



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

July 13, 2022

Tony Tavares
Director
California Department of Transportation

Final Report – California Department of Transportation, District 10, Proposition 1B Audit

On behalf of the Independent Office of Audits and Investigations, the Department of Finance, Office of State Audits and Evaluations, completed an audit of four California Department of Transportation (Caltrans), District 10 (District), Proposition 1B funded projects.

Enclosed is the final report, which includes the District's response to the draft report. The final report is a matter of public record and will be posted on the Independent Office of Audits and Investigations' website.

A detailed Corrective Action Plan (CAP) addressing the findings and recommendations must be developed in accordance with the Local Assistance Procedures Manual, Chapter 20, Section 20.5. The CAP should be sent to IOAI.Admin@dot.ca.gov.

If you have any questions, please contact Fabiola Torres, Audit Chief, at (916) 323-7111.

Sincerely,

ORIGINAL SIGNED BY

Bryan Beyer, CIG
Inspector General

C: Dennis T. Agar, District Director, District 10, California Department of Transportation
Grace B. Magsayo, Deputy District Director, Program Project Management and Asset Management, District 10, California, Department of Transportation
Marcela Chastain, Branch Chief, Program and Project Management, District 10, California Department of Transportation
Gilbert Petrissans, Chief, Division of Accounting, California Department of Transportation
Zilan Chen, Deputy Director, Administration and Financial Management, California Transportation Commission

P2500-0019

Gavin Newsom, Governor

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California Department of Transportation District 10

Proposition 1B Bond Program
Project Numbers 1000000046, 1000000229,
1000000409, and 1014000167

Report No. 21-2660-077
July 2022

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Zachary Stacy, Manager
Robert L. Scott, MSA, CPA, GCMA, Supervisor
Jeffrey Neller
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Final reports are available on our website at <https://www.dof.ca.gov>.

You can contact our office at:

California Department of Finance
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915 L Street, 6th Floor
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July 8, 2022

Fabiola Torres, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Final Report—California Department of Transportation, District 10, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Department of Transportation District 10s (District) Proposition 1B funded projects listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
1000000046	P2500-0019	I-5 North Stockton Widening and High Occupancy Vehicle Lanes Phase I
1000000229	P2500-0019	State Route 4 Crosstown Freeway Ramp Extension
1000000409	P2500-0019	South Stockton 99 Six-Lane Widening
1014000167	P2500-0019	Livingston Widening Northbound

The enclosed report is for your information and use. The District's response to the report findings is incorporated into this final report. The District agreed with our findings. We appreciate the District's assistance and cooperation during the engagement, and its willingness to implement corrective actions. This report will be placed on our website.

If you have any questions regarding this report, please contact Zachary Stacy, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Jonathan Cox, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Monty Laskosky, Auditor, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.¹

CTC allocated Caltrans District 10 (District) \$265 million of Proposition 1B funds through multiple programs. See text box for program descriptions. The four bond-funded projects were as follows:

- **Interstate 5 (I-5) North Stockton Widening and High Occupancy Vehicle (HOV) Lanes Phase I (100000046)** – Allocated \$42.5 million from the Corridor Mobility Improvement Account (CMIA) to construct HOV lanes, auxiliary lanes, traffic operation systems, and sound walls, and rehabilitate the pavement on I-5 from Charter Way to Hammer Lane in Stockton, California.
- **State Route (SR) 4 Crosstown Freeway Ramp Extension (1000000229)** – Allocated \$69.5 million from the Trade Corridors Improvement Fund (TCIF) to construct two mixed flow lanes and two auxiliary lanes in each direction on SR 4 Crosstown Freeway between Fresno Avenue and Navy Drive in Stockton, California.
- **South Stockton 99 Six-Lane Widening (1000000409)** – Allocated \$16.1 million in State-Local Partnership Program (SLPP) and \$128.2 million from the State Route 99 Corridor Account (SR 99) to widen SR 99 from four lanes to six lanes, and improve and reconstruct interchanges from 0.3 miles north of Arch Road to 0.1 miles south of SR 4 West near Stockton, California.

PROGRAM DESCRIPTION¹

CMIA: \$4.5 billion of bond proceeds made available to the CMIA to finance a variety of eligible transportation projects. CTC's general expectation is that each CMIA project will have a full funding commitment through construction, either from the CMIA alone or from a combination of CMIA and other state, local, or federal funds.

