

# Memorandum

*Serious drought.  
Help Save Water!*

**To:** RIHUI ZHANG, Chief  
Division of Local Assistance

**Date:** February 24, 2016

**File:** P2535-0051  
P2535-0052  
P2535-0053  
P2535-0054  
P2535-0055

**ORIGINAL SIGNED BY:**

**From:** LAURINE BOHAMERA, Chief  
External Audits - Contracts  
Audits and Investigations

**Subject:** **AUDIT OF CITY OF ANAHEIM**

Attached is the audit report pertaining to the audit performed on the City of Anaheim (City), relative to funding received from Caltrans using Proposition 1B (Prop 1B) State-Local Partnership Program funds. The audit was for the period of January 1, 2011, through April 30, 2015. The names of the projects audited and the Prop 1B programmed amounts are:

- L161 Orange Ave., Project No. SLPP 5055(168), \$174,000
- L160 Knott Ave., Project No. SLPP 5055(169), \$224,000
- L134 Tustin Ave./Riverside Ave., Project No. SLPP 5055(170), \$277,000
- L162 Broadway, Project No. SLPP 5055(171), \$187,000
- L153 Anaheim Blvd., Project No. SLPP 5055(172), \$332,000

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 California State Controller on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed.

The attached report contains one finding related to the City's failure to document labor compliance interviews for all projects under this audit.

Please provide A&I a corrective action resolution on the audit finding within 90 days of the audit report date.

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

Attachment

- c: Stephen Maller, Deputy Director, California Transportation Commission
- Dawn Cheser, Assistant Deputy Director, California Transportation Commission
- Bruce De Terra, Division Chief, Transportation Programming
- Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
- Mohammad Maljai, Acting Chief, Office of Policy Development and Quality Assurance,  
Division of Local Assistance
- Sharon Bertozzi, Prop 1B Coordinator, Division of Local Assistance
- Steve Novotny, Local Assistance Engineer, District 7
- Luisa Ruvalcaba, Audit Manager, Audits and Investigations
- Annette Goudeau, Audits and Performance Analyst, Office of Policy Development and  
Quality Assurance, Division of Local Assistance

# CITY OF ANAHEIM

## Audit Report

STATE-LOCAL PARTNERSHIP PROGRAM  
PROPOSITION 1B BOND-FUNDED PROJECTS  
EA #5055(168)/P2535-0051, EA #5055(169)/P2535-0052,  
EA #5055(170)/P2535-0053, EA #5055(171)/P2535-0054,  
AND EA #5055(172)/P2535-0055

*January 1, 2011, through April 30, 2015*



**BETTY T. YEE**  
California State Controller

February 2016



**BETTY T. YEE**  
California State Controller

February 16, 2016

Laurine Bohamera, Chief  
Audits and Investigations  
California Department of Transportation  
P.O. Box 942874  
Sacramento, CA 94274-0001

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited the City of Anaheim's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of January 1, 2011, through April 30, 2015.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225, and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines and agreements.

We audited the Proposition 1B bond-funded projects; L161 Orange Ave. – SLPP 5055(168), L160 Knott Ave. – SLPP 5055(169), L134 Tustin Ave./Riverdale Ave. – SLPP 5055(170), L162 Broadway – SLPP 5055(171), and L153 Anaheim Blvd. – SLPP 5055(172). Except for the lack of labor compliance interviews, as discussed below, for each project, we determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18, and/or California Public Contract Code sections 10140–10141.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

Schedule 1 of this report is a summary of project costs programmed, approved, expended, and audited during the audit period.

Our audit found that the City of Anaheim did not document labor compliance interviews for all projects under audit. Labor compliance violations may not be detected or verified because the city did not document spot interviews with contractors and subcontractors.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/lis

Attachment

cc: Laurine Bohamera, Chief  
Audits and Investigations  
California Department of Transportation  
Luisa Ruvalcaba, Audit Manager  
Audits and Investigations  
California Department of Transportation  
Jan Goto, Audit Manager  
Division of Audits – Bond Unit  
State Controller's Office  
Nick McCarty, Auditor-in-Charge  
Division of Audits – Bond Unit  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the City of Anaheim's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of January 1, 2011, through April 30, 2015.

