

# Memorandum

*Serious drought.  
Help Save Water!*

**To:** BIJAN SARTIPI  
District Director  
District 4

**Date:** June 30, 2016

TOM HALLENBECK  
Division Chief  
Traffic Operations

**File:** P2505-0060, P2505-0064,  
P2505-0065, P2505-0066,  
P2505-0067, P2505-0068

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

ORIGINAL SIGNED BY:

**Subject: AUDIT OF ALAMEDA COUNTY TRANSPORTATION COMMISSION'S  
PROPOSITION 1B FUNDED PROJECTS**

Attached is the audit report pertaining to the audit performed on the Alameda County Transportation Commission relative to funding received from Caltrans using Proposition 1B (Prop 1B) Traffic Light Synchronization Program (TLSP) and Corridor Mobility Improvement Account (CMIA) funds. The names of the projects audited are:

- San Pablo Corridor Arterial and Transit Management Project  
Project No. EA3A773 (TLSP funded)
- I-80 Integrated Corridor Mobility Project – Corridor Project 3 of 5  
Project No. EA3A771 (CMIA funded)
- I-80 Integrated Corridor Mobility Software and System Integration Project  
Project No. EA3A774 (CMIA funded)
- I-80 Integrated Corridor Mobility Specialty Procurement Project  
Project No. EA3A775 (CMIA funded)
- I-80 Integrated Corridor Mobility Adaptive Ramp Metering Project  
Project No. EA3A776 (CMIA funded)
- I-80 Integrated Corridor Mobility Active Traffic Management Project  
Project No. EA3A777 (CMIA funded)

The Prop 1B programmed amounts were \$13,544,389, \$1,457,217, \$2,600,530, \$2,875,344, \$122,315, and \$351,454 respectively. The audit was for the period of October 22, 2009 through May 31, 2014.

BIJAN SARTIPI  
TOM HALLENBECK  
June 30, 2016  
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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 District Directors and Division Chiefs relative to audits performed.

The attached report includes a finding relative to the San Pablo Corridor Arterial and Transit Management Project, Project No. EA3A773 (TLSP funded):

- Finding 1: Contract Change Order Lacks Sufficient Detail on Additional Work

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

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  
Samuel Jee, Prop 1B Coordinator, Sr. Transportation Engineer, Division of Project Management  
Nick Compin, Sr. Transportation Planner, Division of Traffic Operations  
Doris Alkebulan, Prop 1B Specialist, Transportation Programming  
Luisa Ruvalcaba, Audit Manager, Audits and Investigations



Transmitted via e-mail

June 27, 2016

Ms. Alice M. Lee, Chief  
Audits and Investigations  
California Department of Transportation  
1304 O Street, Suite 200  
Sacramento, CA 95814

Dear Ms. Lee:

**Final Report—Alameda County Transportation Commission, Proposition 1B Project Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Alameda County Transportation Commission's (ACTC) Proposition 1B-funded projects listed below:

<u>Project Number</u>	<u>Project Name</u>
EA3A774	Project 1: Software and System Integration
EA3A775	Project 2: Specialty Procurement
EA3A771	Project 3: Transportation Operations System
EA3A776	Project 4: Adaptive Ramp Metering
EA3A777	Project 5: Active Traffic Management Construction
EA3A773	Project 6: San Pablo Avenue Corridor Arterial and Transit Management One

The enclosed report is for your information and use. ACTC's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of ACTC. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or John Ponce, Supervisor, at (916) 322-2985.

