

**CALIFORNIA DEPARTMENT OF
TRANSPORTATION
DISTRICT 11**

Audit Report

**TRADE CORRIDOR IMPROVEMENT FUND
PROGRAM
PROPOSITION 1B BOND-FUNDED PROJECT
EA No. 11-28880/P2525-0013**

July 30, 2004, through January 31, 2015



BETTY T. YEE
California State Controller

December 2015



BETTY T. YEE
California State Controller

December 16, 2015

Laurine Bohamera, Chief
Audits and Investigations
California Department of Transportation
P.O. Box 94274-0001
Sacramento, CA 94274-0001

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited the California Department of Transportation District 11's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of July 30, 2004, through January 31, 2015.

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 "State Route 905" 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, except for Bid Item No. 212, 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.

For the project under review, our audit found that Caltrans District 11 overpaid the contractor by \$13,952 for Bid Item No. 212. District 11 did not provide a clear and easily followed trail and/or explanation for item 212's quantity calculation sheets.

We issued a draft report on June 15, 2015. Caltrans, District 11 provided additional documentation and explanations through a series of emails.

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 telephone at (916) 324-6310.

Sincerely,

ORIGINAL SIGNED BY:

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

Attachment

cc: Jan Goto, Audit Manager
Division of Audits – Bond Unit
California State Controller's Office
Albert Marroquin, Auditor-in-Charge
Division of Audits – Bond Unit
California State Controller's Office

Memorandum

*Serious drought.
Help Save Water!*

To: LAURIE BERMAN
District 11 Director

Date: January 7, 2016

File: P2525-0013

ORIGINAL SIGNED BY:

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

Subject: **AUDIT OF CALTRANS DISTRICT 11 PROJECT**

Attached is the audit report pertaining to the audit performed on a Caltrans District 11 project using Proposition 1B (Prop 1B) Trade Corridors Improvement Funds. The name of the project audited is "State Route 905," EA No. 11-28880. The Prop 1B programmed amount was \$66,804,000. The audit was for the period of July 30, 2004, through January 31, 2015.

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 District Directors relative to audits performed.

The attached report includes one audit finding related to the District's overpayment to the contractor. 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

- 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
- Dawn Cheser, Prop 1B Coordinator, Transportation Planning
- Luisa Ruvalcaba, Audit Manager, Audits and Investigations

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Audit Report

Summary

The State Controller's Office (SCO) audited the California Department of Transportation District 11's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of July 30, 2004, through January 31, 2015.

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 "State Route 905" 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, except for Bid Item No. 212, 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.

For the project under review, it appears that Caltrans District 11 overpaid the contractor by \$13,952 for Bid Item No. 212. District 11 did not provide a clear and easily followed trail and/or explanation for item 212's quantity calculation sheets.

Background

In accordance with Caltrans and Commission executed project agreement(s) or approved amendments, the project "State Route 905" was programmed and approved to receive \$66,804,000 in American Recovery and Reinvestment Act (ARRA) funds, for one or more phases of work. In April 2009, the Commission approved Resolution FS-08-04, which approved the use of ARRA funds as a loan authorized under AB-3X-20, for several high priority Proposition 1B projects, including the State Route 905 project. This amendment documents such change, and the use of ARRA funds as a loan, in place of Proposition 1B Trade Corridor Improvement Fund (TCIF) bond funds.

Repayment will be made to the State Highway Account (SHA) from future bond sales. Once returned to the SHA, the funds will be programmed onto State Highway Operation and Protection Plan projects, which the Commission will allocate. In accordance with AB 3X-20, \$66,804,000 of ARRA funds were available and replaces \$66,804,000 in Proposition 1B TCIF bond funds.¹

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 October 4, 2013.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2525-0013). 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 30, 2004, through January 31, 2015.

¹ The Prop 1B TCIF funds of \$66,804,000 were paid back to the SHA account for the ARRA loan on October 14, 2013 (Account 0042).

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 limited 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, judgmentally 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 "State Route 905" 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, except for Bid Item No. 212, 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.

For the project under review, it appears that Caltrans District 11 overpaid the contractor by \$13,952 for Bid Item No. 212. District 11 did not provide a clear and easily followed trail and/or explanation for item 212's quantity calculation sheets.

**Views of
Responsible
Officials**

A draft report was issued on June 15, 2015. Caltrans District 11 staff Ismael Salazar, Project Manager, and Marla Deyoe, Senior Resident Engineer, responded by email, providing documents and further explanation for Finding 1 and Finding 2. On September 15, 2015, Mr. Salazar and Ms. Deyoe responded by email, disagreeing with the audit results for Finding 1. Finding 2 is resolved.

