

Memorandum

*Serious drought.
Help Save Water!*

To: KATIE BENOVAR
Division Chief
Transportation Planning

Date: October 28, 2015

File: P2525-0012
P2525-0014
P2525-0015
P2525-0016

ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF SAN DIEGO ASSOCIATION OF GOVERNMENTS**

Attached is the audit report pertaining to the audit performed on the San Diego Association of Governments (SANDAG), relative to funding received from Caltrans using Proposition 1B (Prop 1B) Trade Corridor Improvement Fund funds. The names of the projects audited are:

- Southline Rail Improvements – Mainline Improvements (Phase 1)
Project No. 0000020723
- Southline Rail Improvements – Mainline Improvements (Phase 2)
Project No. 0000020727
- Southline Rail Improvements – Mainline Improvements (Phase 3)
Project No. 0012000179
- Southline Rail Improvements – Mainline Improvements (Phase 4)
Project No. 0013000197

The Prop 1B programmed amounts were \$4,457,960, \$10,007,714, \$2,376,269, and \$7,901,917, respectively. The audit was for the period of August 1, 2010, through March 10, 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 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.

The attached report includes one finding related to the documentation of contract bids. Please provide A&I a corrective action resolution on the audit findings within 90 days of this memorandum.

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

KATIE BENOVAR

October 28, 2015

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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
- Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
- Dawn Cheser, Prop 1B Coordinator, Division of Transportation Planning
- Luisa Ruvalcaba, Audit Manager, Audits and Investigations



Transmitted via e-mail

October 20, 2015

Ms. Laurine Bohamera, Chief
External Audits—Contracts
Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Ms. Bohamera:

Final Report—San Diego Association of Governments, Proposition 1B Project Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the San Diego Association of Governments' (SANDAG) Proposition 1B-funded project phases listed below:

<u>Phase</u>	<u>Project Number</u>
One	0000020723
Two	0000020727
Three	0012000179
Four	0013000197

The enclosed report is for your information and use. SANDAG's response to the report observation is incorporated into this final report. SANDAG agreed with our observation and we appreciate its willingness to implement corrective actions. The observation in our report is intended to assist management in improving its program. This report will be placed on our website.

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

Sincerely,

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Ms. Luisa Ruvalcaba, Audit Manager, Audits and Investigations, California Department of
Transportation
Mr. Gary L. Gallegos, Executive Director, San Diego Association of Governments
Mr. Jim Linthicum, Director, Mobility Management and Project Implementation, San Diego
Association of Governments
Ms. Kim Kawada, Chief Deputy Executive Director, San Diego Association of Governments
Mr. Steve Castillo, Principal Management Internal Auditor, San Diego Association of
Governments
Mr. Pete d'Ablaing, Senior Transportation Engineer, San Diego Association of
Governments
Honorable Jack Dale, Chair, San Diego Association of Governments Board of Directors

AUDIT REPORT

San Diego Association of Governments Proposition 1B Bond Program Projects 0000020723, 0000020727, 0012000179, and 0013000197



South Line (Mainline), San Diego County

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
Minh Nguyen
Blanca Sandoval

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, 6th 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 \$19.5 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 those funds to the California Department of Transportation (Caltrans) to implement various programs.

The \$2 billion of bond proceeds made available to the Trade Corridors Improvement Fund (TCIF) finance infrastructure improvements along corridors that have a high volume of freight movement.¹

Caltrans awarded the San Diego Association of Governments (SANDAG) \$39,954,960 of Proposition 1B bond funds in four phases (collectively referred to as the "project") to increase freight capacity on the South Line, located in the cities of San Diego, National City, and Chula Vista. This improvement project helps accommodate the increased demand for goods movement by rail. There is no required match since the CTC approved a match requirement exemption.²

SCOPE

As requested by Caltrans, the Department of Finance, Office of State Audits and Evaluations, audited the following project phases:

<u>Phase</u>	<u>Project Number</u>	<u>Audit Period</u>
One	0000020723	August 1, 2010 through September 30, 2013
Two	0000020727	August 1, 2010 through January 9, 2015 ³
Three	0012000179	April 29, 2013 through February 13, 2015 ³
Four	0013000197	October 25, 2013 through March 10, 2015 ³

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's program guidelines.
- Project deliverables (outputs) and outcomes were consistent with the project scope and schedule described in the executed project agreements or approved amendments.

¹ Excerpts obtained from: <http://www.bondaccountability.dot.ca.gov/bondacc/>

² Excerpts obtained from the Project Baseline Agreements, and subsequent project agreements and amendments.

³ Interim audits were conducted on phases two, three, and four because the phases were not complete at the time of our site visit in June 2015.

Because the entire project was not complete at the time of our audit, we did not evaluate whether the deliverables (outputs) and outcomes were consistent with the project benefits. Instead, we evaluated whether there was a system in place to measure project outcomes and benefits.

