State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Flex your power!
Be energy efficient!

To: TIM GUBBINS
District Director, District 5

Date: January 23, 2014

File: P2515-0017

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

Subject: **AUDIT OF DEPARTMENT OF TRANSPORTATION, DISTRICT 5**

Attached is the audit report pertaining to the audit performed on the Department of Transportation (Caltrans), District 5 (implementing agency), relative to a project funded and reimbursed by Proposition 1B (Prop 1B) State Highway Operations and Protection Program Augmentation. The name of the project audited is "The installation of vehicle detection stations at Route 1 in Santa Cruz County near Watsonville, between the Santa Cruz/Monterey county line and Freedom Boulevard". The Prop 1B programmed amount was $2,559,000. The audit was for the period of April 1, 2008, through July 24, 2012.

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. You are receiving the audit report since this project was implemented under the responsibility of District 5 Project Management. Deputy Directive 100, "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 report disclosed that the implementing agency did not conduct monthly labor compliance interviews of employees working for the contractor and subcontractor.

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
Julia Bolger, Deputy District Director of Administration, District 5
Douglas Hessing, Project Manager, Program/Project Management, District 5
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Matt Bailey, Prop 1B Program Coordinator, Division of Project Management
Luisa Ruvalcaba, Audit Manager, Audits and Investigations

CALIFORNIA DEPARTMENT OF TRANSPORTATION DISTRICT 5 – SANTA CRUZ

Audit Report

STATE HIGHWAY OPERATIONS AND PROTECTION PROGRAM (SHOPP) PROPOSITION 1B BOND-FUNDED PROJECTS EA No. 05-0N250/P2515-0017

April 1, 2008, through July 24, 2012

JOHN CHIANG
California State Controller

December 2013

JOHN CHIANG
California State Controller

December 31, 2013

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 5's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of April 1, 2008, through July 24, 2012.

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 "Project No. 05-4025/EA No. 05-0N250, the installation of vehicle detection stations at Route 1 in Santa Cruz County near Watsonville, between the Santa Cruz/Monterey county line and Freedom Boulevard" 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.

- Schedule 1 of this report is a summary of project costs programmed, approved, expended, and audited during the audit period.

However, our audit found that the implementing agency did not conduct monthly labor compliance interviews of employees working for the contractor and subcontractor.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by phone at (916) 324-6310.

Sincerely,

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Brandon Wong, 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 Districts 5's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of April 1, 2008, through July 24, 2012.

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 "Project No. 05-4025/EA No. 05-0N250, the installation of vehicle detection stations at Route 1 in Santa Cruz County near Watsonville, between the Santa Cruz/Monterey county line and Freedom Boulevard" 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 found that the implementing agency did not conduct monthly labor compliance interviews of employees working for the contractor and subcontractor.

Background

In accordance with California Department of Transportation (Caltrans) and Transportation Commission (Commission) executed project agreement(s) or approved amendments, the project "Project No. 05-4025/EA No. 05-0N250, the installation of vehicle detection stations at Route 1 in Santa Cruz County near Watsonville, between the Santa Cruz/Monterey county line and Freedom Boulevard," was programmed and approved to receive $2,559,000 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 agreement(s). The project's completion date was April 1, 2012.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2515-0017). 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 April 1, 2008, through July 24, 2012.

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(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 "Project No. 05-4025/EA No. 05-0N250, the installation of vehicle detection stations at Route 1 in Santa Cruz County near Watsonville, between the Santa Cruz/Monterey county line and Freedom Boulevard" 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 found that the implementing agency did not conduct monthly labor compliance interviews of employees working for the contractor and subcontractor.

Views of Responsible Official

We issued a draft audit report on September 4, 2013. Douglas Hessing, Project Manager, responded by letter dated September 25, 2013. This final audit report includes Caltrans' response.

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.

Jeffrey Brownfield

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

December 31, 2013

Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
April 1, 2008, through July 24, 2012

Project No./EA No.: 05-4025/05-0N250

Project Information: The installation of vehicle detections stations at Route 1 in Santa Cruz County near Watsonville, between the Santa Cruz/Monterey county line and Freedom Boulevard

Project Financial Information:

Phases Reimbursed by Prop 1B Bond Fund	Programmed and Approved	Expended	Audited	Variance[1]
Phase 0–Project approval and environmental document	$ 262,000	$ 66,000	$ 66,000	—
Phase 1–Plans, specifications, and estimates	602,000	255,000	255,000	—
Phase 2–Right-of-way (support)	64,000	—	—	—
Phase 3–Construction engineering	322,000	229,000	229,000	—
Phase 4–Right-of-way (capital)	8,000	—	—	—
Phase 5–Construction project capital	1,301,000	356,000	356,000	—
Total	$ 2,559,000	$ 906,000	$ 906,000	$ —

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual	Audited
Beginning construction	7/1/09	7/1/09	5/1/10	5/1/10
End construction	4/1/10	4/10/10	5/1/11	5/2/11
Beginning closeout	11/1/10	11/1/10	5/1/11	5/1/11
End closeout	10/1/11	10/1/11	4/1/12	4/1/12

[1] Variance is computed as any difference from expended aud audited.

Finding and Recommendation

FINDING—
No monthly employee interviews conducted in regards to labor compliance

Our audit found that the Caltrans' District 5 labor compliance officer(s) and/or the resident engineer(s) assigned to this project did not verify worker wages and information reported on contractor's weekly certified payrolls.

The Davis Bacon and Related Acts, the U.S. Department of Labor, the contract labor provisions, Labor Code section 1775, and the state's prevailing wage laws, require contractors to pay their laborers and mechanics not less that prevailing wage rates and fringe benefits established by federal and/or state labor regulations.