Sincerely,

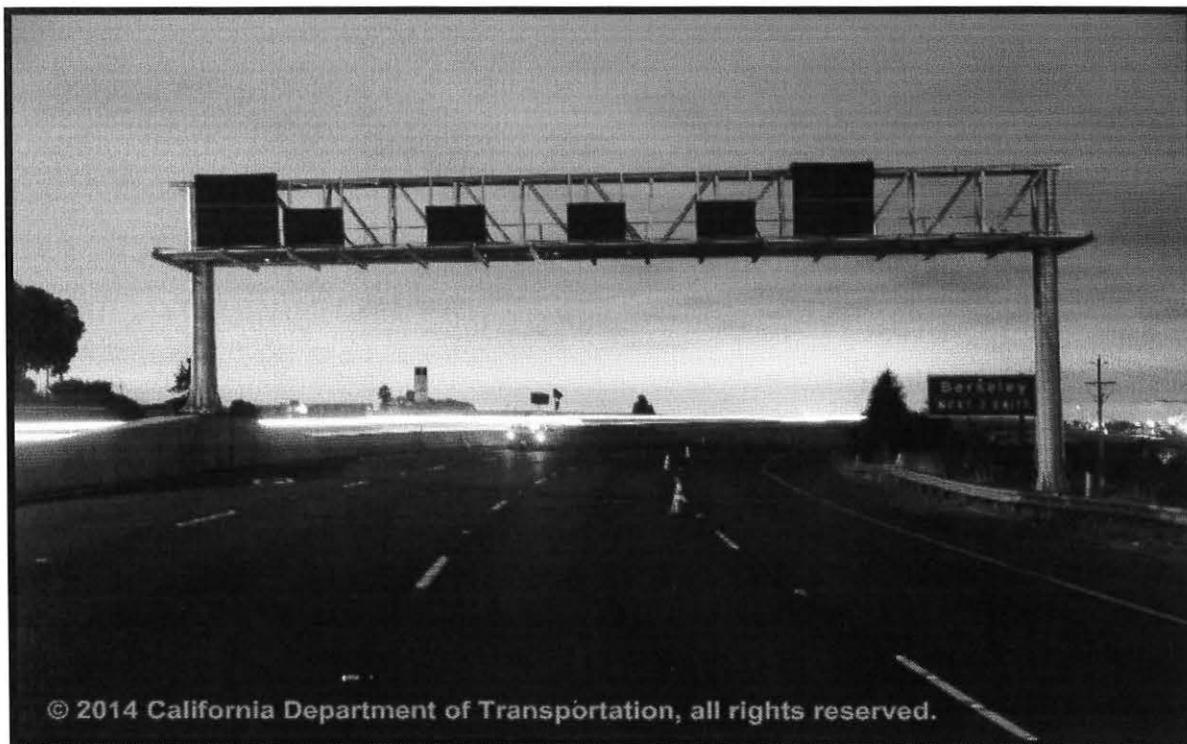
**ORIGINAL SIGNED BY:**

Cheryl L. McCormick, CPA  
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Luisa Ruvalcaba, Manager, Audits and Investigations, California Department of Transportation  
Ms. Patricia Reavey, Director of Finance and Administration, Alameda County Transportation Commission  
Ms. Lily Balinton, Accounting Manager, Alameda County Transportation Commission

Alameda County Transportation Commission  
Proposition 1B Bond Programs  
Project Numbers EA3A774, EA3A775, EA3A771,  
EA3A776, EA3A777, and EA3A773



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

**MEMBERS OF THE TEAM**

Frances Parmelee, CPA  
Manager

John Ponce  
Supervisor

Staff  
Ramon Delgado  
Joshua Mortimer

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, 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>

The Alameda County Transportation Commission (ACTC) received Proposition 1B funds from the Corridor Mobility Improvement Account (CMIA) and the Traffic Light Synchronization Program (TLSP). Refer to the table for program descriptions.

CTC awarded ACTC \$16.1 million in CMIA funds and \$21.4 million in TLSP funds for the Interstate 80 Integrated Corridor Mobility (I-80 ICM) and the San Pablo Avenue Corridor Arterial and Transit Improvement (San Pablo) Projects, respectively. Caltrans administered these projects which were to either install new or upgrade existing corridor management elements along Interstate 80. The projects span the Interstate from the Carquinez Bridge to the San Francisco-Oakland Bay Bridge Toll Plaza. The projects create a balanced network with emphasis on system reliability and efficiency through a multi-modal solution (freeway, arterials, and transit).

Subsequently, the I-80 ICM project was divided into five projects and the San Pablo project into two. Out of the two San Pablo projects, only one received Proposition 1B funding. In total, we audited six projects. Only Project 3: Transportation Operations System was completed as of March 2015. The remaining projects were still in progress. See Appendix A for individual project descriptions and details.