TCIF: \$2 billion of bond proceeds made available to the TCIF to finance infrastructure improvements along corridors that have a high volume of freight movement. This program requires dollar-for-dollar match of local, federal, or private funds.

SLPP: \$1 billion of bond proceeds made available to the SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds.

SR 99: \$1 billion of bond proceeds made available to the SR 99 to finance safety, operational enhancements, rehabilitation, and capacity improvements necessary to improve SR 99 in the San Joaquin and Sacramento Valleys.

¹ Excerpts obtained from the bond accountability website <https://bondaccountability.dot.ca.gov/>.

- **Livingston Widening Northbound (1014000167)** – Allocated \$8.7 million from SR 99 to construct a third northbound lane on SR 99 from 0.8 miles south of Hammatt Avenue to the Merced/Stanislaus county line.

Construction for these projects is complete and the projects are operational, except for project 1014000167.

The District was required to provide local matching funds for projects 1000000229 and 1000000409.

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the projects described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit periods and the incurred expenditures, is presented in Appendix A.

The audit objectives were to determine whether:

1. Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines.
2. Deliverables/outputs were consistent with the project scopes and schedules.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Reports (FDR).

At the time of fieldwork in September 2021, construction was not complete for project 1014000167. Therefore, we evaluated whether the project deliverables/outputs available for review were on schedule and whether there is a system in place to report actual project deliverables/outputs once construction is complete. Since the District had not yet submitted the FDR, we did not evaluate whether project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

For project 1000000229, the benefits/outcomes are either unknown pending traffic studies or expected to be achieved in 2035. Accordingly, we did not evaluate whether project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

The District's management is responsible for ensuring accurate financial reporting; compliance with executed project agreements, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. Caltrans and CTC are responsible for the state-level administration of the programs.

METHODOLOGY

In planning the audit, we gained an understanding of the project and respective program, and identified relevant criteria, by interviewing Caltrans and District staff, and reviewing the executed project agreements and amendments, and Caltrans/CTC's bond program guidelines.

We conducted a risk assessment, including evaluating whether the District's key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key Internal controls evaluated focused on procurement, progress payment preparation, review and approval processes for expenditures, project deliverables/outputs completion and project benefits/outcomes reporting. Our assessment included conducting interviews with District staff and testing transactions related to right of way and construction phase expenditures, contract procurement, project deliverables/outputs, and project benefits/outcomes. Deficiencies in internal control that were identified during our audit, and determined to be significant within the context of our audit objectives, are included in this report.

Additionally, we assessed the reliability of data from Caltrans' financial management system, AMS Advantage. Specifically, we reviewed a general ledger expenditure detail report. Our assessment included interviewing District staff, examining existing reports, and vouching data elements against supporting documents. We determined the data was sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the District's Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines.</p>	<ul style="list-style-type: none"> • Selected the prime contractor for project 1014000167 since the project was still under construction. Determined whether the project was advertised, evaluated, and awarded to the lowest, responsible bidder by reviewing construction contractor procurement records, such as project advertisements, bidding documents, and contract agreements, and comparing to Caltrans's Construction Manual. • Determined whether randomly selected right of way, construction, and construction support expenditures (including consultants, in-house labor, travel, and other costs) were allowable, authorized, project related, incurred within the allowable time frame, and supported by reviewing accounting records, executed contracts, progress payments, quantity calculations, daily resident engineer logs, inspector logs, timesheets, payroll reports, travel expense claims, and memorandums, and comparing to relevant criteria. Specifically: <ul style="list-style-type: none"> ○ For project 1000000409, selected eight right of way expenditures. ○ For all projects, selected 12 construction progress payments. ○ For projects 1000000046, 1000000229, and 1000000409, selected 12 consultant invoices. ○ For projects 1000000046, 1000000229, and 1000000409, select 30 in-house labor expenditures. ○ For projects 1000000046, 1000000229, and 1000000409, selected 11 travel expenditures. ○ For projects 1000000229, 1000000409, and 1014000167, selected 29 transactions from "Other Costs". • For projects 1000000046, 1000000229, and 1000000409, selected five months and verified the recovered indirect cost rate was consistent with Caltrans' approved indirect cost rate. • Randomly selected 19 contract change orders (CCO) to determine whether the selected CCOs were within the scope of work, not a contract duplication, completed, supported, and authorized, by reviewing the CCO logs and memorandums, contracts, extra work daily reports, cost analyses, plans/drawings, contractor correspondence, progress payments, and other supporting documents. • For projects 1000000229 and 1000000409, evaluated whether match requirements were met by reviewing executed project agreements and the District's accounting records. Additionally, for project 1000000409, compared total local agency-funded project expenditures with project expenditure reports.