The SCO performed the audit in accordance with generally accepted government auditing standards. Based on audit procedures performed, we determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines, procedures, agreements, or approved amendments.

We audited the Proposition 1B bond-funded projects; L161 Orange Ave. – SLPP 5055(168), L160 Knott Ave. – SLPP 5055(169), L134 Tustin Ave./Riverdale Ave. – SLPP 5055(170), L162 Broadway – SLPP 5055(171), and L153 Anaheim Blvd. – SLPP 5055(172). Except for the lack of labor compliance interviews, as discussed below, for each project determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18 (49 CFR 18), and/or California Public Contract Code sections 10140–10141.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

Our audit found that the City of Anaheim did not document labor compliance interviews for all projects under audit. Labor compliance violations may not be detected or verified because the city did not document spot interviews for contractors and subcontractors.

## Background

In accordance with Caltrans and Commission-executed project agreement(s) or approved amendments, the projects listed below were programmed and approved to receive Proposition 1B bond funds, for one or more phases of work, under the State-Local Partnership program.

1. L161 Orange Ave. – SLPP 5055(168)

The total approved Proposition 1B amount was \$174,000. The project completion date was July 31, 2014.

## 2. L160 Knott Ave. – SLPP 5055(169)

The total approved Proposition 1B amount was \$224,000. The project completion date was July 21, 2014.

## 3. L134 Tustin Ave./Riverdale Ave. – SLPP 5055(170)

The total approved Proposition 1B amount was \$277,000. The project completion date was December 16, 2013.

## 4. L162 Broadway – SLPP 5055(171)

The total approved Proposition 1B amount was \$187,000. The project completion date was March 28, 2014.

## 5. L153 Anaheim Blvd. – SLPP 5055(172)

The total approved Proposition 1B amount was \$332,000. The project completion date was June 26, 2014.

This audit was performed by the SCO on behalf of Caltrans (Audit Request Nos. P2535-0051, P2535-0052, P2535-0053, P2535-0054, and P2535-0055). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0027, dated December 1, 2007, between the SCO and Caltrans, which provides that the SCO will perform audits of project expenditures that were funded and reimbursed by the Proposition 1B Bond Fund, to ensure compliance with Caltrans and Commission Proposition 1B program guidelines.
- Government Code section 12410, which states, “The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment.”

## **Objectives, Scope, and Methodology**

The SCO audited the implementing agency’s financial management system relative to projects funded and reimbursed by the Proposition 1B Bond Fund, during the audit period of January 1, 2011, through April 30, 2015.

The objectives of our audit were to determine whether:

- The implementing agency’s accounting system and internal controls were adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines, procedures, project agreements, or approved amendments.
- The implementing agency complied with applicable federal and state procurement requirements as required by 49 CFR 18, California

Public Contract Code sections 10140–10141, and/or provisions stated in the contract.

- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

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

- Reviewed the implementing agency's prior audits and single audit reports;
- Reviewed the implementing agency's written policies and procedures relating to accounting systems, construction project management, and contract management; and
- Interviewed employees, completed the internal control questionnaire, and performed a system walk-through in order to gain an understanding of the implementing agency's internal controls, accounting systems, timekeeping and payroll systems, and billing processes related to transportation projects; specifically, projects funded by Proposition 1B.

