

CITY OF CARSON

Review Report

INTERNAL CONTROL SYSTEM

July 1, 2018, through June 30, 2020



MALIA M. COHEN
California State Controller

February 2023



MALIA M. COHEN
California State Controller

February 8, 2023

David C. Roberts Jr., City Manager
City of Carson
701 E. Carson Street
Carson, CA 90745

Dear Mr. Roberts:

The State Controller's Office reviewed the City of Carson's internal control system to determine the adequacy of the city's controls for conducting operations, preparing financial reports, safeguarding assets, and ensuring proper use of public funds.

Our review found deficiencies in the city's internal control system. Our evaluation of the internal control system was based on conditions that existed during the review period of July 1, 2018, through June 30, 2020.

The city should develop a comprehensive plan to address these deficiencies. The plan should identify the tasks to be performed, as well as milestones and timelines for completion. The City Council should require periodic updates at public meetings of the progress in implementing this plan. Furthermore, we request that the city provide the State Controller's Office with a progress update of its plan six months from the issuance date of final report.

We would like to express our thanks to the city staff and management, who were helpful throughout the review process.

If you have any questions, please contact Efren Loste, Chief, Local Governments Audit Bureau, by telephone at (916) 324-7226, or by email at eloste@sco.ca.gov.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

cc: The Honorable Lula Davis-Holmes, Mayor
City of Carson
Jawane Hilton, Mayor Pro Tempore
City of Carson
Tarik Rahmani, Deputy City Manager
City of Carson
Jim Dear, Councilmember
City of Carson
Cedric L. Hicks, Sr., Councilmember
City of Carson
Arleen Bocatija Rojas, Councilmember
City of Carson

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Review Report

Summary

The State Controller's Office (SCO) has completed a review of the City of Carson's internal control system for the period of July 1, 2018, through June 30, 2020 (fiscal year [FY] 2018-19 and FY 2019-20). When information obtained from city officials, independent auditors, and other audit reports merited further review, we expanded our testing to include prior-year and current-year transactions.

Our review found deficiencies in the city's internal control system, as described in the Findings and Recommendations section of this review report.

Background

The City of Carson is a charter city in Los Angeles County, California. The city has a total area of 19.2 square miles, with a population of approximately 93,000 as of 2019.

The city operates under Council-Manager form of government. The city's Mayor is elected to a four-year term, and Councilmembers are elected to four-year, staggered terms with two Councilmembers elected every two years. The City Council is responsible for, among other things, setting city policies, adopting ordinances and resolutions, adopting the budget, appointing committees, and hiring the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and directives of the Council, for overseeing the day-to-day operations of the city, and for appointing the directors and officers of the city's departments.

Review Authority

We conducted this review pursuant to Government Code section 12422.5, which authorizes the Controller to "audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud."

Objective, Scope, and Methodology

The objective of our review was to evaluate the city's internal control system for FY 2018-19 and FY 2019-20 to determine the:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Adequacy of public-resource safeguards.

To achieve our objective, we performed the following procedures:

- We evaluated the city's formal internal policies and procedures.
- We conducted interviews with city employees and observed the city's business operations to evaluate the city's internal control system.

- We reviewed the city's supporting documentation, including financial records.
- We performed tests of transactions on a non-statistical sample basis to ensure adherence with prescribed policies and procedures, and to test and validate effectiveness of controls.
- We evaluated various aspects of the city's internal control system in accordance with the *Standards for Internal Control in the Federal Government*, issued by the United States Government Accountability Office.

Conclusion

Our review found deficiencies in the city's internal control system, as described in the Findings and Recommendations section of this review report. These deficiencies include the following:

- Lack of controls over the city's contracts (Finding 1);
- Outdated policies and procedures (Finding 2); and
- Lack of an established audit committee (Finding 3).

Views of Responsible Officials

We issued a draft report on November 4, 2022. The city responded by letter dated November 22, 2022, agreeing with the audit results. The city's response is included as an attachment to this report.

Restricted Use

This report is solely for the information and use of the City of Carson 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 review report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

February 8, 2023

Findings and Recommendations

FINDING 1— Lack of controls over the city’s contracts

During our review of the city’s contracting process from July 1, 2018, through December 31, 2020, we noted numerous contracts and transactions that appear questionable.