Audit Objective	Methods
<p>Objective 2: To determine whether deliverables/outputs were consistent with the projects scopes and schedules.</p>	<ul style="list-style-type: none"> • For projects 100000046, 100000229, and 100000409, determined whether selected project deliverables/outputs were consistent with the project scopes by reviewing the Project Programming Requests, Baseline Agreements, Contract Acceptance reports, and Google Map images to verify project existence. • For projects 100000046, 100000229, and 100000409, evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Requests by reviewing the Contract Acceptance reports and FDR. • For project 101400167, determined whether there is a system in place to report actual project deliverables/outputs by reviewing supporting documentation and interviewing District staff, to confirm consistency with the project's scope. • For project 101400167, determined whether selected project deliverables/outputs were on schedule by reviewing project files, project agreements or approved amendments, and quarterly reports.
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the FDRs.</p>	<ul style="list-style-type: none"> • For projects 100000046 and 100000409, determined whether the completed project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDRs with the expected project benefits/outcomes described in the executed project agreements or approved amendments. • For projects 100000046 and 100000409, evaluated whether project benefits/outcomes were adequately reported in the FDRs by reviewing California Life-Cycle Benefit/Cost Analysis Model Summary reports. • For projects 100000229 and 101400167, determined whether there is a system in place to report actual project benefits/outcomes by interviewing District staff.

Except as discussed in the following paragraph, 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.

Finance and Caltrans are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance that Proposition 1B expenditures were in compliance with the executed project agreements and Caltrans/CTC's program guidelines, except as noted in Finding 1.

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scopes and schedules for projects 1000000046, 1000000229, and 1000000409, except as noted in Finding 2. For project 1014000167, project deliverables/outputs were progressing as expected and there is a system in place to report actual project deliverables/outputs once construction is complete. Although all projects were behind schedule, the District appropriately informed Caltrans and CTC of the delay.

Additionally, for projects 1000000046 and 1000000409, we obtained reasonable assurance the project benefits/outcomes, as described in the executed project agreements or approved amendments, were adequately reported in the FDRs and achieved the expected benefits/outcomes as described in the executed project agreements, except for project 1000000046. Project 100000229's FDR indicates actual benefits/outcomes are either unknown pending traffic studies or expected to be achieved in 2035, and will be reported in a Supplemental FDR. For interim project 1014000167, there is a system in place to determine and report actual project benefits/outcomes.

FINDINGS AND RECOMMENDATIONS

Finding 1: Project Management Controls Require Improvement

The District could not provide documentation supporting whether the required \$69.5 million in dollar-for-dollar matching costs were incurred by the local agency partner for project 1000000229. The CTC allocated \$69.5 million from the Proposition 1B TCIF program, which requires dollar-for-dollar match funds. The District does not have a system in place to verify whether a local-agency partner's matching costs are met.

Government Code section 8879.52 subdivision (f)(1)(B)(i) states that TCIF shall not exceed 50 percent of the total project costs. Without matching incurred costs from an eligible funding source, the project is not eligible for TCIF funding.

Additionally, the District could not provide documentary evidence to support utility expenditures. Specifically, of the 29 utility expenditures selected for testing for projects 1000000229, 1000000409, and 1014000167, the District was only able to provide support for 17 transactions, or 59 percent. While the dollar value of the unsupported transactions was inconsequential, record retention practices need improvement. The District staff stated that some costs, such as utilities, were processed for payment by

Caltrans' headquarters office; however, the District did not retain documents to show costs were project-related. Further, Caltrans' headquarters staff was also unable to provide supporting documents for 12 of the 29 utility expenditures selected for testing, indicating the documents were not retrievable from its archived records facility.

Caltrans' Construction Manual, section 5-103C (2e) requires the District to maintain an adequate audit trail by linking transactions to the specific source documents that generate the transactions.

Recommendations:

- A. Develop and implement procedures to monitor and ensure local agency partners' matching requirements are met.
- B. For project 1000000229, obtain documentation from the local-agency partner to determine eligible match and report those amounts to Caltrans' headquarters. In the event the match requirement was not met, coordinate with Caltrans' headquarters/CTC to reimburse the Proposition 1B TCIF fund for any ineligible expenditures.
- C. Ensure an adequate audit trail is established and documentation is maintained to support project costs, including match, as required by Caltrans guidelines. The audit trail should facilitate the tracing of incurred expenditures to the accounting records and source documents.

