

# Memorandum

*Making Conservation a  
California way of life*

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

**Date:** June 15, 2018

**File:** P2535-0082

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

**Subject:** **AUDIT OF THE CITY OF REDLANDS, PROPOSITION 1B PROJECT**

Attached is the audit report pertaining to the audit performed on the following Proposition 1B project:

<u>Project Name</u>	<u>Project number</u>	<u>P Number</u>	<u>Amount Audited</u>
Redlands Blvd & Alabama St Intersection Improvement	0813000078	P2535-0082	\$999,793

The project's implementing agency is the City of Costa Mesa. The project was 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 Cal trans. Deputy Directive 100-R 1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed. The audit disclosed the following findings:

- The City claimed ineligible construction and construction engineering expenditures totaling \$417,483.
- The Final Delivery Report was not submitted timely.

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 number identified above. If you have any questions, please contact Elena Guerrero, Acting Audit Manager, at (916) 323-7954.

RAY ZHANG

June 15, 2018

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Attachment

cc: Rick Guevel, Associate Deputy Director, California Transportation Commission Teri Anderson, Assistant Deputy Director, California Transportation Commission Coco Briseno, Deputy Director, Planning and Modal Programs  
Bruce De Terra, Division Chief, Transportation Programming  
Sharon Bertozzi, Sr. Transportation Engineer, Division of Local Assistance Doris M. Alkebulan, Prop 1 B Specialist, Transportation Programming  
Daniel Burke, Audit Liaison, Division of Local Assistance  
Elena Guerrero, Acting Audit Manager, Audits and Investigations



## City of Redlands

Proposition 1B Bond Program  
Project Number 0813000078

### **Team Members**

Jennifer Whitaker, Chief  
Cheryl L. McCormick, CPA, Assistant Chief  
Rick Cervantes, CPA, Manager  
Sherry Ma, CRP, Manager  
Blanca Sandoval  
An Truong

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

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Transmitted via e-mail

June 15, 2018

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:

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

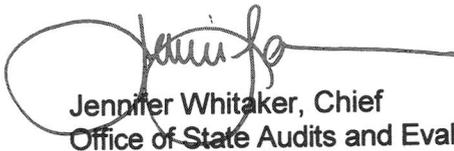
The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Redlands (City) Proposition 1B funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0813000078	P2535-0082	Redlands Boulevard and Alabama Street Intersection Improvement

The enclosed report is for your information and use. The City's response to the report findings and our evaluation of the response are incorporated into this final report. 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 Rick Cervantes, Manager, or Sherry Ma, Manager, at (916) 322-2985.

Sincerely,



Jennifer Whitaker, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Elena Guerrero, Acting Audit Manager, External Audits—Contracts, Audits and Investigations, California Department of Transportation  
Ms. Sharon Bertozzi, State Leadership Partner Program Coordinator, Division of Local Assistance, California Department of Transportation  
Mr. David Lee, Branch Chief, Division of Local Assistance, California Department of Transportation, District 8  
Mr. Nabar Enrique Martinez, City Manager, City of Redlands  
Mr. Paul Toor, Director, Municipal Utilities and Engineering Department, City of Redlands  
Mr. Savat Khamphou, Deputy Director, Municipal Utilities and Engineering Department, City of Redlands  
Mr. Ross Wittman, Senior Project Manager, Municipal Utilities and Engineering Department, City of Redlands  
Mr. Don Young, Engineering Manager, Municipal Utilities and Engineering Department, City of Redlands

# 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>

CTC awarded \$1 million of Proposition 1B State-Local Partnership Program Account (SLPP) funds to the City of Redlands (City) for the Redlands Boulevard and Alabama Street Intersection Improvement Project (0813000078). The project includes widening and realigning the Redlands Boulevard and Alabama Street intersection to allow a smooth flow of traffic. This project was implemented by the City's Municipal Utilities and Engineering Department. Construction for this project is complete.

The City was required to provide a dollar-for-dollar match of local funds.