For the projects under review, we performed the following audit procedures:

- Obtained project files and reviewed preliminary information to ensure that the implementing agency complied with applicable state and federal procurement requirements;
- Obtained project expenditure reports, judgmentally selected a sample of activities that were funded by Proposition 1B, and obtained and reviewed supporting documentation to ensure that project expenditures were reasonable, allocable, and allowable in accordance with Caltrans and Commission program guidelines, procedures, agreements, and applicable state and federal requirements;
- Reviewed significant contract change orders to ensure that they were properly approved and supported;
- Reviewed project final reports, close-out documents, finance letters, and baseline agreements to ensure that variances or changes to the project's scope, schedule, costs, and benefits were properly approved and supported; and
- Reviewed the project payment history file and/or invoices sent to the Caltrans accounting office to ensure that the implementing agency properly prepared and/or billed Caltrans for reimbursement of project expenditures as required by Caltrans' local assistance procedures.

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.

We did not audit the implementing agency's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

## Conclusion

We determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines and agreements.

We audited the Proposition 1B bond-funded projects L161 Orange Ave. – SLPP 5055(168), L160 Knott Ave. – SLPP 5055(169), L134 Tustin Ave./Riverdale Ave. – SLPP 5055(170), L162 Broadway – SLPP 5055(171), and L153 Anaheim Blvd. – SLPP 5055(172), and for each project, except for the lack of labor compliance interviews, as discussed below, determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18 (49 CFR 18), and/or California Public Contract Code sections 10140–10141.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

Our audit found that the City of Anaheim did not document labor compliance interviews for all projects under audit. Labor compliance violations may not be detected or verified because the city did not document spot interviews for contractors and subcontractors.

## Views of Responsible Officials

We issued a draft report on November 12, 2015. We contacted David Sanchez, Assistant Engineer, by email on January 11, 2016, inquiring whether the city would be responding to the draft report. We also informed him that if the city does not respond to the draft report, the report will be issued as final. The city did not submit a response.

**Restricted Use**

This report is solely for the information and use of the City of Anaheim, Caltrans, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

February 16, 2016

**Schedule 1—  
Summary of Project Costs  
Approved, Expended, and Audited  
January 1, 2011, through April 30, 2015  
Project No./EA No. 5055(168)/P2535-0051, Orange Avenue**

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<u>Phases reimbursed by Proposition 1B Bond Fund</u>	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited</u>
Construction	\$ 165,000	\$ 165,000	\$ 165,000
Construction support	9,000	9,000	9,000
Total	<u>\$ 174,000</u>	<u>\$ 174,000</u>	<u>\$ 174,000</u>

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	01/15/13	01/15/13	05/07/13
End construction	09/30/13	09/30/13	02/06/14
Beginning close-out	10/01/13	10/01/13	02/07/14
End close-out	12/31/13	12/31/13	07/31/14

**Schedule 2—  
Summary of Project Costs  
Approved, Expended, and Audited  
January 1, 2011, through April 30, 2015  
Project No./EA No. 5055(169)/P2535-0052, Knott Avenue**

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<u>Phases reimbursed by Proposition 1B Bond Fund</u>	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited</u>
Construction	\$ 213,000	\$ 213,000	\$ 213,000
Construction support	11,000	11,000	11,000
Total	<u>\$ 224,000</u>	<u>\$ 224,000</u>	<u>\$ 224,000</u>

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	01/15/13	01/15/13	05/07/13
End construction	09/30/13	09/30/13	02/06/14
Beginning close-out	10/01/13	10/01/13	02/07/14
End close-out	12/31/13	12/31/13	07/21/14

**Schedule 3—  
Summary of Project Costs  
Approved, Expended, and Audited  
January 1, 2011, through April 30, 2015  
Project No./EA No. 5505(170)/P2535-0053, Tustin  
Avenue/Riverdale Avenue**

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<u>Phases reimbursed by Proposition 1B Bond Fund</u>	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited</u>
Construction	\$ 259,165	\$ 259,165	\$ 259,165
Construction support	17,835	17,835	17,835
Total	<u>\$ 277,000</u>	<u>\$ 277,000</u>	<u>\$ 277,000</u>

