State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: BIJAN SARTIPI
District 4 Director

Date: April 20, 2015

File: P2505-0049

ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF CALTRANS DISTRICT 4 PROJECT**

Attached is the audit report pertaining to the audit performed on a Caltrans District 4 project funded using Proposition 1B (Prop 1B) Corridor Mobility Improvement Account funds. The name of the project audited is "US 101 HOV Lanes – North Phase A," contract no. 04-0A10U. The Prop 1B programmed amount was $97,669,000. The audit was for the period of December 1, 2001 through June 30, 2014.

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 Division Chiefs relative to audits performed.

The attached report includes two audit findings 1) related to incomplete supplemental and final delivery reports and 2) missing employee interviews. Please provide A&I a corrective action plan on the audit findings within 90 days of the audit report date.

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

Attachment(s)

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
Matt Bailey, Prop 1B Coordinator, Division of Project Management
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

CALIFORNIA DEPARTMENT OF TRANSPORTATION DISTRICT 4 IN SONOMA COUNTY

Audit Report

CORRIDOR MOBILITY IMPROVEMENT ACCOUNT (CMIA) PROGRAM PROPOSITION 1B BOND-FUNDED PROJECTS EA No. 04-0A10U/P2505-0049

December 1, 2001, through June 30, 2014

BETTY T. YEE

California State Controller

April 2015

BETTY T. YEE
California State Controller

April 20, 2015

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 4 in Sonoma County, (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of December 1, 2001, through June 30, 2014.

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 EA No. 04-0A10U, US 101 HOV Lanes – North Phase A – From Steel Lane to Windsor River Road, 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 for the project under review,
    - The closeout reports, final delivery report (FDR), and supplemental final delivery report (SFDR) were not submitted to Caltrans in a timely manner. The reports were incomplete, lacked required signatures, dates, supporting documents and did not discuss the project performance outcome and benefits.

- The Caltrans District 4 labor compliance officer(s) and/or the resident engineer(s) assigned to this project did not conduct monthly interviews of the contractors' employees to confirm and verify the accuracy of worker wages and information reported on contractor's weekly certified payrolls.

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, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/bm

cc: Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Annie Cheuck, 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 California Department of Transportation, District 4 in Sonoma County (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of December 1, 2001, through June 30, 2014.

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, Corridor Mobility Improvement Account (CMIA) Program, 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 closeout reports, final delivery report (FDR), and supplemental final delivery report (SFDR) were not submitted to Caltrans in a timely manner. The reports were incomplete, lacked required signatures, dates, supporting documents and did not discuss the project performance outcome and benefits.

- The Caltrans District 4 labor compliance officer(s) and/or the resident engineer(s) assigned to this project did not conduct monthly interviews of the contractors' employees to confirm and verify the accuracy of worker wages and information reported on contractor's weekly certified payrolls.

Background

In accordance with Caltrans and Commission executed project agreements or approved amendments, the project, EA No. 04-0A10U, US 101 HOV Lanes - North Phase A – From Steel Lane to Windsor River Road, was programmed and approved to receive $69,860,000 in Proposition 1B bond funds, for one or more phases of work, under the CMIA 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 construction phase completion date was December 30, 2010.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2505-0049). 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 December 1, 2001, through June 30, 2014.

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, EA No. 04-0A10U, US 101 HOV Lanes – North Phase A – From Steel Lane to Windsor River Road, 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 closeout reports, final delivery report (FDR), and supplemental final delivery report (SFDR) were not submitted to Caltrans in a timely manner. The reports were incomplete, lacked required signatures, dates, supporting documents and did not discuss the project performance outcome and benefits.
- The Caltrans District 4 labor compliance officer(s) and/or the resident engineer(s) assigned to this project did not conduct monthly interviews of the contractors' employees to confirm and verify the accuracy of worker wages and information reported on contractor's weekly certified payrolls.