As a result, the contractor(s) are required to provide the implementing agencys with a weekly reporting of personnel information on certified payrolls. This information should be reviewed 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, laws, and required procedures established by Caltrans. A failure to audit and verify this information by the agency's contract officers, may result in unacceptable business practices by the contractor(s), violation of labor laws, competitive advantage over other bidders, and possible citations, claims, and penalties against the State and contractors.

Recommendation

The agency's labor compliance officers and/or resident engineer(s) assigned to this project should conduct a review of the contractor's certified payrolls 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.

Caltrans District 5 Response

The Caltrans District 5 San Luis Obispo office provided copies of the Caltrans' labor compliance program policy detailing compliance requirements for district labor compliance staff, and a response to the draft audit finding for Caltrans audit request number P2515-0017, stating:

> Caltrans agrees that the failure to conduct random monthly employee interviews on the project is a finding of non-compliance with current Caltrans policy, however that failure does not constitute a finding that the worker wages were not verified on the subject contract when Caltrans can clearly provide evidence that its district labor compliance officers did comply with applicable program policy.

SCO Response

We recommend that Caltrans staff (labor compliance officers assigned to the project) adhere to the minimum employee interview requirements specified in the Caltrans Construction Manual, section 8-102-A(3); and conduct on-site-visits, randomly or as deemed necessary, that include visual inspection of required job site notices and interviews of workers involved with the project. This will minimize the risk of labor violations and ensure compliance with prevailing wage rate requirements and labor laws.

Attachment—
Auditee's Response to
Draft Audit Report

DEPARTMENT OF TRANSPORTATION
50 HIGUERA STREET
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FAX (805) 549-3329
TTY 711
http://www.dot.ca.gov/dist05/

Flex your power!
Be energy efficient!

September 25, 2013

Andrew Finlayson
Chief
State Agency Audits Bureau
State Controller's Office, Division of Audits
PO Box 942850
Sacramento, California 94250-5874

Dear Mr. Finlayson:

AUDIT REQUEST NUMBER P2515-0017

Attached is a response to the draft audit finding for audit request number P2515-0017, California Department of Transportation District 5. Also attached is the labor compliance program policy detailing compliance requirements for district labor compliance staff. If you have any questions regarding the content of the response, please contact me at 805-549-3386. Thank you.

Sincerely,

DOUGLAS HESSING
Project Manager

Enclosure

c. Tim Gubbins
Sara von Schwind
Patrick Connally
Jeffrey V. Brownfield

P/1 of 3

California Department of Transportation
Draft Audit Report - P2515-0017
Response to Finding – Employee Interviews

Audit Report Finding
The draft audit report issued by the California State Controller's Office for audit request number P2515-0017 SHOPP contains a finding and recommendation as follows:

FINDING – "No monthly employee interviews conducted in regards to labor compliance"

Paragraph 1: "Our audit found that the Caltrans' District 5 labor compliance officer(s) and/or the resident engineer(s) assigned to the project did not verify worker wages and information reported on contractor's weekly certified payrolls."

Paragraph 3: "As a result, the contractor(s) are required to provide the implementing agencys with a weekly reporting of personnel information on certified payrolls. This information should be reviewed 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, laws and required procedures established by Caltrans."

RECOMMENDATION – "The agency's labor compliance officers and/or resident engineer(s) assigned to this project should conduct a review of the contractor's certified payrolls and verify workers wages and personal information, as required by applicable laws, regulations and procedures."

Response to Finding
The California Department of Transportation (Caltrans) takes exception to the response posted in paragraph 1 of the draft audit report and respectfully requests a reconsideration of the analysis of the finding.

The absence of employee interviews from the contract file does not indicate that Caltrans staff has not verified worker wages and information reported on contractor certified payroll records. Existing Caltrans policy specifically applicable to district labor compliance officers charged with implementation of the Caltrans labor compliance program includes several methods of verifying accurate reporting of prevailing wages by contractors. Employee interviews are used as one of those methods and are not the exclusive method available to Caltrans and its labor compliance staff.

As required by Labor Compliance Policy Bulletin 11-01, Labor Compliance Program Investigations, Caltrans staff are required to perform a three part validation process to verify accuracy of contractor submitted certified payroll records. Caltrans district labor compliance staff did comply with the validation process through initial observatory review of the elements on the payroll record and confirmation of the payroll record data through comparison of inspection reports of work actually performed on the project by classification and name of employee and applicable prevailing wage determinations on file for the classification of work

performed against the payroll record. The final step in the validation process was conducted by the district labor compliance officer through audits of contractor records of actual wages paid to the worker as well as fringe benefits paid to the union trust fund on behalf of both the prime contractor and all subcontractors performing work on the project. Evidence of these activities occurring is documented on the payroll records through the initials of the district labor compliance officer reviewer as well as in labor compliance log sheets applicable to the project.

Attached to this response is the applicable labor compliance program policy requiring district labor compliance staff to engage in the aforementioned minimum enforcement activities for all Caltrans projects.

Caltrans agrees that the failure to conduct random monthly employee interviews on the project is a finding of non-compliance with current Caltrans policy, however that failure does not constitute a finding that the worker wages were not verified on the subject contract when Caltrans can clearly provide evidence that its district labor compliance officers did comply with applicable program policy.

Caltrans recommends that the audit include a finding that Caltrans staff assigned to the project adhere to the minimum employee interview requirements specified in the Caltrans Construction Manual, section 8-102A (3) Interviews With Contractor Personnel.

State Controller's Office
Division of Audits
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