Finding 2: Final Delivery Report Not Submitted Timely

The FDR for project 1000000046 was not submitted within six months of the project becoming operable (the Notice of Acceptance date). The project became operational in January 2017, requiring an FDR to be submitted by July 2017, rather the District submitted the FDR in January 2019, two years late. Late submissions of the FDR decreases transparency of a project's status, and prevents Caltrans/CTC's ability to timely review the completed project's scope, final costs, project schedule, and performance outcomes.

According to the District, changes in staff assigned to the project and a lack of familiarity with the FDR reporting requirements lead to the late submission.

The CMIA Implementation Plan (Plan) section IV(c) requires an FDR within six months of the project becoming operable. The Plan states a project becomes operable at the end of the construction phase, when the construction contract is accepted.

Recommendations:

- A. Review the project agreements and program guidelines to ensure an understanding of the reporting requirements.
- B. Develop and implement processes to ensure sufficient monitoring of projects to meet all reporting deadlines, including the timely submittal of FDRs.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Caltrans District 10: District
- Corridor Mobility Improvement Account: CMIA
- Final Delivery Report: FDR
- High Occupancy Vehicle: HOV
- Interstate 5: I-5
- State-Local Partnership Program: SLPP
- State Route 99 Corridor Account: SR 99
- Trade Corridors Improvement Fund: TCIF

Summary of Projects Reviewed

Project Number	Expenditures Incurred	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
1000000046	\$ 42,420,085	C	Y	Y	N	Y	A-1
1000000229	\$ 69,395,112	C	Y	Y	N/A1	N/A1	A-2
1000000409	\$136,178,956	C	Y	Y	Y	Y	A-3
1014000167	\$ 1,116,331	I	Y	N/A2	N/A2	N/A2	A-4

Legend

C = Construction is complete and the project is operational.

I = Construction is not complete.

N = No

Y = Yes

N/A1 = Not Applicable. The FDR's actual results column states "traffic studies are pending and will be provided in the Supplemental FDR."

N/A2 = Not Applicable. FDR has not been submitted because the project is still under construction.

Project Number: 1000000046

Project Name: I-5 North Stockton Widening and HOV Lanes Phase 1

Program Name: CMIA

Project Description: Construct HOV lanes, auxiliary lanes, traffic operation systems, and sound walls, and rehabilitate the pavement on I-5 from Charter Way to Hammer Lane in Stockton, California.

Audit Period: July 26, 2010 through September 30, 2020 for audit objective 1²
July 26, 2010 through January 25, 2019 for audit objectives 2 and 3³

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Incurred
Construction Support	\$ 9,119,219
Construction	33,300,866
Total Proposition 1B Expenditures	\$42,420,085

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC program guidelines.

Deliverables/Outputs

The construction phase of the project was completed in January 2017. At the time of our fieldwork in September 2021, project deliverables/outputs were consistent with the project scope. However, the FDR was not submitted timely, as noted in Finding 2. Additionally, the project was behind schedule and completed 25 months late. Although the project was behind schedule, the District appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. However, the District did not achieve the project benefits/outcomes as described in the executed project agreement or approved amendments.

Expected Benefits/Outcomes in the Project Baseline Agreement ⁴	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Daily Vehicle Hours of Delay Saved = • 30,302 of daily vehicle hours	Daily Travel Time Savings (hours) = • 8,119	No
Daily Peak Duration Person = • 559,080 minutes	Peak Period Time Savings (minutes) = • 296,360	No

² The audit period end date reflects the last date project costs were posted to Caltrans's general ledger.

³ The audit period end date reflects the FDR submission date.

⁴ Although worded slightly different, the expected benefits/outcomes descriptions as compared to the actual benefits/outcomes descriptions reported were determined to be equivalent.

Project Number: 1000000229

Project Name: SR 4 Crosstown Freeway Ramp Extension

Program Name: TCIF

Project Description: Construct two mixed flow lanes and two auxiliary lanes in each direction on SR 4 Crosstown Freeway between Fresno Avenue and Navy Drive in Stockton, California.

