

# Memorandum

*Serious drought.  
Help Save Water!*

To: DAVE MOORE  
District 2 Director

Date: January 27, 2016

File: P2505-0061

## ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF "DESCHUTES INTERCHANGE" PROJECT**

Attached is the audit report pertaining to the audit performed on the "Deschutes Interchange" project. The project's implementing agency is the City of Anderson (City). The project was funded using Proposition 1B (Prop 1B) Corridor Mobility Improvement Account funds. The Prop 1B programmed amount was \$6,000,000. The EA No. is 02-34760. The audit was for the period of June 7, 2007, through February 28, 2015.

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 State Controller's Office on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of District Directors relative to audits performed.

The attached report includes one audit finding related to the City's failure to submit the Final Delivery Report within six months of the project becoming operable. 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  
Samuel Jee, Prop 1B Coordinator, Division of Project Management  
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

# **CITY OF ANDERSON**

Audit Report

**CORRIDOR MOBILITY IMPROVEMENT ACCOUNT  
PROGRAM  
PROPOSITION 1B BOND-FUNDED PROJECT  
EA No. 02-34760/P2505-0061**

*June 7, 2007, through February 28, 2015*



**BETTY T. YEE**  
California State Controller

December 2015



**BETTY T. YEE**  
California State Controller

December 8, 2015

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 Anderson's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of June 7, 2007, through February 28, 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 project, Deschutes Interchange, EA No. 02-34760/P2505-0061, and 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.

However, our audit found that the City of Anderson did not submit a Final Delivery Report (FDR). The FDR should be submitted within six months of the project becoming operable. The City of Anderson also used an incorrect charge-out rate for each fiscal year of the audit period.

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

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/lb

Attachment

cc: Jan Goto, Audit Manager  
Division of Audits – Bond Unit  
State Controller’s Office  
Anderson Wang, 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 Anderson's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of June 7, 2007, through February 28, 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 (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 project, Deschutes Interchange, EA No. 02-34760/P2505-0061, and 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.

However, our audit found that:

- The City of Anderson did not submit a Final Delivery Report (FDR). The FDR should be submitted within six months of the project becoming operable.
- The City of Anderson also used an incorrect charge-out rate for each fiscal year of the audit period.

## Background

In accordance with Caltrans and Transportation Commission Commission-executed project agreement(s) or approved amendments, the project, Deschutes Interchange, EA No. 02-34760/P2505-0061, was programmed and approved to receive \$6,000,000 in Proposition 1B bond funds, for one or more phases of work, under the Corridor Mobility Improvement Account program.

The implementing agency is responsible for implementation and successful completion of each project component and activities as defined in the project's agreements. The project's completion date was November 19, 2013.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2505-0061). 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 June 7, 2007, through February 28, 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 project(s) 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, 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 project, Deschutes Interchange, EA No. 02-34760/P2505-0061, and determined that:

- The implementing agency complied with applicable federal and state procurement requirements 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.

However, our audit found that:

- The City of Anderson did not submit a Final Delivery Report (FDR). The FDR should be submitted within six months of the project becoming operable.
- The City of Anderson also used an incorrect charge-out rate for each fiscal year of the audit period.

**Views of  
Responsible  
Officials**

We issued a draft audit report on September 21, 2015. We contacted Dave Durette, City Engineer, and Bruce Crom, Engineering Services Manager, by email on October 13, 2015. Neither Mr. Durette nor Mr. Crom have responded to the draft audit report.

**Restricted Use**

This report is solely for the information and use of City of Anderson, 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

December 8, 2015

**Schedule 1—  
Summary of Project Costs  
Approved, Expended, and Audited  
June 7, 2007, through February 28, 2015**

Project No./EA No.: EA No. 02-34760/P2505-0061

Project Information: The project includes construction of a new off-ramp from northbound I-5 to Deschutes Road, widening a portion of the northbound I-5 on-ramp, and construction of a roundabout at the I-5 northbound ramp intersection with both Deschutes Road and Locust Road in the City of Anderson.