### PROGRAM DESCRIPTIONS<sup>1</sup>

- **CMIA:** \$4.5 billion of bond proceeds were made available to the CMIA to finance a variety of eligible transportation projects. CTC's general expectation is that each CMIA project will have a full funding commitment through construction, either from the CMIA alone or from a combination of the CMIA and other state, local, or federal funds.
- **TLSP:** \$250 million of bond proceeds were made available to the TLSP to finance traffic light synchronization projects or other technology-based improvements. Project funding is limited to the costs of construction and acquisition and installation of equipment.

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

## 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 described in the executed project agreements or approved amendments.

Interim audits were conducted for Projects 1, 2, 4, 5, and 6. As such, we only conducted those audits through the date of the last reimbursement claim submitted to Caltrans. In addition, we did not evaluate whether project deliverables (outputs) were consistent with the project scopes and schedule.

Although Project 3's construction was completed at the time of our audit, we only focused on the deliverables (outputs) and did not evaluate whether the outcomes were consistent with the project benefits since the I-80 ICM project as a whole (Projects 1 through 5) was still in progress. For all projects, we did not evaluate whether there was a system in place to measure project outcomes and benefits.

The Construction Support line item of all projects included both consultant costs and ACTC's personnel costs. For ACTC's personnel costs, we did not audit the associated fringe benefits and indirect cost rates since those costs were accepted and/or audited by Caltrans' Indirect Cost Allocation Plan Unit. These audits of ACTC's Indirect Cost Rate Proposals were issued by Caltrans on November 13, 2012 and March 30, 2015 with no findings. Caltrans' audit periods covered fiscal years 2010-11, 2011-12, and 2012-13.

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

ACTC 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, cooperative agreements, master agreements, 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 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 costs already reimbursed with bond funds.

***For Project 3***

- Evaluated whether outputs were completed on schedule as described in the project agreement and amendments.
- Evaluated whether outputs were met by reviewing a sample of supporting documentation and conducting a site visit to verify project existence.
- Evaluated whether advanced funds (deposits) were allowed and utilized timely.

In conducting our audits, we obtained an understanding of ACTC'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 the audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits 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 below, project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and California Department of Transportation (Caltrans)/California Transportation Commission program guidelines. In addition, the project deliverables (outputs) for Project 3 were consistent with the project scope and schedule. The *Summary of Projects Reviewed* is presented in Appendix A.

### **Finding 1: Contract Change Order Lacks Sufficient Detail on Additional Work**

The Alameda County Transportation Commission (ACTC) did not specify the work to be performed for Project 6's Contract Change Order (CCO), number 40 valued at \$40,000. The CCO stated it provides for compensating the contractor to perform work as needed on an "on-call" basis to address any issues for all remaining Interstate 80 Integrated Corridor Mobility projects.

Caltrans' Standard Specifications and Construction Manual state changes set forth in a CCO will specify the work to be performed in connection with the change made. Further, the Caltrans Construction Manual states a CCO must clearly and completely describe the extra work or other changes to the contract, whether paid for at agreed price or at force account, and justified by an independent cost analysis. ACTC was unaware of this requirement.

Without specifying the work to be done on the CCO, there is a risk bond funds will be used to pay for work unrelated to Project 6. It also hinders the ability to properly perform a cost analysis of the extra work and could result being overcharged for work performed by the prime contractor.

### **Recommendation:**

Comply with Caltrans' requirements by specifying the work to be performed in detail and conducting a cost analysis for all CCOs.