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	12/18/12	12/18/12	04/16/13
End construction	06/01/13	06/01/13	09/16/13
Beginning close-out	06/01/13	06/01/13	09/16/13
End close-out	09/01/13	09/01/13	12/16/13

**Schedule 4—  
Summary of Project Costs  
Approved, Expended, and Audited  
January 1, 2011, through April 30, 2015  
Project No./EA No. 5055(171)/P2535-0054, Broadway**

<u>Phases reimbursed by Proposition 1B Bond Fund</u>	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited</u>
Construction	\$ 177,000	\$ 177,000	\$ 177,000
Construction support	10,000	10,000	10,000
Total	<u>\$ 187,000</u>	<u>\$ 187,000</u>	<u>\$ 187,000</u>

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	01/15/13	01/15/13	05/07/13
End construction	09/30/13	09/30/13	01/03/14
Beginning close-out	10/01/13	10/01/13	01/06/14
End close-out	12/31/13	12/31/13	03/28/14

**Schedule 5—  
Summary of Project Costs  
Approved, Expended, and Audited  
January 1, 2011, through April 30, 2015  
Project No./EA No. 5055(172)/P2535-0055, Anaheim Blvd.**

<u>Phases reimbursed by Proposition 1B Bond Fund</u>	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited</u>
Construction	\$ 315,000	\$ 315,000	\$ 315,000
Construction support	17,000	17,000	17,000
Total	<u>\$ 332,000</u>	<u>\$ 332,000</u>	<u>\$ 332,000</u>

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	01/15/13	01/15/13	05/07/13
End construction	09/30/13	09/30/13	02/06/14
Beginning close-out	10/01/13	10/01/13	02/07/14
End close-out	12/31/13	12/31/13	06/26/14

# Finding and Recommendation

## **FINDING— Labor compliance interviews not documented**

The City of Anaheim did not document labor compliance interviews for all projects under audit. Labor compliance violations may not be detected or verified because the city did not document spot interviews for contractors and subcontractors.

Local Assistance Procedures Manual, Chapter 16, Administer Construction Contracts states:

16.11 Labor Compliance-Procedures: The administering agency (defined in Chapter 15) is responsible to designate a labor compliance officer to enforce the contract provisions and ensure that all labor compliance requirements are performed and documented in the project file....

The administering agency must maintain sufficient records to ensure contractor/subcontractor compliance with wage and apprenticeship sections of the contract. Specific actions required include, but are not limited to:

- Conducting spot interviews with employees on the project
- Maintaining written evidence of apprentices employed on the project.

Caltrans Construction Manual, Chapter 8, Section 1, Labor Compliance states:

### 8-102A (2) Resident Engineer Project Responsibilities,

...Conduct employee interview, and transmit to the district labor compliance office fully completed interview forms. (For more information about these interviews and forms, see below under the heading "Interviews with Contractor Personnel.") The frequency of these interviews should be at the rate of three employees per contract per month, including at least one interview from the prime contractor and each subcontractor until such time as the contract is accepted or that all employees on the project have been interviewed. The number of interviews taken must constitute a representative sample of workers employed on the project.

### 8.102A (3) Interviews With Contractor Personnel,

The contract labor standards require the contractor to allow authorized Caltrans [the implementing agency in this case] personnel to interview contractor employees during working hours... Conduct a minimum of three prime contractor interviews for each contract each month. Conduct at least one interview for each subcontractor. A variety of crafts and trades should be interviewed.....

The City of Anaheim was unaware that worker interviews should be conducted and documented on SLPP-funded projects.

Recommendation

The City of Anaheim should conduct and document spot interviews with contractors and subcontractors to enforce the labor requirements stated in the Local Assistance Procedures Manual, the Caltrans Construction Manual, and the city's Administrative Regulations, which establish procedures for administration of City contracts for Capital Improvements.

**State Controller's Office  
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