State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: Amarjeet S. Benipal
District 3 Director

Date: January 26, 2015

File: P2515-0028

From: MARSUE MORRILL, Chief
External Audits – Contracts
Audits and Investigations

Subject: **AUDIT OF CALTRANS DISTRICT 3**

Attached is the audit report pertaining to the audit performed on Caltrans District 3, relative to a project funded and reimbursed by Proposition 1B (Prop 1B) State Highway Operations and Protection Program Augmentation (SHOPP). The name of the project audited is "Donner 3," project No. 03-4257C. The Prop 1B programmed amount was $76,162,119. The audit was for the period of July 1, 2007, through September 30, 2013.

As required by the Governor's Executive Order S-02-07 and SB 88, 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. Therefore, please ensure adequate corrective action is taken to address the audit finding noted.

The audit identified that the benefits of the project included 23 minutes of peak drive time saved. This benefit had no supporting documentation that shows how this figure was determined or calculated. Auditors were unable to verify whether the benefit stated in the Final Delivery Report was accurate.

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

Attachment

c: Stephen Maller, Deputy Director , California Transportation Commission
Teresa Favila, Assistant Deputy Director, California Transportation Commission
Bruce De Terra, Acting Division Chief, Transportation Programming
Dorris M. Alkebulan, Prop 1B Specialist, Transportation Programming
Matt Bailey, Prop 1B Program Coordinator, Division of Project Management
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

JOHN CHIANG

California State Controller

December 31, 2014

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

Dear Ms. Morrill:

The State Controller's Office (SCO) audited the California Department of Transportation District 3's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of July 1, 2007, through September 30, 2013.

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 and agreements.

We audited the Proposition 1B bond funded project Donner 3, EA #03-0A633, located in Nevada County from 0.1 mile east of the Castle Park Road Overcrossing to 2.1 miles east of the Donner Lake Road crossing 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 a project benefit stated in the benefits section of the Final Delivery Report was unsupported. The benefits claimed that 23 minutes of peak drive time had been saved. The benefit could not be verified by any documentation.

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,

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Jan Goto, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Daciel Galvan, Auditor-in-Charge
Division of Audits – Bond Unit
State Controller's Office

Contents

Audit Report

Summary 1

Background 1

Objectives, Scope, and Methodology 2

Conclusion 3

Views of Responsible Officials 4

Restricted Use 4

Schedule 1—Summary of Project Costs Approved, Expended, and Audited 5

Finding and Recommendation 6

Audit Report

Summary

The State Controller's Office (SCO) audited the California Department of Transportation District 3's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of July 1, 2007, through September 30, 2013.

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 Donner 3; EA #03-0A633 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 a project benefit stated in the benefits section of the Final Delivery Report was unsupported. The benefits claimed that 23 minutes of peak drive time had been saved. The benefit could not be verified by any documentation.

Background

In accordance with California Department of Transportation (Caltrans) and Transportation Commission (Commission) executed project agreement(s) or approved amendments, the State Highway Operations and protection (SHOPP) project, Donner 3, EA #03-0A633, was programmed and approved to receive $90,500,000 in Proposition 1B bond funds, for one or more phases of work, under the SHOPP program.

The implementing agency is responsible for implementation and successful completion of each project component and activities as defined in the project's agreement. The project's expected completion date for the construction phase was January 1, 2012.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2515-0028). 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 July 1, 2007, through September 30, 2013.

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, Donner 3, EA #03-0A633 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 a project benefit stated in the benefits section of the Final Delivery Report was unsupported. The benefits claimed that 23 minutes of peak drive time had been saved. The benefit could not be verified by any documentation.

Views of Responsible Officials

We discussed our audit results with Caltrans representatives during an exit conference conducted on August 21, 2014, Tom L. Brannon, District 3 Deputy Director; and Samuel Jordan, Project Manager, agreed with the audit results. Mr. Brannon declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of California Department of Transportation, District 3; 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.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 31, 2014

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
July 1, 2007, through September 30, 2013

Project No./EA No.:

EA #03-0A633

Project Information:

SHOPP Project, Donner 3; located in Nevada County from 0.1 mile east of the Castle Peak Road Overcrossing to 2.1 miles east of the Donner Lake Road crossing.

Project Financial Information:

As of 11/19/13 Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited
Construction	$ 90,500,000	$ 68,083,619	$ 68,083,619
Total	$ 90,500,000	$ 68,083,619	$ 68,083,619

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual
Beginning Construction	10/01/08	10/01/08	07/28/08
End Construction	01/01/12	01/01/12	11/05/12
Beginning Close-out	01/01/13	01/01/13	01/15/13
End Close-out	01/01/14	01/01/14	*

Note: As of March 31, 2014, Caltrans to follow up with CTC about deallocation and deobligation of unexpended funds.

* Project not closed yet.

[1] See the Finding and Recommendation section.

Finding and Recommendation

FINDING—Performance outcome of project was unsupported

The benefits of the project reported by the District included 23 minutes of peak drive time saved. This benefit had no supporting documentation that shows how this figure was determined or calculated. Auditors were unable to verify whether the benefit stated in the Final Delivery Report was accurate.

Criteria

California Trasnportation Commission Proposition 1B Project Close-out Process states, "Each bond program (TSLP, CMIA, SLPP, etc.) will have information that reflects the degree of attainment of the specific intents of the program. For example, TSLP projects will report pre- and post-project measurements for traffic, accident rates, public perception and air quality. The actual changes will be compared to those in the original project description."

Governor's Executive Order S-02-07 states, in part, "Department expenditures of Bond proceeds shall be subject to audit to determine whether the expenditures made from Bond proceeds. . . achieved the intended outcomes."

Recommendation

The District should implement procedures for record keeping of any project benefit analysis. If project benefits cannot be supported, then funding of the project loses merit. Prop 1B projects have benefit analysis on project proposals, the District should ensure project benefit analysis is completed on all Prop 1B projects.