Views of Responsible Officials

We discussed our audit results with a Caltrans representative during an exit conference conducted on September 26, 2014. Eric Schen, Project Manager, agreed with the audit results. Mr. Schen 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 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

April 20, 2015

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
December 1, 2001, through June 30, 2014

Project No./EA No.: EA 04-0A10U

Project Information: US 101 HOV Lanes – North Phase A – From Steel Lane to Windsor Road

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited	Variance*	Findings[1]
Construction Contract	$ 63,360,000	$ 57,583,000	$ 57,583,000	$ 3,777,000	$
Construction Engineering	8,500,000	3,488,000	3,488,000	5,012,000	
Total	$ 71,860,000	$ 61,071,000	$ 61,071,000	$ 8,789,000	

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual
Beginning Construction	09/01/2008	09/01/2008	10/29/2008
End Construction	01/01/2011	01/01/2011	12/30/2010
Beginning Closeout	02/01/2011	02/01/2011	02/01/2011
End Closeout	02/01/2012	02/01/2012	02/01/2012

[1] See the Findings and Recommendations section.

*Caltrans to notify the California Transportation Commission; proceed with de-allocating the remainder of the funds for this project.

Findings and Recommendations

FINDING 1—Noncompliance with the Governor's Executive Order S-02-07 and Proposition 1B CMIA program Guidelines

Our audit found that the Proposition 1B project closeout reports, final delivery report (FDR), and supplemenal final delivery report (SFDR) were not submitted to Caltrans in a timely manner. Further, the reports were incomplete, lacked required signatures, dates, and supporting documents in reporting actual benefits attained in the performance outcomes and benefits section of the final delivery report. An incomplete or inaccurate final delivery report will not provide a measurement of actual outcomes of the project compared to what was originally programmed, budgeted and forecasted, thereby causing difficulties in evaluating the degree of attainment of the project's original intent, and may hamper the Commission's efforts in using the report to monitor acutal project performance and as a decision-making tool for future CMIA programming.

Per the Commission's Corridor Mobility Improvement Account (CMIA) program guidelines, the project manager was required to submit a closeout FDR/SFDR to the Commission/Caltrans on the scope of the completed project, its final costs as compared to the approved project budget, its duration as compared to the project schedule in the project baseline agreement, and performance outcomes derived from the project as compared to those described in the project baseline agreement.

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." In effect, we were unable to fully determine the degree of attainment of the project's intended outcomes.

Recommendation

For all Proposition 1B funded projects, the project manager should ensure that the Proposition 1B closeout report, and supplemental and final delivery reports, are accurate, complete, and submitted to Caltrans in a timely manner as required by CMIA program Guidelines and Governor's Executive Order S-02-07.

FINDING 2—Non-compliant with Labor Compliance Requirements

Our audit found that, for the project under review, the Caltrans District 4 labor compliance officer(s) and/or the resident engineer(s) assigned to this project did not conduct the requred monthly interviews of the contracors' emploees to confirm and verify the accuracy of worker wages and information reported on contractor's weekly certified payrolls.

The Davis Bacon and related Acts (DBRA), the U.S. Department of Labor, the contract labor provisions, labor code section 1775, and the State's prevailing wage laws, Caltrans Construction Manual Section 8-102A(3), require the contractors to pay their laborers and mechanics not less that prevailing wage rates and fringe benefits established by the federal and/or state labor regulations.

As a result, the contractor(s) are requried to provide the implementing agency with a weekly reporting of personnel information on certified payrolls. This information should be reviewed, confirmed, and verified by the implementing agency's labor compliance officer(s) and/or the resident engineer(s) for accuracy and compliance with the applicable regulations and required procedures established by Caltrans and the contract labor provision. Failure to confirm and verify this information by the agency's contract officers may result in unacceptable business practices by the contractor(s) violating labor laws, a competitive advantage over other bidders, and possible citation, claims, and penalties against the State and contractors.

Recommendation

The labor compliance officer(s) and/or resident engineer(s) assigned to this project should conduct a review of the contractor's certified payrolls to confirm and verify workers' wages and personal information, as required by applicable laws, regulations, and procedures. The Caltrans Construction Manual requires a minimum of three prime contractor interviews and at least one interview for each subcontractor each month to be performed, in order to enforce labor requirements.

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