Audit Period: September 03, 2008 through January 29, 2022 for audit objective 1⁵
September 03, 2008 through December 10, 2018 for audit objectives 2 and 3⁶

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Incurred
Construction Support	\$12,232,000
Construction	57,163,112
Total Proposition 1B Expenditures	\$69,395,112

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC program guidelines, except for support for utility expenditures, as noted in Finding 1. Additionally, the District did not provide support to determine if the match requirement was met, as noted in Finding 1.

Deliverables/Outputs

The construction phase of the project was completed in December 2017. At the time of fieldwork in September 2021, project deliverables/outputs were consistent with the project scope and schedule. Although the project was behind schedule and completed 19 months late, the District appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes are either unknown pending traffic studies or expected to be achieved in 2035, and therefore, were not reported in the FDR. However, the District has mechanisms in place to ensure a Supplemental FDR will be submitted which will include the actual project benefits/outcomes.

⁵ The audit period end date reflects the last date project costs were posted to Caltrans's general ledger.

⁶ The audit period end date reflects the FDR submission date.

Project Benefits/ Outcomes Category	Expected Benefits/Outcomes Reported in the Baseline Agreement	Actual Benefits/ Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Safety	50 percent reduction in traffic volumes on Fresno Avenue and at-grade BNSF Railway railroad crossing; Reduction in truck and train-involved accidents.	Traffic studies are pending and will be provided in the Supplemental FDR.	Not Applicable - actual benefits/outcomes will be reported in a Supplemental FDR; Throughput benefit/outcome not expected to be achieved until 2035.
Velocity	315 percent increase in average weekday speed over connecting roadway network to I-5.		
Throughput	25 percent increase in SR 4 volume; Level of Service (LOS) C in 2035 verses LOS F without the project.		
Reliability	88 percent reduction in the variability of travel time; 450,000 person minutes saved during peak hours.		
Congestion Reduction	90 percent reduction in daily vehicle hours of delay.		
Emission Reduction	0.3 percent reduction of Volatile Organic Component and Particular Matter (PM2.5, PM10) in tons per year; 0.1 percent reduction of Carbon Dioxide and Nitrogen Oxides in tons per Year.		

Project Number: 1000000409

Project Name: South Stockton 99 Six-Lane Widening

Program Name: SR 99 and SLPP

Project Description: Widen SR 99 from four lanes to six lanes, and improve and reconstruct interchanges from 0.3 miles north of Arch Road to 0.1 miles south of SR 4 West near Stockton, California.

Audit Period: May 30, 2007 through February 07, 2021 for audit objective 1⁷
May 30, 2007 through March 20, 2018 for audit objectives 2 and 3⁸

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Incurred
Right of Way Support (SR 99)	\$ 5,157,342
Right of Way (SR 99)	19,554,217
Construction Support (SR 99)	20,865,510
Construction (SR 99)	74,536,887
Construction (SLPP)	16,065,000
Total Proposition 1B Expenditures	\$136,178,956

Results:

Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC program guidelines, except for support for utility expenditures, as noted in Finding 1.

Deliverables/Outputs

The construction phase of the project was completed in September 2017. At the time of fieldwork in September 2021, project deliverables/outputs were consistent with the project scope and schedule. Although the project was behind schedule and completed 19 months late, the District appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. Additionally, the District achieved project benefits/outcomes as described in the executed project agreement or approved amendments.

⁷ The audit period end date reflects the last date project costs were posted to Caltrans's general ledger.

⁸ The audit period end date reflects the FDR submission date.

Expected Benefits/Outcomes in the Baseline Agreement ⁹	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Daily Vehicle Hours of Delay Saved = 4,722	Daily Travel Time Savings (hours) = 4,833	Yes
Daily Peak Duration Person-Minutes Saved = 376,053	Peak Period Time Savings (minutes) = 384,915	Yes

⁹ Although worded slightly different, the expected benefits/outcomes descriptions as compared to the actual benefits/outcomes descriptions reported were determined to be equivalent.

Project Number: 1014000167

Project Name: Livingston Widening Northbound

Program Name: SR 99

Project Description: Construct a third northbound lane on SR 99 from 0.8 miles south of Hammatt Avenue to the Merced/Stanslaus County line.

Audit Period: January 31, 2019 through February 11, 2021 for audit objective 1¹⁰
January 31, 2019 through September 20, 2021 for audit objectives 2 and 3¹¹

Project Status: Construction is not complete.