## SCOPE

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

The audit objectives were to determine whether:

- Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.
- Deliverables/outputs were consistent with the project scope and schedule.
- Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

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

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

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

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

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

## METHODOLOGY

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

- Examined the project files, project agreements, program guidelines, and applicable policies and procedures to gain an understanding of the project and respective program.
- Reviewed procurement records to verify compliance with applicable local and state procurement requirements.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported by reviewing accounting records, progress payments, and cancelled checks.
- Reviewed a sample of contract change orders to determine if they were within the scope of the project, 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 by reviewing a sample of supporting documentation.
- Evaluated whether project deliverables/outputs were met by reviewing a sample of supporting documentation and conducting a site visit to verify project existence.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements or approved amendments, and the Final Delivery Report.
- Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the Final Delivery Report with the expected project benefits/outcomes described in the executed project agreements or approved amendments.
- Evaluated whether project benefits/outcomes were adequately reported in the Final Delivery Report by reviewing supporting documentation.

In conducting our audit, we obtained an understanding of the City's internal controls, 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 in Finding 1, Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the agreements. Additionally, except as noted in Finding 2, project deliverables/outputs were consistent with the project scope. Although the project was behind schedule, the City appropriately informed Caltrans and CTC of the delay.

Project benefits/outcomes were adequately reported in the Final Delivery Report and the City achieved the expected project benefits/outcomes as described in the executed project agreements or approved amendments. The *Summary of Projects Reviewed* is presented in Appendix A.

### Finding 1: Inadequate Fiscal Controls and Questioned Expenditures

The City claimed ineligible construction and construction engineering expenditures totaling \$417,483.

Project Number 0813000078			
Ineligible Construction Expenditures	Ineligible Construction Engineering Expenditures-Consultants	Ineligible Construction Engineering Expenditures-City Personnel	Total Questioned Expenditures <sup>2</sup>
\$352,492	\$3,431	\$61,560	\$417,483

The City is responsible for exercising appropriate fiscal controls over Proposition 1B bond-funded projects. However, the City lacked the necessary fiscal controls to ensure compliance with applicable Proposition 1B bond-funded project requirements. Specifically, the City's accounting records did not adequately separate and identify project-related costs.

Additionally, expenditures claimed were not supported. As a result, the following was identified:

- The City was reimbursed \$352,492 in construction expenditures that were not Proposition 1B eligible. The City, in conjunction with a consultant, developed a spreadsheet that identified the reimbursable Proposition 1B construction expenditures based on a City approved cost allocation methodology. However, this information was not used when submitting the City's claim for reimbursement and no review or reconciliation of the reimbursement claim was performed prior to Caltrans submittal. Additionally, the City lacked communication among the City personnel having oversight of the Redlands Alabama project, resulting in the City billing ineligible expenditures. Specifically, the City claimed \$888,792 whereas the supporting spreadsheet identified \$536,300 of eligible Proposition 1B expenditures. The City did not provide evidence explaining why the information from the spreadsheet was disregarded and could not demonstrate the additional \$352,492 claimed expenditures were Proposition 1B eligible.
- The City was reimbursed \$61,560 for unsupported City construction engineering personnel expenditures. The expenditures included select salary and benefits

<sup>2</sup> Caltrans reimbursed the City 21.51 percent of claimed project costs. The questioned expenditures reflect the amount reimbursed by Caltrans.

multiplied by a 20 percent allocation rate. While calculating total personnel expenditures, there were cost centers included that are not Proposition 1B related such as Highway Safety Improvement Program Cycle 4 and Safe Routes to School Cycle 2. Additionally, the City's Finance Division stated there was no documentation to support the 20 percent cost allocation methodology used. Further, the employee timesheets did not track labor hours by specific projects. Without adequate documentation to support personnel costs claimed, the City could not demonstrate that reimbursed personnel expenditures were Proposition 1B eligible. Therefore, City personnel expenditures totaling \$61,560 is questioned.

- The City was reimbursed \$3,431 in consulting engineering costs not related to this project. Specifically, field inspection expenditures for three non-Proposition 1B projects and their associated general costs were inadvertently claimed. The City did not have a secondary review in place prior to submitting the claim for reimbursement.

Master Agreement 00295S, Article V, sections 2 and 3 states the City is to establish and maintain an accounting system and records that properly accumulate and segregate incurred project costs and must maintain all documents, papers, accounting records, and other evidence pertaining to the performance of the project three years from the date of the final payment.

Additionally, per the Local Assistance Procedures Manual, section 5.3 direct expenditures incurred are to be solely for project-related activities.