Restricted Use

This report is solely for the information and use of Caltrans District 11, 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 16, 2015

**Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
July 30, 2004, through January 31, 2015**

Project No./EA No.: 1100000351/11-28880

Project Information: State Route 905

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited</u>	<u>Variance¹</u>	<u>Finding(s)²</u>
Construction	\$ 66,804,000	\$ 64,493,722	\$64,493,722	\$ 2,310,278	\$ 13,952
Total	<u>\$ 66,804,000</u>	<u>\$ 64,493,722</u>	<u>\$64,493,722</u>	<u>\$ 2,310,278</u>	<u>\$ 13,952</u>

Project Delivery Baseline:

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning construction	07/13/09	07/13/09	07/22/09
End construction	07/11/12	07/11/12	10/04/13
Beginning close-out	07/12/12	07/12/12	10/05/13
End close-out ³	07/12/13	07/12/13	

¹ The variance is the total amount of expenditures for which the District is in the claims process with the Contractor.

² See Finding 1 in the Findings and Recommendations section.

³ The project is not closed out as of June 2015, as Caltrans District 11 is in the claims process with the Contractor.

Findings and Recommendations

FINDING 1— Overpayment to contractor

For the project under review, it appears that Caltrans District 11 overpaid the contractor by \$95,360 (1,490 M units) for Bid Item No. 212.

Caltrans Construction Manual, Chapter 3, Section 3-903C states:

Enter measurements and calculations for contract item quantities on permanent record sheets that are commonly referred to as 'source documents.' Include on each source document the appropriate contract item number, the location of installation (if applicable), the necessary measurements and calculations, and the name of the person preparing the document. Check source document calculations independently, and enter the name of the checker on the document. Check source document calculations as soon as possible, preferably before the quantity is entered on a progress pay estimate. Always check them before entry on the proposed final estimate. Whenever possible, measure, calculate, and check contract item quantities as the work on a contract item is complete...

Caltrans Construction Manual, Chapter 3, Section 3-903D states:

Create a clear and easily followed trail for the total pay quantity in the proposed final estimate back to the first measurement or calculation for each contract item. Consider organizing source documents for each contract item so an easily followed audit trail exists...

Recommendation

It is recommended that Caltrans District 11 follow the Caltrans Construction Manual Chapter 3-903C, Source Documents and Chapter 3-903D, Audit Trail, on future projects. Also, Caltrans District 11 should settle the \$95,360 discrepancy with the contractor.

Caltrans District 11's Response

I respectfully disagree that the Contractor was overpaid. The audit the Lead Field Engineer recently performed confirmed the Contractor was accurately paid for Item 212. Q-Sheet 7 did not accurately depict the situation; however, the Heritage Road Fence was absent from the payment made on Q-Sheet 1 (or as the Inspector erroneously indicated "a withholding" from Q-Sheet 1). I believe the quantity paid under Q-Sheet 7 was appropriate and covered the work at Heritage Road.

A copy of Caltrans District 11's e-mail is included as an attachment to this report.

SCO's Comment

The SCO reviewed the additional documentation received by District 11. The additional documents do not sufficiently resolve our finding of overpayment of Bid Item 212. A discrepancy still exists between Quantity Calculation Sheet No. 1 and No. 7. The withholding of Quantity Calculation Sheet No. 7 is not reflected in Sheet No. 1 calculations as per sheet No. 7's description and details. There still is an overpayment to the contractor of \$13,952 or 218 M units (\$95,360-\$81,408).

**FINDING 2—
No change order
for increase of
more than 25%**

For the project under review, it appears that Caltrans District 11 paid the contractor more than 25% of the authorized costs without any additional Contract Change Orders to justify the increase(s), for Bid Item No. 37 and Bid Item No. 160.

Caltrans Construction Manual, Chapter 3, Section 3-403B states:

When the total pay quantity of a contract item varies from the engineer's estimate by more than 25 percent, the variation may be the result of more or fewer units than shown in the engineer's estimate required to complete the planned work... When the variation does exceed 25 percent, adjust the compensation in accordance with Section 4-1.03B, "Increased or Decreased Quantities," of the Standard Specifications or document in the contract records the reason for not making an adjustment in compensation. When the accumulated increase or decrease in contract item units shown on a contract change order exceeds 25 percent of the engineer's estimate, the overrun or underrun must be acknowledged and provided for in the current contract change order...

Caltrans Construction Manual, Chapter 3, Section 3-404B (1) states:

It is usually appropriate to defer adjustment if work on the contract item has not been completed. Additional contract change orders may be affecting the quantity, or the number of units required to complete planned work may not be known. However, as soon as unit costs and final quantities can be reasonably determined, calculate any required unit adjustment and provide for it through a contract change order...

Recommendation

It is recommended that Caltrans District 11 follow the Caltrans Construction Manual Chapter 3-403B, Increased or Decreased Quantities and Chapter 3-403B, Increases of More Than 25 Percent, on future projects.

SCO's Comment

After the draft report was issued, we reviewed additional information received from Caltrans District 11, and Finding 2 is resolved.

