

# Memorandum

*Serious drought.  
Help Save Water!*

**To:** BRUCE DE TERRA  
Division Chief  
Transportation Programming

**Date:** August 17, 2016

**File:** P2525-0026  
P2525-0027  
P2525-0025

**ORIGINAL SIGNED BY:**

**From:** ALICE M. LEE  
Chief  
External Audit - Contracts  
Audits and Investigations

**Subject:** AUDIT OF ALAMEDA CORRIDOR-EAST CONSTRUCTION AUTHORITY

Attached is the audit report pertaining to the audit performed on the Alameda Corridor-East Construction Authority relative to funding received from Caltrans using Proposition 1B (Prop 1B) Trade Corridors Improvement Fund. The name of the projects audited are:

- Baldwin Avenue Grade Separation, Project No. HP21L-6303(017)
- San Gabriel Valley Grade Separation Phase I, Project No. TCIF-6303(037)
- San Gabriel Valley Grade Separation Phase II, Project No. TCIF-6303 (038)

The Prop 1B programmed amounts were \$17,114,000, \$3,650,000, and \$127,312,000 respectively. The audit was for the period of January 1, 2016 through August 16, 2016.

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. However, as this audit report did not disclose any deficiencies there is no subsequent action required on your part.

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

Attachment(s)

Bruce De Terra  
August 17, 2016  
Page 2 of 2

- c: Stephen Maller, Deputy Director, California Transportation Commission
- Dawn Cheser, Assistant Deputy Director, California Transportation Commission
- Doris Alkebulan, Prop 1B Coordinator, Sr. Transportation Engineer, Division of Trans  
Programming
- Steve Novotny, District 7 Local Assistance Engineer
- Mark Samuelson, Chief, Policy Development & Quality Assurance, Division of Local  
Assistance
- Lai Huynh, Audits & Performance Analyst, Division of Local Assistance
- Luisa Ruvalcaba, Audit Manager, Audits and Investigations



Transmitted via e-mail

August 8, 2016

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

Dear Ms. Lee:

**Final Report—Alameda Corridor-East Construction Authority, Proposition 1B Project Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Alameda Corridor-East Construction Authority's (ACE) Proposition 1B funded projects listed below:

<u>Project Number</u>	<u>Project Name</u>
HP21L-6303(017)	Baldwin Avenue Grade Separation
TCIF-6303(037)	San Gabriel Valley Grade Separation Phase I
TCIF-6303(038)	San Gabriel Valley Grade Separation Phase II

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of ACE. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

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  
Honorable Jack Hadjinian, Chair, Alameda Corridor-East Construction Authority  
Mr. Mark Christoffels, Chief Executive Officer, Alameda Corridor-East Construction Authority  
Mr. Phillip Balmeo, Senior Project Manager, Alameda Corridor-East Construction Authority  
Mr. Genichi Kanow, Senior Project Manager, Alameda Corridor-East Construction Authority

Alameda Corridor-East Construction Authority  
Proposition 1B Bond Program  
Project Numbers HP21L-6303(017), TCIF-6303(037), and  
TCIF-6303(038)



Baldwin Avenue Grade Separation

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

**MEMBERS OF THE TEAM**

Jon G. Chapple, CPA  
Manager

Rick Cervantes, CPA  
Supervisor

Staff  
Garrett Fujitani  
Toni Silva

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

You can contact our office at:

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

# BACKGROUND, SCOPE, METHODOLOGY AND RESULTS

## 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 \$28.7 million of Proposition 1B Trade Corridors Improvement Funds (TCIF) to the Alameda Corridor-East Construction Authority (ACE) for the Baldwin Avenue Grade Separation (Baldwin Avenue) project. This project will reduce congestion at a bottleneck along a high-volume Union Pacific Railroad freight rail mainline on Baldwin Avenue in the City of El Monte. CTC also awarded \$267.9 million to ACE to construct the San Gabriel Valley Grade Separation (San Gabriel) projects – Phase I (\$4 million) and Phase II (\$263.9 million). These projects will construct a 2.2 mile trench, and grade separate heavily traveled grade crossings to increase efficiency, reliability, and throughput along the Union Pacific Railroad freight mainline. ACE is responsible for administering and overseeing these projects to support its goals of improving mobility, improving air quality, increasing safety and fostering economic vitality.<sup>2</sup> The Baldwin Avenue project was complete in April 2015. The San Gabriel Valley projects are still in progress as of March 2016.

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

- **TCIF:** \$2 billion of bond proceeds were made available to the TCIF to finance infrastructure improvements along corridors that have a high volume of freight movement.

## SCOPE

As requested by Caltrans, the 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:

- 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, and project outcomes were consistent with benefits described in the executed project agreements or approved amendments.

<sup>1</sup> Excerpts obtained from the bond accountability website. [www.bondaccountability.dot.ca.gov/bondacc/](http://www.bondaccountability.dot.ca.gov/bondacc/)

<sup>2</sup> Excerpts obtained from the ACE's website. [http://www.theaceproject.org/project\\_overview.php](http://www.theaceproject.org/project_overview.php)

Because the San Gabriel projects are still in progress, we audited those projects through the billing period end date of the last reimbursement claim submitted to Caltrans.<sup>3</sup> In addition, we only evaluated whether project deliverables (outputs) were consistent with the project scope and schedule milestones described in the executed project agreements or approved amendments. Further, we did not evaluate whether the project outcomes were consistent with project benefits. Instead, we evaluated whether there was a system in place to report project outcomes.

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

ACE'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 program.

