State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: BRUCE ROBERTS
Acting Division Chief
Division of Rail and Mass Transportation

Date: January 26, 2015

File: P2545-0010

ORIGINAL SIGNED BY:

From: MARSUE MORRILL, Chief
External Audit - Contracts
Audits and Investigations

Subject: **AUDIT OF PORT OF STOCKTON**

Attached is the audit report pertaining to the audit performed on Port of Stockton, relative to funding received from Caltrans using Proposition 1B (Prop 1B) Highway Railroad Crossing Safety Account Funds. The name of the project audited is "Port of Stockton Expressway," Project No. HRCSA-5008(004). The Prop 1B programmed amount was $1,131,000. The audit was for the period of June 1, 2010 through January 31, 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. Therefore, please ensure adequate corrective action is taken to address the audit findings noted.

The audit found that the Port of Stockton reported inaccurate information on the final delivery report and left some sections incomplete. Specifically, the Port of Stockton reported expenditures that the SCO auditor was unable to materially agree to supporting documentation. Further, the report lacked original baseline amounts as well as performance outcomes.

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
Carlos Ruiz, Prop 1B Coordinator, Rail and Mass Transportation
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

PORT OF STOCKTON

Audit Report

HIGHWAY-RAILROAD CROSSING SAFETY ACCOUNT PROGRAM PROPOSITION 1B BOND-FUNDED PROJECT EA No. 75-H017BA/P2545-0010

June 1, 2010, through January 31, 2014

JOHN CHIANG
California State Controller

December 2014

JOHN CHIANG
California State Controller

December 11, 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 Port of Stockton's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of June 1, 2010, through January 31, 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 and agreements.

We audited the Proposition 1B bond funded project, Port of Stockton Expressway, EA No. 75-H017BA, 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.

- Except for the noncompliance noted below, 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.

Our audit found that the Port of Stockton reported inaccurate information on the final delivery report and left some sections incomplete.

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/sk

cc: Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Albert Sim, 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 Port of Stockton's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of June 1, 2010, through January 31, 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 Port of Stockton Expressway, EA No. 75-H017BA, 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.

- Except for the noncompliance noted below, 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.

Our audit found that the Port of Stockton reported inaccurate information on the final delivery report and left some sections incomplete.

Background

In accordance with Caltrans and Commission executed project agreement(s) or approved amendments, the project, Port of Stockton Expressway, EA No. 75-H017BA, was programmed and approved to receive $4,400,000 in Proposition 1B bond funds, for one or more phases of work, under the Highway-Railroad Crossing Safety Account program.

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

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 June 1, 2010, through January 31, 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 Port of Stockton Expressway, EA No. 75-H017BA, 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.

- Except for the noncompliance noted below, 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.

Our audit found that the Port of Stockton reported inaccurate information on the final delivery report and left some sections incomplete.

Views of Responsible Officials

We discussed our audit results with the Port of Stockton's representatives during an exit conference conducted on July 21, 2014. Michelle Bowling, Controller, and Juan Villanueva, Projects and Contract Administrative Manager, agreed with the audit results. Mr. Villanueva 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 the Port of Stockton, 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

December 11, 2014

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
June 1, 2010, through January 31, 2014

Project No./EA No.:

HRCSA-5008(004)/75-H017BA

Project Information:

In the Port of Stockton, the project consisted of replacing the existing at-grade Daggett Road/BNSF rail crossing with a new grade-separated bridge and constructing approach roadways on a new alignment just west of existing Daggett Road.

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited
Construction	$ 4,400,000	$ 1,537,000	$ 1,537,000
Total	$ 4,400,000	$ 1,537,000*	$ 1,537,000

Project Delivery Baseline:

Project Phase(s):	Programmed and Approved	Actual	Audited
Beginning construction	06/01/10	06/20/11	06/20/11
End construction	09/01/11	11/13/12	11/13/12
Beginning close-out	09/01/11	11/13/12	11/13/12
End close-out	12/01/11	02/07/13	02/07/13

* Per Resolution GS1B-A-1112-001, the California Transportation Commission de-allocated $2,863,000 in HRCSA Proposition 1B bond funds from the original allocation of $4,400,000, due to contract award savings. This reduced the overall HRCSA amount expended by the Port of Stockton to $1,537,000.

Finding and Recommendation

FINDING—Inaccurate and incomplete reporting

Our audit found that the Port of Stockton (Port) reported inaccurate information on the final delivery report and left some sections incomplete. Specifically, the Port reported expenditures that the SCO auditor was unable to materially agree to supporting documentation. Further, the report lacked original baseline amounts as well as performance outcomes (benefits). Per the California Transportation Commission's (Commission) Highway-Railroad Crossing Safety Account (HRCSA) program guidelines, the Port was required to submit a final delivery report to the Commission 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.

An incomplete or inaccurate final delivery report will not provide a measurement of actual outcomes of the project compared to what was originally budgeted and forecasted, thereby causing difficulties in evaluating the degree of attainment of the project's original intent. Additionally, the incorrect final delivery report hampers the Commission's efforts to use the report to monitor actual project performance and as a decision-making tool for future HRCSA programming.

The Port agreed with the finding and agreed to comply with the SCO's recommendation.

Recommendation

The Port should ensure the accuracy and completeness of the final delivery report prior to submission. Specifically, the Port should ensure that original baseline amounts, actual expenditures, and measurable performance outcomes are correctly reported.

The Port should institute stronger management controls, such as policies/procedures that include a secondary review process, in order to ensure that reported data is accurate and complete prior to submission of the final delivery report.

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