No contract limit for amendments

We sampled 42 contracts, and identified 21 contracts that the city amended to significantly increase the contract amounts. Of the 21 amended contracts that we identified, 11 had original contract amounts less than \$25,000 and were not procured using a competitive process. The city’s municipal code requires all contracts between \$5,000 and \$25,000 to be procured using informal bids. Although the city’s Municipal Code states that contracts must undergo a competitive procurement process, it does not impose limits on the total sum of amended contracts. As a result, when the city significantly increased contracts through later amendments, it may have avoided using an open, competitive procurement process.

The following table shows the 21 contracts and the total contract sums after amendments were made:

Vendor Name	Original Contract Sum	Amended Contract	% Increase
<u>Contracts under \$25,000</u>			
Interwest Consulting Group Inc.	\$ 24,999	\$ 249,999	900%
CTI Environmental, Inc.	7,000	50,000	614%
Norman A. Traub and Associates	24,000	159,769	566%
Kosmont Transaction Svcs.	24,990	134,990	440%
iWorQ Systems, Inc.	21,000	108,160	415%
Star-Dust Tours	24,750	95,000	284%
The Counseling Team International	25,000	75,900	204%
Chicago Title Company	10,000	30,000	200%
Kelly Associates Management Group LLC	24,000	75,000	213%
RKA Consulting Group	24,990	49,990	100%
David L. Gruber & Assoc.	20,250	38,250	89%
<u>Contracts over \$25,000</u>			
CSG Consultants Inc.	300,000	1,876,000	525%
Nationwide Cost Recovery Services	105,000	521,620	397%
DHA Consulting	35,000	169,000	383%
Environmental Science Associates	750,000	2,116,210	182%
Dudek	750,000	1,350,000	80%
Michael Baker International Inc.	750,000	1,350,000	80%
MRS Environment Inc.	750,000	1,350,000	80%
Dyett & Bhatia Urban & Regional Planners	1,110,194	1,672,164	51%
Hill International	3,778,778	4,918,765	30%
Nationwide Environmental Services	731,420	921,645	26%

City Attorney's contract

On June 17, 2008, the city entered into a contract with Aleshire & Wynder, LLP, for City Attorney legal services. The contract specified hourly rates but did not limit total compensation or specify a term ending date. Although the original legal services contract was competitively procured, the city did not provide documentation to support that it had considered other options or sought bids from other legal firms in the last 14 years.

During FY 2018-19 and FY 2019-20, the city paid Aleshire & Wynder, LLP an aggregate amount of \$8,670,700 from the following four different funds:

Funds ¹	FY 2018-19	FY 2019-20	Total
General	\$3,800,316	\$3,403,985	\$7,204,301
Housing	5,275	-	5,275
Carson Reclamation Authority	1,084,860	364,868	1,449,728
Successor Agency	11,396	-	11,396
Total Per FY	<u>\$4,901,847</u>	<u>\$3,768,853</u>	<u>\$8,670,700</u>

¹Housing, Carson Reclamation Authority, and Successor Agency are separate legal entities whose operations are performed and accounted for by city staff.

Contract payments not approved by Council

The city's Municipal Code states that the City Manager may approve expenditures of \$25,000 or less, and that all expenditures of greater than \$25,000 shall be approved by the City Council. We noted two instances in which consultants were paid amounts exceeding the City Manager's approval limit. The payments were solicited by the City Attorney and were not approved by the City Council.

The City Attorney's contract contains a clause that allows him or her to hire consultants and bill the city for the consultants' fees and charges.

In February 2019, city management approved a \$24,999 contract with Alkinson, Andelson, Loya, Ruud & Romo to provide investigative services for the Director of Human Resources and Risk Management. By the end of 2019, the consulting firm had been paid \$21,887 and continued to perform investigative services for the city. On January 2020, the City Attorney submitted a special cost-only invoice to the city and requested that the city pay the consulting firm \$8,203 for investigative services. As a result, the city exceeded the contract by \$5,090.

Another consulting firm, Fairbank, Maslin, Maullin, Metz & Associates, was paid over its original contract amount of \$24,950, without City Council approval, for a total of \$34,950.

Questionable use of sole-source contracts

The city circumvented its normal purchasing procedures by awarding sole-source contracts.