Schedule of Proposition 1B Expenditures

Category	Incurred
Construction	\$1,116,331
Total Proposition 1B Expenditures	\$1,116,331

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC program guidelines, except for support for utility expenditures, as noted in Finding 1.

Deliverables/Outputs

The estimated completion date for the project is July 2022. At the time of fieldwork in September 2021, project deliverables/outputs were consistent with the project scope as stated in the January 1, 2021 through March 30, 2021 (2020-21 Quarter 3) Progress Report. Additionally, delays in the project's scheduled completion were appropriately reported in the 2020-21 Quarter 3 Progress Report. Finally, the District has a system in place to report actual project deliverables/outputs once construction is complete.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed and the FDR has not been submitted at the time of fieldwork in September 2021. In addition, the actual benefits/outcomes are not expected to be achieved until 2042. Finally, the District has a system in place to report actual project benefits/outcomes in the FDR.

¹⁰ The audit period end date reflects the last dated project costs were posted to Caltrans's general ledger.

¹¹ The audit period end date reflects the end of audit fieldwork date.

California Department of Transportation

OFFICE OF THE DISTRICT 10 DIRECTOR
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June 16, 2022

Ms. Cheryl L. McCormick
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street, 6th Floor
Sacramento, CA 95814

Dear Ms. McCormick:

Thank you for the opportunity to review and provide formal comments on the Confidential Draft Report for the California Department of Transportation, District 10, Proposition 1B Audit.

District 10 notes the findings of this audit and provides the following responses as outlined in the attached document. Additionally, District 10 is committed to transforming the identified challenges, into opportunities for improvement, by ensuring expenditures and transactions are supported through a more robust procedures and guidelines process, which includes re-establishing better documentation methodologies, quality assurance and proper monitoring to avoid discrepancies.

Should you need to discuss this response further, please contact Ms. Grace Magsayo, Deputy District Director, Program Project Management and Asset Management at (209)942-6192 or via email at grace.magsayo@dot.ca.gov.

Sincerely,

Dennis T. Agar
DENNIS T. AGAR
District Director

Attachment; Response to Findings for the California Department of Transportation
District 10 Proposition 1B Audit

cc: On the following page

Ms. Cheryl L. McCormick

June 16, 2022

Page 2

cc: Fabiola Torres, Chief, Planning and Modal Office, Independent Office of Audits
Investigations, California Department of Transportation
Jonathan Cox, Audit Manager, Planning and Modal Office, Independent
Office of Audits and Investigations, California Department of Transportation
Monte Laskosky, Auditor, Planning and Modal Office, Independent Office of
Audits and Investigations, California Department of Transportation

RESPONSE TO FINDINGS FOR THE CALIFORNIA DEPARTMENT OF TRANSPORTATION, DISTRICT 10, PROPOSITION 1B AUDIT

This document provides responses to the findings for the California Department of Transportation (Caltrans), District 10, Proposition 1B Audit as outlined in the Confidential Draft Report prepared by the Department of Finance, Office of State Audits and Evaluations.

The list of District 10's Proposition 1B projects that were audited is as follows:

Project Number	Project Name
1000000046	I-5 North Stockton Widening and High Occupancy Vehicle Lanes Phase I
1000000229	State Route 4 Crosstown Freeway Ramp Extension
1000000409	South Stockton 99 Six-Lane Widening
1014000167	Livingston Widening Northbound

FINDINGS AND ACTION PLAN

Finding 1: Project Management Controls Require Improvement

a) District 10 could not provide documentation supporting whether the required \$69.5 million in dollar-for-dollar matching costs were incurred by the local agency partner for project 1000000229. The California Transportation Commission (CTC) allocated \$69.5 million from the Proposition 1B Trade Corridor Improvement Fund (TCIF) program, which requires dollar-for-dollar match funds. District 10 does not have a system in place to verify whether a local-agency partner's matching costs are met.

- **District 10's Response:** District 10 uses the Caltrans' financial management system, AMS Advantage, to setup funding lines and track State's expenditures. For phases implemented by Caltrans, all expenditures are tracked by our internal accounting and project control system. For phases implemented by Local Agencies, District 10 will establish more efficient business practices for receiving and tracking invoices and total expenditures incurred by our external partners.
- **District 10's Corrective Action Plan:** District 10 Program Project Management and Asset Management (PPM-AM) is coordinating with San Joaquin Council of Governments (SJCOG) to review and reconcile all transactions to assure SJCOG's expenditures were minimum of dollar-for-dollar matching requirement with TCIF

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expenditures. Project 1000000229 is still active and has Right of Way phases open for charging due to excess lands disposal activities. After completion of all Closeout activities and expenditures, District 10 PPM-AM will reconcile expenditures incurred to verify matching costs requirement.