# APPENDIX A

The following acronyms are used throughout Appendix A:

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Interstate 80 Integrated Corridor Mobility: I-80 ICM
- Alameda County Transportation Commission: ACTC

## Summary of Projects Reviewed

Project Name	Project Number	Proposition 1B Claimed	Project Status	Project Costs in Compliance	Deliverables (Output) Met	Page
Project 1: Software and System Integration	EA3A774	\$ 2,600,530	I	Y	N/A	A-1
Project 2: Specialty Procurement	EA3A775	\$ 2,875,344	I	Y	N/A	A-2
Project 3: Transportation Operations System	EA3A771	\$ 1,457,217	C	Y	Y	A-3
Project 4: Adaptive Ramp Metering	EA3A776	\$ 122,315	I	Y	N/A	A-4
Project 5: Active Traffic Management Construction	EA3A777	\$ 351,454	I	Y	N/A	A-5
Project 6: San Pablo Avenue Corridor Arterial and Transit Management	EA3A773	\$13,544,389	I	See Finding 1	N/A	A-6

### Legend

C = Complete

I = Interim

Y = Yes

N/A = Not applicable; deliverables (outputs) were not audited.

**Project Number:** EA3A774 (Project 1)

**Project Name:** Software and System Integration

**Program Name:** Corridor Mobility Improvement Account

**Project Description:** Code the necessary software, prepare testing plans, install server, hardware, and network hubs at various control centers, and conduct testing for the overall I-80 ICM project.

**Audit Period:** August 25, 2011 through February 28, 2014

**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Capital <sup>1</sup>	\$ 1,552,344
Construction Support <sup>2</sup>	1,048,186
<b>Total Project Costs</b>	<b>\$ 2,600,530</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.

<sup>1</sup> Construction Capital includes construction contract costs.

<sup>2</sup> Construction Support includes consultant and ACTC staff cost for project management.

**Project Number:** EA3A775 (Project 2)  
**Project Name:** Specialty Procurement  
**Program Name:** Corridor Mobility Improvement Account  
**Project Description:** Purchase specialty equipment to allow additional time for testing prior to furnishing the materials to Project 5 for installation.  
**Audit Period:** December 10, 2011 through May 31, 2014  
**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Capital <sup>1</sup>	\$ 2,563,121
Construction Support <sup>2</sup>	312,223
<b>Total Project Costs</b>	<b>\$ 2,875,344</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.

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<sup>1</sup> Ibid

<sup>2</sup> Ibid

**Project Number:** EA3A771 (Project 3)

**Project Name:** Transportation Operations System

**Program Name:** Corridor Mobility Improvement Account

**Project Description:** Complete the detection system along the I-80 Corridor and the highway advisory radio gaps in the corridor.

**Audit Period:** October 22, 2009 through September 30, 2012

**Project Status:** Completed

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Capital <sup>1</sup>	\$ 1,173,646
Construction Support <sup>2</sup>	283,571
<b>Total Project Costs</b>	<b>\$ 1,457,217</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. In addition, advanced funds (deposits) were allowed and utilized timely.

##### Deliverables

The construction of this project was completed in May 2013. At the time of our site visit in March 2015, project deliverables (outputs) were consistent with the project scope and schedule. Because the I-80 ICM Project as a whole was not complete at the time of our audit, we did not evaluate whether the outcomes were consistent with the project benefits.

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<sup>1</sup> Ibid

<sup>2</sup> Ibid

**Project Number:** EA3A776 (Project 4)  
**Project Name:** Adaptive Ramp Metering  
**Program Name:** Corridor Mobility Improvement Account  
**Project Description:** Install ramp metering, associated detection, and communication systems along the I-80 corridor.  
**Audit Period:** December 14, 2011 through September 30, 2013  
**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Support <sup>2</sup>	\$ 122,315
<b>Total Project Costs</b>	<b>\$ 122,315</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.

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<sup>2</sup> Ibid

**Project Number:** EA3A777 (Project 5)  
**Project Name:** Active Traffic Management Construction  
**Program Name:** Corridor Mobility Improvement Account  
**Project Description:** Construct various systems management components.  
**Audit Period:** December 14, 2011 through September 30, 2013  
**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Support <sup>2</sup>	\$ 351,454
<b>Total Project Costs</b>	<b>\$ 351,454</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.