The city's *Procurement Policy and Procedures* manual contains exceptions to normal purchasing procedures, one of which is when supplies, equipment, or services can be obtained only from a single source. In such cases, the city should document how it determined that a vendor or contractor was the sole source of the supplies, equipment, or service.

Out of the 42 contracts we sampled, we noted five sole-source contracts that did not include justification for why a competitive process was not used. By awarding sole-source contracts without providing adequate written documentation of why the providers were chosen, the city was able to circumvent normal purchasing procedures. Per our discussion with city management, these consulting firms were awarded sole-source contracts because the city had worked with them in the past, not necessarily because they were the only service providers in the area. The city approved the following sole-source contracts without justifications:

Vendor	Description	FY 2018-19	FY 2019-20	Total Paid
DHA Consulting, LLC	Financial analysis and housing consulting services	\$ 12,746	\$ 25,328	\$ 38,074
Mediastar, Inc.	Maintenance, programming, equipment repair, and replacement of the audio-visual system	199,185	-	199,185
Superion, LLC	Financial software	59,491	62,911	122,402
Kosmont & Associates	Financing district consulting	24,601	44,088	68,689
Electrosonic, Inc.	Maintenance, programming, equipment repair, and replacement of the audio-visual system	133,981	13,125	147,106

Recommendation

We recommend that the city:

- Ensure that it follows its policies requiring informal bids for small contracts, and provides written justification when informal bids are not practical;
- Establish policies and procedures to ensure that contracts follow a competitive procurement process;
- Ensure that, when contract amendments, renewals, or extensions significantly exceed original contract amounts, it document why it decided not to seek competitive bids from other service providers;
- Re-evaluate its current legal services contract with Aleshire & Wynder, LLP to ensure that it is still competitive;

- Develop policies and procedures to ensure that contracts and contract amendments exceeding certain limits are approved by the City Council; and
- Adhere to the established *Procurement Policy and Procedures*.

City's Response

Pursuant to Carson Municipal Code § 2611 informal bids are required for any contract between \$5,000 and \$24,999.99 and not required for services under \$5,000. . . . The City is already reviewing this matter and will expedite the appropriate updates to our process.

SCO Comment

We amended this finding as presented in the draft report to provide clarity to the finding.

We also updated the report to provide clarity concerning the city's contract for legal services.

FINDING 2— Outdated policies and procedures

The city does not routinely review and update its policies and procedures. The city's policies and procedures were last updated in June 2014. The city's documentation is incomplete, inaccurate, and inconsistent with its existing processes.

We identified the following topics for which the city does not have policies:

- Limits on contract amendments, renewals, and extensions;
- Recruitment procedures for unclassified management executives, such as department heads; and
- Preparation of bank reconciliations.

A well-designed and properly maintained system of policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. Incomplete and outdated policies and related internal controls result in unclear roles and responsibilities, and can lead to improper handling of administrative functions. Monitoring is an essential element of internal control; it includes periodic risk assessments, and verification by management that policies and procedures are regularly updated to address the new challenges identified by those risk assessments.

Recommendation

We recommend that the city perform periodic review of administrative policies and procedures to ensure completeness, accuracy, and consistency with its existing processes.

City's Response

The City is already reviewing this matter and will expedite the appropriate updates to our process.

SCO Comment

Our finding and recommendation remain unchanged.

**FINDING 3—
Lack of an
established audit
committee**

On June 28, 2013, the Los Angeles County Civil Grand Jury (Grand Jury) issued a final report of its findings and recommendations pertaining to county government matters during FY 2012-13. In this report, the Grand Jury recommended that the city formally establish an audit committee to provide independent review and oversight of the city's financial reporting processes, internal control system, and independent auditors.

In May 2013, the city approved the formation of a two-member ad hoc Audit Committee. The Mayor Pro Tem and another city council member were appointed to serve for the FY 2012-13 term. It was proposed that all five city council members would take turns serving an annual term. The current committee members were appointed on May 3, 2016. No meetings have been held since May 3, 2017.

The purpose of an audit committee is to oversee all aspects of the financial reporting process, including preparation and filing of financial statements, internal control over financial reporting, and related risks. An audit committee's major areas of responsibility include oversight of the internal control system, oversight of the internal audit function and external auditors, review of financial filings, and establishment and oversight of a "whistleblower" process.

