State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: BIJAN SARTIPI
District Director
District 4

Date: July 7, 2014

File: P2515-0025

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

Subject: **AUDIT OF CALTRANS DISTRICT 4, SANTA CLARA COUNTY**

Attached is the audit report pertaining to the audit performed on Caltrans District 4 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 "Installation of vehicle detection stations in Santa Clara County in various locations". The Prop 1B programmed amount was $4,822,000. The audit was for the period of July 1, 2007, through February 28, 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 one finding: The project manager did not submit the Final Delivery Report (FDR) and Supplemental Final Delivery Report (SFDR) to Caltrans in a timely manner. Specifically, the FDR and SFDR reports did not identify or discuss project performance outcomes and benefits analysis, were not signed and dated by the responsible officials, and were incomplete when uploaded to the Caltrans On-Line Data Input System. In addition, the Caltrans's District 4 office contract officers were unable to provide auditors with the project close-out checklist and associated records.

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
James E. Davis, Chief, Division of Project Management
Rachel Falsetti, Chief, Transportation Programming
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
Matt Bailey, Prop 1B Program Coordinator, Division of Project Management
Harlan Woo, Supervising Transportation Engineer, Caltrans
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

CALIFORNIA DEPARTMENT OF TRANSPORTATION DISTRICT 4 SANTA CLARA COUNTY

Audit Report

STATE HIGHWAY OPERATIONS AND PROTECTION PROGRAM (SHOPP) PROPOSITION 1B BOND-FUNDED PROJECT EA No. 04-4A532/P2515-0025

July 1, 2007, through February 28, 2013

JOHN CHIANG
California State Controller

June 2014

JOHN CHIANG
California State Controller

June 30, 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 4 Santa Clara County'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 February 28, 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, and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines and agreements.

We audited the Proposition 1B bond-funded project, EA No. 04-4A532/SHOPP PPNO 04-0156H, "installation of vehicle detection stations in Santa Clara County in various locations," 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 the executed project baseline agreements or approved amendments thereof, state and federal laws and regulations, contract provisions, and Commission guidelines.

- 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 disclosed that for the project under review, EA No. 04-4A532/SHOPP PPNO 04-0156H, the project manager did not submit the Final Delivery Report (FDR) and Supplemental Final Delivery Report (SFDR) to Caltrans in a timely manner. Specifically, the FDR and SFDR reports did not identify or discuss project performance outcomes and benefits analyses, were not signed and dated by the responsible officials, and were incomplete when uploaded to the Caltrans On-Line Data Input System. In addition, the Caltrans's District 4 office contract officers were unable to provide auditors with the project close-out checklist and associated records.

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 (916) 324-6310.

Sincerely,

Original Signed By

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

Attachment

cc: Doanh Nguyen
Caltrans District 4, Division of Program/Project Management
Luisa Ruvalcaba, Audit Manager
Audits and Investigations
California Department of Transportation

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Department of Transportation District 4 Santa Clara County'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 February 28, 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, EA No. 04-4A532/SHOPP PPNO 04-0156H—installation of vehicle detection stations in Santa Clara County in various locations, 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 the executed project baseline agreements or approved amendments thereof, state and federal laws and regulations, contract provisions, and Commission guidelines.

- 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 disclosed that for the project under review, EA No. 04-4A532/SHOPP PPNO 04-0156H, the project manager did not submit the Final Delivery Report (FDR) and Supplemental Final Delivery Report (SFDR) to Caltrans in a timely manner. Specifically, the FDR/SFDR report(s) did not identify or discuss project performance outcomes and benefits analyses, were not signed and dated by the responsible officials, and were incomplete when uploaded to the Caltrans On-Line Data Input System (ODIS). In addition, the Caltrans's District 4 office contract officers were unable to provide auditors with the project close-out checklist and associated records.

Background

In accordance with Caltrans and Commission-executed project agreement(s) or approved amendments, the project EA No. 04-4A532/SHOPP PPNO 04-0156H was programmed and approved to receive $4,822,000 in Proposition 1B bond funds, for one or more phases of work, under the State Highway Operations and Protection Program (SHOPP).

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 completion date was August 10, 2010.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2512-0025). 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 February 28, 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 the executed project baseline agreements or approved amendments thereof, state and federal laws and regulations, contract provisions, and Commission guidelines.