Additionally, for phases one and two, we were able to determine if deliverables (outputs) were consistent with project scope and schedule. For phases three and four, we were able to determine if deliverables (outputs) were consistent with the scope only.

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

SANDAG'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 TCIF.

METHODOLOGY

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

- Examined the project files, project baseline agreements and amendments, 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, and progress payments.
- Selected a sample of claimed costs to determine if costs were project-related, properly incurred, authorized, and supported.
- Reviewed significant contract change orders to ensure they were within project scope, properly authorized, and supported.
- Evaluated whether other revenue sources were used to reimburse expenditures already reimbursed with bond funds.
- For phases one and two, evaluated whether project deliverables (outputs) were consistent with the project scope and schedule by reviewing supporting documentation and conducting site visits to verify deliverable existence. For phases three and four, a sample of the deliverables described in the executed agreements was reviewed against the site visit to ensure interim deliverables (outputs) were consistent with the project scope.

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

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations 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’s (Caltrans)/California Transportation Commission’s program guidelines.

Target completion for this project is fall 2016. At the time of our site visit in June 2015, we determined the San Diego Association of Governments (SANDAG) had a system in place to measure the project outcomes and benefits. For phases one and two, we determined the project deliverables (outputs) were consistent with the project scope and schedule as described in the executed agreements. For phases three and four, we determined the outputs were in progress and within scope. The Schedule of Claimed Amounts is presented below.

Schedule of Claimed Amounts

Project Costs¹	Claimed
Proposition 1B Funds—Phase One	\$ 4,457,960
Proposition 1B Funds—Phase Two	10,007,714
Proposition 1B Funds—Phase Three	2,376,269
Proposition 1B Funds—Phase Four	7,901,917 ²
Total Construction Expenditures	\$24,743,860

Observation 1: Contract Bid Documents Not Maintained

SANDAG did not retain date and time stamped bid envelopes from contract bidders. Properly documenting timely submission of bids reduces the risk of bid protests and improperly awarded contracts. SANDAG’s Procurement Manual, section 24E.9, and Caltrans’ Local Assistance Procedures Manual, section 15.5, require that all bids must be date and time stamped upon receipt. Additionally, the agreements for the four phases require SANDAG to maintain records for a minimum of four years after final payment.³

Recommendation:

Retain date and time stamped bid envelopes for all contract bids for a minimum of four years after final payment.

¹ Proposition 1B funded 100 percent of the listed expenditures.

² Included in this amount is \$266,767 held for retention.

³ Phases 1 and 2, agreement 75A0336, paragraph 13; Phase 3, agreement 75A0382, paragraph 11; Phase 4, agreement 75A0396, paragraph 11.



October 15, 2015

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www.sandag.org

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Sierra:

SUBJECT: Response to the Department of Finance's Draft Report of Proposition 1B Project Audit

MEMBER AGENCIES

- Cities of
- Carlsbad
- Chula Vista
- Coronado
- Del Mar
- El Cajon
- Encinitas
- Escondido
- Imperial Beach
- La Mesa
- Lemon Grove
- National City
- Oceanside
- Poway
- San Diego
- San Marcos
- Santee
- Solana Beach
- Vista
- and
- County of San Diego

Thank you for the opportunity to review and respond to the Proposition 1B Project Audit draft report. We appreciate all the time and effort your staff invested during the performance of the audit. SANDAG is pleased that the audit concluded that project costs were incurred and reimbursed in compliance with the executed project agreement and state and federal regulations.

We value your audit observation related to SANDAG not retaining date and time stamped bid envelopes from contract bidders during the audit period identified in the draft report. We are committed to ensuring all required contract documentation is properly retained. Effective April 1, 2015, we formally revised our process to retain date and time stamped bid envelopes with the contract files.

If you need additional information regarding our response, please do not hesitate to contact Steve Castillo, Principal Management Internal Auditor, at (619) 699-0725.

Sincerely,


 GARY L. GALLEGOS
 Executive Director

GGA/

ADVISORY MEMBERS

- Imperial County
- California Department of Transportation
- Metropolitan Transit System
- North County Transit District
- United States Department of Defense
- San Diego Unified Port District
- San Diego County Water Authority
- Southern California Tribal Chairmen's Association
- Mexico

- cc: Honorable Jack Dale, Chairman, SANDAG Board of Directors
 Ms. Kim Kawada, Chief Deputy Executive Director, SANDAG
 Mr. Jim Linthicum, Director of Mobility Management and Project Implementation, SANDAG
 Mr. Steve Castillo, Principal Management Internal Auditor, SANDAG
 Mr. Pete d'Ablaing, Senior Transportation Engineer, SANDAG
 Ms. Laurine Bohamera, Chief, Audits and Investigations, Caltrans
 Ms. Luisa Ruvalcaba, Audit Manager, Audits and Investigations, Caltrans