Recommendation

We recommend that the city formally establish a standing audit committee to provide independent review and oversight to the city's financial reporting processes, internal control system, and independent auditors. The audit committee should be formally established through a city resolution.

City's Response

Previously the City had a Controller position on staff and had an Audit Committee. The City will consider expanding the role of the Audit Committee to include review of internal control systems.

SCO Comment

Our finding and recommendation remain unchanged.

**Attachment—
City's Response to Draft Review Report**



November 22, 2022

Efren Loste
Chief, Local Government Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250

Dear Efren Loste:

The City of Carson has received the Draft Review Report on the City's Internal Control System, dated November 4, 2022, which addresses Fiscal Year 2019 and Fiscal year 2020, covering the dates of July 1, 2018, through June 30, 2020. Below are the City's responses to the Findings and Recommendations as detailed in the Draft Report.

Finding 1 – Lack of controls over the City's contracts

- *Consider conducting an informal competitive bid process for small contracts and providing written justification when doing so is not practical.*
 - Pursuant to Carson Municipal Code § 2611 informal bids are required for any contract between \$5,000 and \$24,999.99 and not required for services under \$5,000.
- *Establish policies and procedures to ensure that contracts follow a competitive procurement process when contract amendments, renewals, or extensions significantly exceed the original contract amounts.*
 - The City is already reviewing this matter and will expedite the appropriate updates to our process.
- *Ensure that justifications and procurement decisions are adequately documented.*
 - The City is already reviewing this matter and will expedite the appropriate updates to our process.

The City needs to clarify some of the contracts identified in the Draft Report. Some of the contracts including Norman A. Traub Associates; Kelly Associates Management Group LLC; and Atkinson, Andelson, Loya, Ruud & Romo were increased from their original amount because the volume of work increased as the work was being conducted and it would have been impractical to change consultants in the middle of a project or investigation. Clarification for some additional contracts is noted below.

1. CSG Consultants

This contract for on-call Planning services was awarded on December 6, 2016, after the City undertook an RFP process. The initial term for the contract was 5 years (3 years plus two one-year options). CSG provides staffing for the Planning Division when applications are submitted that City staff does not have capacity to process. The City sought on-call services because during the 2016 period a number of planners had left nearly all at once and recruiting was proving difficult, and the City is under strict State statutory timeline requirements dictated by the Permit Streamlining Act and California Environmental Quality Act ("CEQA") to process planning projects.

As an on-call contract, the amount of the contract could be increased as staffing needs increased due to staff turnover and/or increased volume of projects. In addition, because the services are fee-based, developers pay for a large majority of these services. Since an individual planning project could span from 6 months to two years, it is not practical to change project planners mid-project, so the "wind-down process" on an on-call contract like CSG's would be through attrition – releasing contract planners as their work is completed and not assigning them new work.

All of the amendments to the original CSG contract were during the original three-year term or option periods, and the contract was drafted to be flexible as to the amount, based on the City's needs for contract staffing to meet state mandated timelines during the contract period.

2. Dudek, ESA, Michael Baker, and MRS

Similar to the CSG contract described in Section 1, these contracts were all awarded on October 18, 2016, after the City undertook an RFP process, to provide the Planning Division technical studies and to prepare environmental analyses of projects based on CEQA. The initial term of the contracts was also 5 years (3 years plus two one-year extensions). More complex environmental studies, such as Environmental Impact Reports ("EIRs"), can cost well over \$1,000,000 and take 18-24 months to complete.

One of these contractors, ESA, was tasked with drafting an EIR for a development project in the 2017-2018 period, which required a contract amendment during the original three-year term for \$766,210 (bringing the total amount to \$1,516,210). There was also an amendment at the exercise of the first option year, adding \$250,000, and another at the second option year of another \$350,000. The other three contracts were only increased at the option years to allow the contract capacity for a major EIR, though none of the other three vendors – Michael Baker International, Dudek, or MRS, were awarded any CEQA work at the level of the EIR produced by ESA. All these amendments were approved during the contract terms.

3. Dyett and Bhatia

This contract was awarded on June 6, 2017, after the City conducted an RFP process. The initial term for the contract was 3 years, or until completion of the project. The General Plan update process is a very long process made more complicated but multiple changes by the State in Housing Element Law and other land use regulations. Once a consultant is selected, the selected consultant must finish the General Plan. It is not practical or desired to stop the process of updating a General Plan and go through an RFP to select another consultant.