For future projects, District 10 PPM-AM will implement a robust quality control measures in place, develop business practices for data retention and archiving project information including expenditures reports and invoices. District 10 PPM-AM will provide training to staff on project information retention and archiving practices and policies.

- **Expected Implementation Date:** District 10 PPM-AM will reconcile State Route 4 Crosstown Freeway Ramp Extension project (Project ID 1000000229) expenditures upon completion of all phases and achieving End of Project Milestone (M800), which is expected to be achieved by November 2022.

District 10 PPM-AM will develop and implement a more efficient business practices and a robust expenditure tracking system by July 31, 2023.

- **Responsible Party:** Gurwinder Sekhon, Office Chief, PPM-AM, Caltrans, District 10.
Grace Magsayo, Deputy District Director, PPM-AM, Caltrans, District 10.

b) District 10 could not provide documentary evidence to support utility expenditures. Specifically, of the 29 utility expenditures selected for testing for projects 1000000229, 1000000409, and 1014000167, District 10 was only able to provide support for 17 transactions, or 59 percent. While the dollar value of the unsupported transactions was inconsequential, record retention practices need improvement. District 10 staff stated that some costs, such as utilities, were processed for payment by Caltrans' headquarters office; however, District 10 did not retain documents to show costs were project-related. Further, Caltrans' headquarters staff was also unable to provide supporting documents for 12 of the 29 utility expenditures selected for testing, indicating the documents were not retrievable from its archived records facility.

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- **District 10's Response:** District 10 Construction will implement measures and quality control to facilitate the tracing of incurred expenditures to the accounting records and source documents.
- **District 10's Corrective Action Plan:** District 10 Construction will prioritize training for both new and existing staff on accepted filing systems, database usage, retention policies and other project management databases to ensure an adequate audit trail is established and documentation is properly maintained to support project costs.
District 10 Construction will also continue to hire in the newly formed support units and evaluate need for dedicated tracking staff member. Consideration for a regular expenditure check in meeting will be discussed with the Program Project Management and Asset Management Division to measure the health of construction support tracking/match.
 - ❖ Elements currently in place for District 10 Construction document storage and tracking includes:
 - Internal Project Folders accessible to all District 10 Construction Staff
 - Falcon Project Database accessible to all staff with approved credentials
 - HQ dashboards available to all staff.
 - ❖ District 10 Realignment Process – new District 10 Construction organization in progress:
 - Creation of a new Construction Support unit to aid in tracking of Contract Change Orders and provide project direct support to Construction Seniors
 - Creation of a new Administrative Support unit to aid in tracking of Construction Budgets
 - Evaluation on how to manage consultant services in the future as District 10 continues with its realignment.

Additionally, District 10 Construction considers essential to review and evaluate with Headquarters the statewide retention policies to ensure conformance with funding reporting requirements.

- **Expected Implementation Date:** Training for all District 10 Construction Staff on filing system, databases, tracking and

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monitoring to support project costs will be completed by December 31, 2022.

The newly formed Construction Support Unit will be fully operational by June 31, 2023.

- **Responsible Party:** Caroline Reyes, Deputy District Director, Project Development and Construction, Caltrans, District 10.

Finding 2: Final Delivery Report Not Submitted Timely

a) The Final Delivery Report (FDR) for project 1000000046 was not submitted within six months of the project becoming operable (the Notice of Acceptance date). The project became operational in January 2017, requiring an FDR to be submitted by July 2017, rather District 10 submitted the FDR in January 2019, two years late. Late submissions of the FDR decreases transparency of a project's status, and prevents Caltrans/CTC's ability to timely review the completed project's scope, final costs, project schedule, and performance outcomes.

- **District 10's Response:** The Division of PPM-AM is committed to take immediate action to meet the deadlines for FDRs submission as described in the Corridor Mobility Improvement Account Implementation Plan Section IV (c).
- **District 10's Corrective Action Plan:** Designate a staff member from the Division of PPM-AM to track and monitor timely submittal of all FDRs.
- **Expected Implementation Date:** July 1, 2022
- **Responsible Party:** Chris Burlaza, Office Chief, Asset Integrator (A), PPM-AM, Caltrans, District 10.