**Attachment—
Caltrans District 11's Response to
Draft Audit Report**

Goto, Jan

From: Deyoe, Marla A@DOT <marla.deyoe@dot.ca.gov>
Sent: Tuesday, September 15, 2015 1:54 PM
To: Marroquin, Albert; Hiuga, Kaitlin; Goto, Jan
Cc: Salazar, Ismael@DOT
Subject: RE: 11-288804 Question regarding Item 212.Q-Sheet & Payment

I respectfully disagree that the Contractor was overpaid. The audit the Lead Field Engineer recently performed confirmed the Contractor was accurately paid for Item 212.

Q-Sheet 7 did not accurately depict the situation; however, the Heritage Road Fence was absent from the payment made on Q-Sheet 1 (or as the Inspector erroneously indicated "a withholding" from Q-Sheet 1). I believe the quantity paid under Q-Sheet 7 was appropriate and covered the work at Heritage Road.

Thank you for your consideration.

Marla

From: Marroquin, Albert [mailto:AMarroquin@sco.ca.gov]
Sent: Tuesday, September 15, 2015 1:40 PM
To: Deyoe, Marla A@DOT; Hiuga, Kaitlin; Goto, Jan@SCO
Cc: Salazar, Ismael@DOT
Subject: RE: 11-288804 Question regarding Item 212 Q-Sheet & Payment

Pye & Marla,

The documentation you have provided as a response in regards to the Draft Report Findings have been received and reviewed. Audit results as follows:

Draft Report **Finding 1**, appears that Caltrans District 11 overpaid the contractor by \$95,360 for Bid Item No. 212. There has been an adjustment to Item No. 212, Quantity Calculation Sheet No. 5 (1272M) was paid under Contract Change Order 129 (1310.9M, \$75,088.35) and corrected under Quantity Calculation Sheet No. 8 (-1272M). The adjustment is reflected in Progress Payment Estimate No. 63, deducting -1272M, -\$81,408 from Item No. 212.

A discrepancy still exists between Quantity Calculation Sheet No. 1 and No. 7. The withholding of Quantity Calculation Sheet No. 7 is not reflected in Sheet No.1 calculations as per sheet No. 7's description and details.

- There still appears to be an overpayment to the contractor of \$13,952 or 218M (\$95,360 - \$81,408).

Draft Report **Finding 2**, appears that Caltrans District 11 paid the contractor more than 25% of the authorized costs without any additional Contract Change Orders to justify the increase(s), for Bid Item No.37 and Bid Item No.160. The response to Finding 2 was submitted by Ismael Salazar, Project Manager, Caltrans District 11, on August 19, 2015, and reviewed by the Auditors.

- The finding has been resolved and will be removed and not included in the Final Report.

We will be moving forward with Finding 1 to the Final Report process. The Audit Findings were communicated to you (Ismael Salazar & Marla Deyoe) during the Exit Conference on May 13, 2015, in which documentation you provided was able to clear 2 of 3 possible Findings.

In regards to the Final Report, reply in agreement/ disagreement to the Finding for documentation purposes.

Thank you,

Albert Marroquin
State Controller's Office (SCO)
Division of Audits- State Agency Audits Bureau
Phone: (916)327-6884
AMarroquin@sco.ca.gov

-----Original Message-----

From: Deyoe, Marla A@DOT [<mailto:marla.deyoe@dot.ca.gov>]
Sent: Thursday, September 10, 2015 10:22 AM
To: Hiuga, Kaitlin <KHiuga@sco.ca.gov>; Marroquin, Albert <AMarroquin@sco.ca.gov>; Goto, Jan <jgoto@sco.ca.gov>
Cc: Salazar, Ismael@DOT <ismael.salazar@dot.ca.gov>
Subject: FW: 11-288804 Question regarding Item 212 Q-Sheet & Payment

I just realized the last couple pages of the scan didn't go through. It is also now attached above - it's for QSheet 48-212-08 and includes a copy of CCO 129 and the Extra Work Bill to show this quantity was paid under CCO 129.

-----Original Message-----

From: Deyoe, Marla A@DOT
Sent: Thursday, September 10, 2015 10:14 AM
To: 'Hiuga, Kaitlin'; 'Marroquin, Albert'
Cc: Salazar, Ismael@DOT; Goto, Jan@SCO
Subject: RE: 11-288804 Question regarding Item 212 Q-Sheet & Payment

Greetings Auditors:

Attached above are all of the Q-Sheets:

48-212-01: additional location specific information provided on attachment: 4,419M justified and paid for.
48-212-02: additional location specific information provided on attachment: 1,372 M justified and paid for.
48-212-03: additional location specific information provided on attachment: 539 M justified and paid for.
48-212-04: original QSheet sufficient to explain - partial payment made and resolved on 48-212-06: 708.85 M justified and paid for.
48-212-05: original QSheet paid for work that was later paid for under CCO 129 - QSheet 48-212-08 reversed this payment. 0 M justified and paid for
48-212-06: original QSheet sufficient - resolves partial payment made under 48-212-04: 236.28 M justified and paid for.
48-212-07: Pays for the remaining fence at Heritage - additional documentation added to the QSheet to show the area: 311.87 M Justified and paid for.
48-212-08: Reversed the CCO 129 payment made on 48-212-05. 0 M justified and paid for.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>