Project Financial Information:

<u>Phases Reimbursed by Proposition 1B Bond Funds</u>	<u>Programmed and Approved</u>	<u>Expended<sup>1</sup></u>	<u>Audited<sup>2</sup></u>	<u>Variance<sup>3</sup></u>
Construction	\$ 6,000,000	\$ 6,000,000	\$5,474,803	\$ 525,197
Total	<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>	<u>\$5,474,803</u>	<u>\$ 525,197</u>

Project Delivery Baseline:

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	06/05/12	06/05/12	07/19/12
End construction	12/15/12	12/15/12	11/19/13
Beginning close-out	12/15/12	12/15/12	11/19/13
End close-out	05/01/13	05/01/13	01/16/14

<sup>1</sup> Based on actual project expenditures to date, the amount expended was \$6,000,000.

<sup>2</sup> Cost claimed and reimbursed as of May 13, 2015.

<sup>3</sup> The City is in the process of submitting claims for the variance.

# Findings and Recommendations

## **FINDING 1— Final Delivery Report not submitted**

Our audit found that the City of Anderson did not submit the Final Delivery Report (FDR) or Supplemental Final Delivery Report (SFDR) to Caltrans as required by the Commission and the CMIA program guidelines. The FDR is an instrument used to measure actual outcomes of the project compared to what was originally budgeted and forecasted. Because the FDR was not submitted, the program's responsible officials may have difficulty evaluating the degree of attainment of the project's original intent. Information from the FDR also is used to monitor actual project performance and as a decision-making tool for future project programming.

Per the Caltrans Final Delivery Report/Performance Measures:

The Caltrans Proposition 1B Follow-Up Accountability Plan requires Proposition 1B recipients implementing a Corridor Mobility Improvement Account (CMIA) project to provide a Final Delivery Report (FDR) as a part of the project's Close-Out Report. The FDR is to be uploaded to the Caltrans Division of Transportation Programming's Online Data Input System (ODIS) upon request of the Caltrans CMIA program coordinator. The FDR should be completed six months after the CMIA project has become operable. For the purposes of these reports, projects are considered operable at the end of the construction phase when the construction contract is accepted. Segmented projects are not required to submit a FDR until the entire project has become operable. The FDR contains a section for the assessment of the project's performance outcomes as compared to those included in the executed project's baseline agreement. The intent of this documentation is to assist CMIA project managers/sponsors in assessing a CMIA project's mobility benefits and documenting this information in the FDR.

### Recommendation

We recommend that, in the future, the City of Anderson submit an FDR within six months after the CMIA project has become operable, as stated in the CMIA Final Delivery Report/Performance Measures. A copy of this document should be kept with the project files.

## **FINDING 2— Incorrect Charge- out/Billable Rates**

Our audit found that the City of Anderson used an incorrect charge-out/billable rate for each fiscal year. The City claimed the charge-out/billable rate calculated in 2011 and applied that rate to succeeding years. However, these rates should have been updated each year using current salary information. The City of Anderson did not provide sufficient documentation to support the claiming methodology for charge-out/billable rates. In addition, the City of Anderson included a department overhead rate in the charge-out/billable rate. The department overhead cost should have been part of indirect cost and excluded from direct cost.

Per Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), Appendix A, subpart (E)(1):

Direct costs are those that can be identified specifically with a particular final cost objective.

Per 2 CFR 225, Appendix A, subpart (F)(1):

Indirect costs are those: incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefited....

Recommendation

We recommend that the City of Anderson verify and review the methodology when calculating the charge-out/billable rates for each fiscal year. For the project under review, the City of Anderson has already claimed all of the amounts allowed/funded by the CMIA program. Therefore, the City of Anderson cannot recoup additional expenditures even if the claims are recalculated using the higher charge-out/billable rates.

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