- 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. 04-4A532/SHOPP PPNO 04-0156H, "installation of vehicle detection stations in Santa Clara County in various locations," 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 the executed project baseline agreements or approved amendments thereof, state and federal laws and regulations, contract provisions, and Commission guidelines.
- 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 disclosed that for the project under review, EA No. 04-4A532/SHOPP PPNO 04-0156H, the project manager did not submit the Final Delivery Report (FDR) and Supplemental Final Delivery Report (SFDR) to Caltrans in a timely manner. Specifically, the FDR/SFDR report(s) did not identify or discuss project performance outcomes and benefits analysis, were not signed and dated by the responsible officials and were incomplete when uploaded to the Caltrans On-Line Data Input System (ODIS). In addition, the Caltrans's District 4 office contract officers were unable to provide auditors with the project-close-out checklist and associated records.

Views of Responsible Officials

We issued a draft audit report on February 20, 2014. We contacted Harlan Woo, Caltrans District 4 Project Management Support, by telephone on April 3, 2014. We informed Mr. Woo that the SCO will issue the 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

June 30, 2014

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
July 1, 2007, through February 28, 2013

Project No./EA No.: EA No. 04-4A532

Project Information: SHOPP PPNO 04-0156H—installation of vehicle detection stations in Santa Clara County in various locations

Project Financial Information:

Phases Reimbursed by Prop 1B Bond Fund	Programmed and Approved	Expended	Audited	Findings[1]
Phase 0–PA&ED	$ 216,000.00	$ 85,001.59	$ 85,001.59	
Phase 1–PS&E	397,000.00	19,789.53	19,789.53	
Phase 2–R/W-Support	36,000.00	—	—	
Phase 3–Construction engineering	432,000.00	698,467.49	698,467.49	
Phase 4–Construction support	3,741,000.00	2,469,953.99	2,469,953.99	
Total	$ 4,822,000.00	$ 3,273,212.60	$ 3,273,212.60	

Project Delivery Baseline:

Project Phase(s):	Approved	Actual	Audited
Beginning Construction	04/01/08	04/11/08	04/11/08
End Construction	12/01/08	09/25/09	09/25/09
Beginning Closeout	10/01/09	09/25/09	09/25/09
End Closeout	10/01/10	08/10/10	08/10/10

[1] See the Finding and Recommendation section.

Finding and Recommendation

FINDING 1—Noncompliance with established criteria-Incomplete Supplemental and Final Delivery Reports

For the project under review, EA No. 04-4A532/SHOPP PPNO 04-0156H, the project manager did not submit the Final Delivery Report (FDR) and Supplemental Final Delivery Report (SFDR) to Caltrans in a timely manner. In addition, the FDR / SFDR reports did not identify or discuss the completed project performance outcome and benefits analyses, were not signed and dated by the responsible officials, and were incomplete when uploaded to the Caltrans On-Line Data Input System. In addition, the Caltrans' District 4 office contract officers were unable to provide auditors with the project-close-out checklist and associated records, such as project inspection records.

The Governor's Executive Order S-02-07 Bond program accountability plan requires that:

> All agencies, departments, boards, offices, commissions and other entities of State government (hereinafter referred to "departments") that are responsible for expending the proceeds of already authorized and future State general obligation Bonds and lease revenue Bonds shall be accountable for ensuring that those Bond proceeds are expended in a manner consistent with the provisions of either the applicable Bond Act or the State General Obligation Bond Law or laws pertaining to State lease revenue Bonds and all other applicable State and federal laws. In addition, departments shall be accountable for ensuring that Bond proceeds are spent efficiently, effectively and in the best interests of the people of the State of California.

Proposition 1B project close-out-process procedures established by the Commission and Caltrans state that:

> Each department shall follow criteria or processes that will govern the expenditure of Bond Funds, and the outcomes that such expenditures are intended to achieve.
>
> The Project Manager/agency sponsor will prepare the Final Delivery Report and upload a pdf file of the report to the On-Line Data Input System (ODIS). Final Delivery Reports are due to the Program Coordinator within 6 months of the project becoming operable.
>
> The Supplemental Final Delivery Report is due within six months of the completion of the project which occurs at the conclusion of all project activities and acceptance of the contract.
>
> At a minimum the delivery report shall contain the scope of the completed project, its final cost, duration, and performance outcomes/benefits as compared to the baseline agreements.

Recommendation

We recommend that the responsible officials (i.e., project managers and program coordinators) review and complete the FDR/SFDR reports for accuracy, completeness, and compliance with the adopted policies, procedures, and guidelines established by Caltrans; the Commission; and Governor Executive Order S-02-07 dated January 24, 2007 Bond Program Accountability Plan.

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