#### **Recommendations:**

- A. Remit \$417,483 to Caltrans.
- B. Implement the following fiscal controls:
  - Ensure the accounting system is structured to identify and account for project expenditures separately.
  - Enhance communication between City personnel having fiscal and project monitoring oversight to ensure billing information is accurate and consistent.
  - Ensure personnel expenditures claimed are supported with documentation that identifies hours charged to individual projects.
  - Ensure that all documentation to support project expenditures are maintained.
  - Ensure reimbursement claims are reviewed by an individual other than preparer prior to submitting for reimbursement.

#### **Finding 2: Final Delivery Report not Submitted Timely**

The Final Delivery Report was not submitted to Caltrans within six months of the project becoming operable (construction contract acceptance date). The project's Final Delivery Report was due September 2016, but was submitted in July 2017. Due to staff turnover, the City was unable to provide a reason as to why the Final Delivery Report was late. Late submission of the Final Delivery Report decreases transparency of the status of projects and prevents Caltrans/CTC ability to timely review the project scope, final costs, project schedule, and performance outcomes. The SLPP Guidelines, section 15, requires a Final Delivery Report within

six months after the project becomes operable. The section states that a project becomes operable when the construction contract is accepted. For this project, the construction contract was accepted in March 2016.

**Recommendations:**

- A. Read and review the project agreements and program guidelines to ensure a clear understanding of the requirements.
- B. Submit Final Delivery Reports for future state funded projects as required.

# APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Redlands: City
- State-Local Partnership Program Account: SLPP

## Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0813000078	\$999,793	C	P	Y	Y	Y	A-1

### Legend

C = Complete

P = Partial

Y = Yes

**Project Number:** 0813000078

**Project Name:** Redlands Boulevard and Alabama Street Improvement

**Program Name:** SLPP

**Project Description:** Widen and realign the Redlands Boulevard at Alabama Street intersection to allow a smooth flow of traffic through the intersection.

**Audit Period:** June 11, 2013 through July 31, 2016<sup>1</sup>

**Project Status:** Construction is complete.

#### Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed	Questioned Expenditures
Construction	\$888,793	\$352,492
Construction Engineering	111,000	64,991
<b>Total Proposition 1B Expenditures</b>	<b>\$999,793</b>	<b>\$417,483</b>

#### Audit Results:

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreement except for \$417,483 of construction and construction engineering expenditures. Additionally, the match requirement was met.

##### Deliverables/Outputs

The construction phase of the project was completed in March 2016. At the time of our site visit in November 2017, project deliverables/outputs were consistent with the project scope. However, the Final Delivery Report was due in September 2016 and was submitted 9 months late. Additionally, the project was behind schedule and completed 30 months late. The City appropriately updated Caltrans and CTC of the delay.

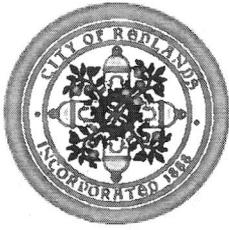
##### Benefits/Outcomes

The actual project benefits/outcomes were adequately reported in the Final Delivery Report. Additionally, the City achieved the expected project benefits/outcomes as described in the executed project agreement or approved amendments.

Expected Benefits/Outcomes	Actual Benefits/Outcomes	Benefits/Outcomes Achieved
To relieve congestion and improve traffic safety by increasing the condition of the intersection from a Level of Service "F" to a level of service "C".	The overall Level of Service at the intersection improved from a pre-project Level of Service "F" to post-project Level of Service "C".	Yes

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





City of  
**REDLANDS**

Incorporated 1888  
Municipal Utilities & Engineering Department  
35 Cajon Street, Suite 15A  
Redlands, CA 92373  
909-798-7698

PAUL TOOR  
Director

SAVAT KHAMPHOU  
Deputy Director

June 7, 2018

Jennifer Whitaker  
State of California - Department of Finance  
915 L Street  
Sacramento, CA 95814-3706

**Subject: Redlands Boulevard and Alabama Street Intersection Improvement Project,  
Project Number - 0813000078**

Dear Ms. Whitaker,

Thank you for the opportunity to respond to the draft audit report for the Redlands Boulevard and Alabama Street Intersection Improvement Project for the City of Redlands.