4. Chicago Title

This contract was awarded on December 6, 2016, after going through an RFP process. The initial term for the contract was 3 years including two one-year extensions. The amount of the contract was increased by \$10,000 every year as permitted by the contract.

- *Re-evaluate its current legal services contract with Aleshire & Wynder, LLP to ensure that it is still competitive.*¹²
 - The City has periodically evaluated its legal services contract and will continue to do so. Some examples:
 - On March 18, 2014, (item No. 5 on the agenda) the City conducted a thorough evaluation of the City Attorney's performance and rates.
 - On May 16, 2017, (item No. 2 on the agenda) the City conducted evaluation of the City Attorney's performance and rates.
 - In June of 2018, an analysis was conducted of the City Attorney's office, considering whether to change to in-house operations, elected position or continue contract services. In that analysis rates were compared with neighboring cities and other law Firms.
 - On February 5, 2019, (item No. 22 on the agenda) at City Council's request, the City Manager's office conducted an audit of City Attorney's services for fiscal years 2016-2017 and 2017 and 2018.

¹ Page 4 of the draft letter states "no documentation was provided to support that the city had considered other options or sought bids from other legal firms" before hiring Aleshire & Wynder, LLP in 2008. Please refer to City staff report dated June 17, 2008 outlining that a public Request for Proposal process was conducted in selecting the Firm, eleven (11) firms were considered and six (6) were interviewed.

² Page 4 erroneously implies that the City uses its general fund to pay towards expenditures of the Carson Reclamation Authority's (CRA) legal services. The City does not spend any funds towards the functions of the CRA. The CRA was established in 2015 as a joint powers authority and is a public entity separate and independent from the City and even its participating members, which are Community Facilities District No. 2012-1, Community Facilities District No. 2012-2, and the City of Carson Housing Authority. (Govt. Code §§ 6502, 6507.) The CRA has its own Board, appointed by the constituent members and is not the City Council body. Its accounting is separate and does not rely on City funds. Even staff's time in operating the CRA is reimbursed by the CRA. Initial funding of the CRA came from \$50.5M of subordinate tax allocations bonds issued in 2015 to assist with the remedial work related to the 157 acre former landfill owned by the CRA. Since 2015, the CRA has reclaimed an environmental trust fund established by the previous (private) owner, received reimbursements from development partners for both carrying costs and construction activity, and received additional funds through the sale of portions of the property to private developers. The majority of the legal services provided for the CRA are and have been paid for through reimbursement agreements by developers who are engaged in development activities on the CRA's site and any remainder minimal amount is paid for through the CRA funds and not the City's General Fund. This distinction is very important. We are happy to walk the auditor through the documents. The \$1,449,728 amount allocated on page 4 as an impact to the City is a CRA expenditure which was reimbursed in large part if not exclusively by developers negotiating to develop the 157 acres site at the time. All documents evidencing that the CRA pays its expenses from its own funds independent of the City are public and available for review.

- On May 18, 2021, (item No. 21 on the agenda) in discussing an amendment to the City Attorney's contract, other public law firm's rates were studied.
- *Develop policies and procedures to ensure that contracts exceeding certain limits are approved by the City Counsel.*
 - The City is already reviewing this matter and will expedite the appropriate updates to our process.
- *Adhere to the established Procurement Policy and Procedures.*
 - The City is already reviewing this matter and will expedite the appropriate updates to our process.

Finding 2 – Outdated policies and procedures

- *We recommend that the city perform periodic review of administrative policies and procedures to ensure completeness, accuracy, and consistency with its existing processes.*
 - The City is already reviewing this matter and will expedite the appropriate updates to our process.

Finding 3 – Lack of an established audit committee

- *We recommend that the city formally establish a standing audit committee to provide independent review and oversight to the city's financial reporting processes, internal control system, and independent auditors. The audit committee should be formally established through a city resolution.*
 - Previously the City had a Controller position on staff and had an Audit Committee. The City will consider expanding the role of the Audit Committee to include review of internal control systems.

Thank you for your prompt attention to this matter. Please feel free to contact the City Manager's Office at 310-952-1730 if you have any questions.

Sincerely,



David C. Roberts, Jr.
City Manager, City of Carson

**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>