## **METHODOLOGY**

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

### ***For All Projects***

- Examined the project files, master agreement, 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, project billing invoices, progress payments, and cancelled checks.
- Selected a sample of claimed costs and reported match to determine if costs were project-related, properly incurred, authorized, and supported by accounting records.
- Reviewed significant 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.

### ***For the Baldwin Avenue Project***

- Verified the match requirement was met.
- Evaluated whether project deliverables (outputs) were completed on schedule as described in the project agreements or amendments.

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<sup>3</sup> ACE has not yet reported match expenditures on its reimbursement claims submitted to Caltrans for the San Gabriel projects; therefore, for these projects we determined whether there was a system in place to track and report match expenditures.

- 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 outcomes reported in the Final Delivery Report were supported and consistent with the benefits described in the Project Baseline Agreement.

***For the San Gabriel Projects***

- Evaluated whether there was a system in place to ensure matching costs are project-related, properly incurred, authorized, and supported by accounting records.
- Evaluated whether a sample of interim project deliverables (outputs) were consistent with the project scopes by reviewing documentation and conducting site visits to verify project existence.
- Evaluated whether interim project deliverables (outputs) were completed on schedule as described in the project agreements or amendments.
- Evaluated whether there is a system in place to report project outcomes.

In conducting our audit, we obtained an understanding of ACE’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 and implemented. Any 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.

**RESULTS**

Project 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, for the San Gabriel projects, there was a system in place to ensure matching costs are project-related, properly incurred, authorized, and supported by accounting records.

The project deliverables (outputs) were consistent with the project scopes and schedules. For the Baldwin Avenue project, the outcomes were consistent with benefits described in the executed project agreements or approved amendments. For the San Gabriel projects, there was a system in place to measure project outcomes.

The *Summary of Projects Reviewed* is presented in Appendix A.

# APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Trade Corridors Improvement Fund: TCIF

## Summary of Projects Reviewed

Project Name	Project Number	Proposition 1B Claimed	Project Status	Project Costs in Compliance	Deliverables (Output) and Outcomes Met	Page
1. Baldwin Avenue Grade Separation	HP21L-6303(017)	\$ 27,457,626	C	Y	Y	A-1
2. San Gabriel Valley Grade Separation Phase I	TCIF-6303(037)	\$ 3,650,000	I	Y	NA	A-2
3. San Gabriel Valley Grade Separation Phase II	TCIF-6303(038)	\$ 128,251,162	I	Y	NA	A-3

### Legend

I = Interim  
C = Complete  
Y = Yes  
NA = Not Applicable

**Project Number:** HP21L-6303(017)

**Project Name:** Baldwin Avenue Grade Separation

**Program Name:** Trade Corridors Improvement Fund

**Project Description:** Construct a grade separation project along a high-volume Union Pacific Railroad freight rail mainline, by constructing a bridge for the trains and a four-lane road underpass.

**Audit Period:** August 22, 2012 through January 15, 2016<sup>1</sup>

**Project Status:** Complete

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Contract	\$ 20,574,625
Construction Engineering	3,515,351
Construction Agency - Other	1,843,406
Construction Railroad	1,524,244
<b>Total Proposition 1B Funds</b>	<b>27,457,626</b>
Match Funds - Construction	38,923,652
<b>Total Project Costs</b>	<b>\$ 66,381,278</b>

#### Audit Results:

##### Compliance – Project Costs

Claimed project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.

##### Deliverables (Outputs) and Outcomes

This project was completed in April 2015. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and schedule, and outcomes were consistent with benefits.

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

**Project Number:** TCIF-6303(037)

**Project Name:** San Gabriel Valley Grade Separation Phase I

**Program Name:** Trade Corridors Improvement Fund

**Project Description:** Relocate fiber optic lines and conduct a pre-construction archaeological investigation in preparation for construction of a 2.2 mile trench to separate the train traffic from the vehicle traffic at select railroad crossings.

**Audit Period:** June 22, 2011 through December 20, 2013<sup>2</sup>

**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Contract	\$ 3,500,000
Force Account Agency Support	150,000
<b>Total Project Costs</b>	<b>\$ 3,650,000</b>

#### Audit Results:

##### Compliance – Project Costs

Claimed project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines. There was also a system in place to ensure matching costs are project-related, properly incurred, authorized, and supported by accounting records.

##### Deliverables (Outputs) and Outcomes

Target completion for this project is September 2017. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and schedules, and there was a system in place to measure project outcomes.

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<sup>2</sup> Ibid.

**Project Number:** TCIF-6303(038)

**Project Name:** San Gabriel Valley Grade Separation Phase II

**Program Name:** Trade Corridors Improvement Fund

**Project Description:** Construct the 2.2 mile San Gabriel Trench to separate the train traffic from the vehicle traffic at select railroad crossings.

**Audit Period:** December 20, 2012 through February 5, 2016<sup>3</sup>

**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Contractor	\$ 101,861,924
Construction Railroad	5,648,841
Construction Support	15,513,150
Force Account Agency Support	5,227,247
<b>Total Project Costs</b>	<b>\$ 128,251,162</b>

#### Audit Results:

##### Compliance – Project Costs

Claimed project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines. There was also a system in place to ensure matching costs are project-related, properly incurred, authorized, and supported by accounting records.

##### Deliverables (Outputs) and Outcomes

Target completion for this project is September 2017. At the time of our site visits in February/March 2016, project deliverables (outputs) were consistent with the project scope and schedules, and there was a system in place to measure project outcomes.

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<sup>3</sup> Ibid.