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<sup>2</sup> Ibid

**Project Number:** EA3A773 (Project 6)

**Project Name:** San Pablo Avenue Corridor Arterial and Transit Management

**Program Name:** Traffic Light Synchronization Program

**Project Description:** Minor intersection widening, traffic signal improvements, controller replacement, installation of dynamic message signs at major transit hubs, trailblazer signs, vehicle detection system and Emergency Vehicle Priority systems located on the San Pablo Avenue and crossing arterials, between the cities of Hercules and Oakland. Development of software and systems integration with the Corridor Mobility Improvement Account projects (Projects 1 through 5).

**Audit Period:** March 23, 2011 through April 30, 2014

**Project Status:** Interim

#### Schedule of Project Costs

Project Costs	Claimed
<b>Proposition 1B Funds</b>	
Construction Capital <sup>1</sup>	\$ 10,088,510
Construction Support <sup>2</sup>	3,455,879
<b>Total Project Costs</b>	<b>\$ 13,544,389</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. However, in one change order, Alameda County Transportation Commission did not specify the additional work to be performed as required by Caltrans' Standard Specifications and Construction Manual (see Finding 1 in Results section).

<sup>1</sup> Ibid

<sup>2</sup> Ibid

# RESPONSE

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May 13, 2016

Mr. David Botelho, Program Budget Manager  
California Department of Finance  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814-3706

Dear Mr. Botelho,

This letter is in response to the Audit Report for the Alameda County Transportation Commission (Alameda CTC) Proposition 1B Bond funded Project Numbers EA3A774, EA3A775, EA3A771, EA3A776, EA3A777 and EA3A773. Specifically, this letter addresses Finding 1 on the Interstate 80 Integrated Corridor Mobility (I-80 ICM) Project regarding Contract Change Order (CCO) No. 40 for Project 6 (EA3A773).

**Finding 1: Contract Change Order Lacks Sufficient Detail on Additional Work**

The Alameda CTC is and was aware of Caltrans' Standard Specifications and Construction Manual requirements for the details required of a CCO as reflected in the 50+ CCOs that have been executed with Steiny and Company Incorporated for the I-80 ICM Project. As the first of its kind in California, this Project has had many unknowns. One of the unknowns included conflicts that could arise during the testing procedures for system integration. These conflicts would generally materialize while on-site and would require troubleshooting and resolutions to occur with mobilized field crews. As such, CCO No. 40 was specifically written and executed to compensate the contractor on an "on-call" basis to address any issues between the completion and integration of I-80 ICM Project 6 with all other I-80 ICM projects (Projects 1-5). This approach allowed for the necessary field work to be performed expeditiously and prevent costly delays to the Project.

In regard to the concern stated in Finding 1, that there is a risk bond funds will be used to pay for work unrelated to Project 6, Alameda CTC's extensive invoice review process addresses this concern. Before an invoice is authorized, supporting documentation is reviewed to ensure the project, work performed, actual labor and materials are clearly identified. As demonstrated by the attached work diaries used to support the billings authorized under CCO No. 40, all work performed was related to I-80 ICM Project 6.

Please let me know if you have any further questions regarding this matter. I can be reached at 510-208-7422.

Sincerely,

**ORIGINAL SIGNED BY:**

Patricia Reavey  
Director of Finance and Administration

Attachments

## EVALUATION OF RESPONSE

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The Alameda County Transportation Commission's (ACTC) response and attachments to the draft audit report have been reviewed and incorporated into the final report. In the interest of brevity, the attachments referenced in the response were omitted. In evaluating ACTC's response, we provide the following comments:

### **Finding 1: Contract Change Order Lacks Sufficient Detail on Additional Work**

ACTC disagreed with our finding stating that its extensive invoice review process addresses the concern that bond funds will be used to pay for work unrelated to Project 6. Our finding did not take exception with ACTC's invoice review process and the maintenance of supporting documentation. As stated in the Results Section, the Contract Change Order (CCO) number 40 did not clearly and completely describe the extra work or other changes to the contract before the work was completed. The CCO stated it was for work as needed on an "on-call basis" to address any issues between completion and integration of all remaining Interstate 80 Integrated Corridor Mobility projects. The CCO's scope is much broader than the project description stated in the project agreement (see Appendix A-6). Therefore, the finding and recommendation will remain unchanged.