurement transactions and ensure grantees and subgrantees perform a cost or price analysis in connection with every procurement action including contract modifications such as change orders.

The Local Assistance Procedures Manual (LAPM), Chapter 10.6 requires consultant contracts to follow the RFP process and advertise in a major newspaper or technical publication. Additionally, Chapter 10.8 requires project records and documentation be kept for three years after payment of the final federal or state voucher. Among the records to be retained are evaluation and ranking records such as original score sheets from all panel members and short list questions.

**Recommendation:**

Develop and implement policies and procedures to ensure compliance with the LAPM and applicable laws, and documentation is maintained to ensure:

- Price analysis is prepared for consultant contracts.
- RFQs and RFPs are evaluated based on the established ranking criteria.
- Contracts are awarded through competitive bidding processes.
- Required procurement documents are maintained for projects.
- All bids are time stamped to ensure no late submissions are accepted.



## APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Indio: City
- State-Local Partnership Program Account: SLPP
- Local Bridge Seismic Retrofit Account: LBSRA

### Summary of Projects Reviewed

Project Name	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables /Outputs Consistent	Page
Golf Center Parkway	\$ 433,000	C	P	Y	A-1
Monroe Street	\$1,375,000	C	P	Y	A-2
Jackson Street Bridge	\$ 237,795	C	Y	Y	A-3

#### Legend

C = Complete

Y = Yes

P = Partial

**Project Number:** SLPPL-5275(020)

**Project Name:** Golf Center Parkway Pavement Rehabilitation and Traffic Signalization

**Program Name:** SLPP

**Project Description:** Eliminate a four-way stop sign, add a thru-lane in both directions at Golf Center Parkway/Avenue 45, and install traffic signalization and rehabilitate the roadway pavement.

**Audit Period:** January 13, 2010 through December 20, 2010<sup>1</sup>

**Project Status:** Construction is complete.

#### **Schedule of Proposition 1B Expenditures**

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>	<b>Questioned</b>
Construction	\$ 433,000	\$ 9,264
<b>Total Proposition 1B Expenditures</b>	<b>\$ 433,000</b>	<b>\$ 9,264</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B costs were incurred and reimbursed in compliance with the executed project agreement, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines, except for \$9,264 in ineligible contractor costs. Also, the City did not retain time stamped envelopes for sealed construction contract bids. The City met the match requirement.

##### Deliverables/Outputs

The construction phase of the project was completed in July 2010. At the time of our site visit in October 2014, project deliverables/outputs were consistent with the project scope and schedule.

<sup>1</sup> The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

**Project Number:** SLPPL-5275(023)

**Project Name:** Monroe Street Improvements

**Program Name:** SLPP

**Project Description:** Widen Monroe Street to include two lanes in each direction, bike lane, sidewalk, traffic signal at Avenue 49, and relocation of signal poles and appurtenances at Avenue 50.

**Audit Period:** October 24, 2012 through April 11, 2014<sup>2</sup>

**Project Status:** Construction is complete.

#### **Schedule of Proposition 1B Expenditures**

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>	<b>Questioned</b>
Construction	\$ 1,375,000	\$ 22,584
<b>Total Proposition 1B Expenditures</b>	<b>\$ 1,375,000</b>	<b>\$ 22,584</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B costs were incurred and reimbursed in compliance with the executed project agreement, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines, except for \$22,584 in ineligible consultant engineering costs. Also, the City did not adhere to the following procurement requirements:

- Documentation to support price analysis for contract change orders was not retained.
- Criteria and scoring sheets were not documented and retained for RFQ and RFP processes.
- Time stamped envelopes were not retained for sealed construction contract bids.

The City met the match requirement.

##### Deliverables/Output

The construction phase of the project was completed in June 2013. At the time of our site visit in October 2014, project deliverables/outputs were consistent with the project scope. However, the project was behind schedule and completed three months late. The City updated Caltrans of the delay.

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<sup>2</sup> Ibid.

**Project Number:** STPLZ-5275(014)

**Project Name:** Jackson Street over Indio Boulevard and Bridge Seismic Retrofit

**Program Name:** LBSRA

**Project Description:** Seismically retrofit the Jackson Street Overcrossing over Indio Boulevard and the Union Pacific Railroad, to include utility relocation, removal and replacement of curb and gutter, and minor retaining wall construction.

**Audit Period:** November 14, 2007 through February 26, 2014<sup>3</sup>

**Project Status:** Construction is complete.

#### **Schedule of Proposition 1B Expenditures**

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>
Construction	\$ 237,795
<b>Total Proposition 1B Expenditures</b>	<b>\$ 237,795</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B costs were incurred and reimbursed in compliance with the executed project agreement, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines. However, the City did not adhere to the following procurement requirements:

- Documentation to support price analysis for the consultant contract was not retained.
- Criteria and scoring sheets were not documented and retained for RFQ and RFP processes.
- Time stamped envelopes were not retained for sealed construction contract bids.

The City met the match requirement.

##### Deliverables/Outputs

The construction phase of the project was completed in March 2013. At the time of our site visit in October 2014, project deliverables/outputs were consistent with the project scope. However, the project was behind schedule and completed 30 months late. The City updated Caltrans of the delay.

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<sup>3</sup> Ibid.





July 24, 2017

Jennifer Whitaker, Chief  
California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814

**Subject: City of Indio, Proposition 1B Audit, Response**

Dear Ms. Whitaker,

The City of Indio has received your draft report dated July 17, 2017, with regards to an audit performed in 2014 for three City of Indio Capital Improvement Projects totaling over \$7,000,000 in construction costs that received \$2,045,795 in funding from the State Proposition 1B account. After thorough review of the report, the City of Indio takes no exceptions to the audit findings related to each project and accepts all recommendations noted, including an acknowledgement of the \$31,848 that will be remitted to Caltrans due to ineligible costs.

Since the time the projects were constructed between 2010 and 2013, and the time the State Auditors visited the City of Indio in 2014, City Staff had already begun to make tremendous strides toward meeting all of the recommendations noted in the draft audit report. It should be noted that at the time of the review, the audited improvements had already been accepted (for nearly four years in the longest case) and many of the noted deficiencies occurred three or more years prior the acceptance of the projects. We are confident that our current procedures adequately follow the State guidelines and agreements.

Please keep us informed on development of the final report and remittance process for the ineligible funds. If you have any questions or require any further information from the City of Indio, please contact Tom Rafferty at (760)391-4017 or [trafferty@indio.org](mailto:trafferty@indio.org).

Sincerely,

Rob Rockwell  
Interim City Manager/Finance Director

cc: Timothy T. Wassil, PE, Public Works Director  
Tom Rafferty, PE, Principal Civil Engineer



July 24, 2017

Jennifer Whitaker, Chief  
California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
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Please keep us informed on development of the final report and remittance process for the ineligible funds. If you have any questions or require any further information from the City of Indio, please contact Tom Rafferty at (760)391-4017 or [traffery@indio.org](mailto:traffery@indio.org).

Sincerely,

**ORIGINAL SIGNED BY:**

Rob Rockwell  
Interim City Manager/Finance Director

cc: Timothy T. Wassil, PE, Public Works Director  
Tom Rafferty, PE, Principal Civil Engineer

Attachment

cc: Stephen Maller, Deputy Director, California Transportation Commission  
Rick Guevel, Associate Deputy Director, California Transportation Commission  
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~~Luisa Ruvalcaba~~, Audit Manager, Audits and Investigations, Caltrans

Elena Guener  
Acting