State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: BIJAN SARTIPI
District 4 Director

Date: April 13, 2015

File: P2505-0050

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 HOV Lanes – Central Phase A," EA No. 04-0A18U. The Prop 1B programmed amount was $65,051,000. 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 one audit finding related to inaccurate and incomplete final delivery and supplemental final delivery reports. Please provide A&I a corrective action plan 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(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

BETTY T. YEE
California State Controller

April 13, 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's (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: 04-0A18U4, US101 HOV Lanes – North of Pepper Road to Rohnert Park" 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 project under review, EA No. 04-0A18U4, the Proposition 1B project closeout reports, final delivery report (FDR), and supplemental final delivery report (SFDR), were not submitted to Caltrans in a timely manner. Further, the reports were incomplete, lacked required signatures and dates, and did not discuss the project performance outcome and benefits.

Per the Commission's Corridor Mobility Improvement Account (CMIA) program guidelines, the project manager is 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.

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 phone at at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Annie Cheuk, Auditor-in-Charge
Division of Audits – Bond Unit
State Controller's Office

CALIFORNIA DEPARTMENT OF TRANSPORTATION DISTRICT 4 – SOMONA COUNTY

Audit Report

CORRIDOR MOBILITY IMPROVEMENT ACCOUNT (CMIA) PROGRAM PROPOSITION 1B BOND-FUNDED PROJECT EA No. 04-0A18U4/P2505-0050

December 1, 2001, through June 30, 2014

BETTY T. YEE

California State Controller

April 2015

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Department of Transportation District 4's (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 "EA No: 04-0A18U4, US101 HOV Lanes – North of Pepper Road to Rohnert Park" 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 for project under review, EA No. 04-0A18U4, the Proposition 1B project closeout reports, final delivery report (FDR) and supplemental final delivery report (SFDR), were not submitted to Caltrans in a timely manner as required. Further, the reports were incomplete, lacked required signatures and dates, and did not discuss the project performance outcome and benefits.

Background

In accordance with Caltrans and Commission-executed project agreements or approved amendments, the project "EA No: 04-0A18U4, US101 HOV Lanes – North of Pepper Road to Rohnert Park," was programmed and approved to receive $17,359,000 in Proposition 1B bond funds, for one or more phases of work, under the Corridor Mobility Improvement Account (CMIA) program.

The implementing agency is responsible for implementation and successful completion of each project component and activities as defined in the project's agreement(s). The project's completion date for construction phase was December 1, 2011.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2505-0050). 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 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: 04-0A18U4, US101 HOV Lanes – North of Pepper Road to Rohnert Park" 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 for project under review, EA 04-0A18U4, the Proposition 1B project closeout reports, final delivery report and supplemental final delivery report were not submitted to Caltrans in a timely manner. Further, the reports were incomplete, lacked required signatures, dates, and did not discuss the project performance outcome and benefits.

Views of Responsible Officials

We discussed our audit results with Caltrans representatives 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 13, 2015

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

Project No./EA No.:

PPNO. 0775/EA 04-0A18U4

Project Information:

US 101 HOV Lanes. North of Pepper Road to Rohnert Park

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited
Construction - CMIA	$ 17,359,000	$ 17,314,000	$ 17,314,000
Total	$ 17,359,000	$ 17,314,000	$ 17,314,000

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual
Beginning Construction	07/01/09	07/01/09	12/01/09
End Construction	12/01/11	12/01/11	12/26/12

Finding and Recommendation

FINDING—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 supplemental final delivery report (SFDR) were not submitted to Caltrans in a timely manner. Further, the reports were incomplete, lacked required signatures and dates, and did not report actual benefits attained in the performance outcomes (benefits) section of the FDR. 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, causing difficulties in evaluating the degree of attainment of the project's original intent and hampering the Commission's efforts in using the report to monitor actual project performance and as a decision-making tool for future Corridor Mobility Improvement Account (CMIA) programming.

Per the Commission's CMIA program guidelines, the project manager is 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

We recommend that Caltrans adhere to established policies and procedures to 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 the CMIA program guidelines and Governor's Executive Order S-02-07.

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S14-BAU-033