The project has been completed and has substantially improved traffic flow conditions. The project has achieved the anticipated benefits/outcomes and is in compliance with the executed project agreements and guidelines for Proposition 1B expenditures.

The City has expended nearly \$2.50 million in eligible or participating costs for construction of the Redlands Boulevard and Alabama Street Intersection improvements as identified in the audit report. These expenditures include nearly \$1.5 million of local funds, exceeding the required dollar-for-dollar match per Proposition 1B guidelines. The remaining \$1 million of construction costs are Proposition 1B State-Local Partnership Program funds awarded by the California Transportation Commission (CTC).

The City staff has reviewed the draft audit report and offer the following specific responses to the findings of the report:

**Finding 1: Inadequate Fiscal Controls and Questioned Expenditures**

**Construction expenditures:**

The audit findings identified nearly \$2.5 million in actual construction expenditures specific to the Redlands Boulevard and Alabama Street Intersection Improvement Project (Project) which includes \$1 million in Proposition 1B funds. Subsequent to the approval of the grant, the City included improvements at the intersection of Redlands Boulevard and Colton Street, in the vicinity of the Alabama Street improvements, in anticipation of receiving more competitive construction bids. The

MS. JENNIFER WHITAKER

June 4, 2018

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Project was originally estimated at \$13 million in construction costs programmed in the Federal Transportation Improvement Program (FTIP). However, actual construction costs were substantially reduced due to an economy of scale, resulting in significant cost savings. The Program Supplement Agreement identifies the reimbursement ratio lower than the 50% funding match requirement, however, actual eligible construction costs were nearly \$2.5 million as identified in the audit report. Accordingly, the Project met all the funding guidelines of Proposition 1B enabling the City to invoice for complete reimbursement of the \$1 million grant awarded.

**Personnel expenditures:**

Prior to implementing the accounting system as recommended in the draft audit report, the City's practice was to make good faith allocations of staff time to projects at the budget level. The City acknowledges that the use of cost centers is a better way to track project related staff time; however, the staff time billed to the Project is within the norms of standard industry practice. The City has expended and substantiated over \$2.5 million just in construction costs justifying the retention of all funds reimbursed to the City under the Proposition 1B State-Local Partnership Program Account (SLPP) for the Redlands Boulevard and Alabama Street Intersection Improvement Project (0813000078).

**Consulting engineering field inspection expenditures:**

Based on the timing of the billing statements provided to the City by the inspection consultant, City believes the claims for reimbursement are accurate. In addition, the City has already implemented the suggested changes including ensuring a secondary review is in place prior to submitting future claims for reimbursement.

In closing, the City agrees with and has already implemented additional fiscal controls for future City projects as recommended in the draft audit report. The City is requesting that the Department of Finance reconsider the draft audit findings and recommendations consistent with the guidelines set forth for the disbursement of Proposition 1B funds. City will be happy to provide any additional information the Department may request.

Should you have any questions, please feel free to contact us or Savat Khamphou, Deputy Director at (909) 798-7584, ext. 4233.

Sincerely,

  
\_\_\_\_\_  
Paul Toor,  
Municipal Utilities & Engineering Director

  
\_\_\_\_\_  
Danielle Garcia,  
Management Services/Finance Director

**MS. JENNIFER WHITAKER**

**June 4, 2018**

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**c: N. Enrique Martinez, City Manager  
Savat Khamphou, Deputy Director, MUED  
David Lee, District Local Assistance Planner, Caltrans – District 8**

The City's response to the draft report has been reviewed and incorporated into the final report. We acknowledge the City's willingness to implement our recommendations. In evaluating the City's response, we provide the following comments:

### **Finding 1: Inadequate Fiscal Controls and Questioned Expenditures**

The City agrees with the finding and states that corrective actions related to fiscal controls have been subsequently implemented. However, the City contends that because total project expenditures incurred exceeded the Proposition 1B awarded amount, those costs identified as Proposition 1B ineligible should be considered valid. No new evidence was presented by the City to substantiate the \$417,483 questioned costs were Proposition 1B eligible. Therefore, the finding and recommendations will remain unchanged.

### **Finding 2: Final Delivery Report not Submitted Timely**

The City did not provide a response to this finding. As such, the finding and recommendations remain unchanged.