

Independent Office of Audits And Investigations

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February 2, 2021

MATTHEW BRADY
DISTRICT DIRECTOR
District 1
California Department of Transportation

Dear Mr. Brady:

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

The Department of Finance, Office of State Audits and Evaluations (Finance) performed a Proposition 1B audit of California Department of Transportation, District 1 (District). The audit was for project 0100000005, Willits Bypass project with costs totaling \$131,125,000 reimbursed by the California Department of Transportation (Caltrans). The audit was to determine whether Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans and California Transportation Commission's program guidelines, and applicable state and federal regulations. In addition, the audit included determining whether deliverables/ outputs were consistent with the project scopes and schedules, and whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report. The final audit report is enclosed.

The audit determined that not all benefits/outcomes were reported, and that the Final Delivery Report was not submitted within six months of the project becoming operable.

Caltrans is responsible for implementing corrective action on audit recommendations and for maintaining documentation to support actions

Ms. Jeanie Ward-Waller
February 02, 2020
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taken. Your corrective action plan is due April 30, 2021 and should address all recommendations in the enclosed report, including timelines.

If you have any questions contact MarSue Morrill, Audit Chief, at (916) 202-7626 or marsue.morrill@dot.ca.gov.

Sincerely,

RHONDA L. CRAFT
INSPECTOR GENERAL

Enclosure

c: Richard Mullen, Deputy District Director, District 1, Caltrans
Mark Sobota, Chief Programming and Assets Branch, District 1, California
Department of Transportation
Suzanne Theiss, District Local Assistance Engineer, District 1, California
Department of Transportation
Zilan Chen, Deputy Director, Administration and Financial Management,
California Transportation Commission
MarSue Morrill, Audit Chief, Independent Office of Audits and Investigations

P2500-0002



California Department of Transportation

Proposition 1B Bond Program
Project Number 010000005

Report No. 20-2660-068
January 2021

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
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Final reports are available on our website at www.dof.ca.gov.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



January 21, 2021

MarSue Morrill, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
1304 O Street, Suite 200
Sacramento, CA 95814

Final Report—California Department of Transportation, District 1, 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 1's (District) Proposition 1B funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0100000005	P2500-0002	Willits Bypass Project

The enclosed report is for your information and use. The District's response to the report finding and our evaluation of the response is incorporated into this final report. Additionally, the inclusion of additional internal control principles that were identified as significant to the objectives of this audit have been included in Appendix B. This report will be placed on our website.

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

Sincerely,

Original signed by:

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

cc: Nancy Shaul, 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

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

PROGRAM DESCRIPTION¹

STIP AUGMENTATION: \$2 billion of bond proceeds made available to the STIP to augment funds otherwise available for STIP from other sources. The original STIP finances state highway improvements, intercity rail, and regional highway and transit improvements. These funds are available through the Transportation Facilities Account.

CTC awarded Caltrans District 1 (District) \$131.1 million of Proposition 1B funds from the State Transportation Improvement Program Augmentation (STIP AUG) for the Willits Bypass Project (0100000005). The project constructed a 2-lane highway of new alignment in and near Willits from 0.8 miles south of the Haehl overhead to 1.8 miles south of Reynolds Highway.²

Construction for this project is complete and the project is operational.

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the project described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit period and the reimbursed 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 scope and schedule.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report (FDR).

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

² The Willits Bypass Project was approved in 2006 as a 4-lane highway project with Proposition 1B funding being received in 2012 for the project. In 2014, the project was changed from a 4-lane highway to a 2-lane highway.

In performing our audit, we considered internal controls significant to the audit objectives. See Appendix B for a list of significant internal control components and underlying principles.

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 program.

METHODOLOGY

In planning the audit, we gained an understanding of the project and respective program, and identified relevant criteria, by interviewing Caltrans and District personnel, and reviewing project funding allocation and approval documents, delivery reports, 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 process for expenditures, project deliverables/outputs completion, and project benefits/outcomes reporting. Our assessment included conducting interviews with District personnel, and testing transactions related to 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 personnel and reviewing information process flows, 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"> • Determined whether the project was appropriately advertised, evaluated, and awarded to the lowest, responsible bidder by reviewing construction contractor procurement records, such as the project advertisement, bidding documents, and contract agreements, and comparing to Caltrans Construction Manual requirements. • Determined whether the project was appropriately advertised, evaluated, and awarded to the most qualified consultant by reviewing construction engineering procurement records, such as project advertisements, consultant proposals, scoring checklists, and contract agreements, and comparing to the California State Contracting Manual. • Selected 13 construction phase expenditures based on quantitative significance and qualitative factors such as the expenditure object code. <ul style="list-style-type: none"> ○ Determined if selected construction phase expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, quantity count sheets, daily engineer logs, invoices, and copies of checks, and comparing to relevant criteria. • Selected four contract change orders (CCO) based on quantitative and qualitative factors such as type of change order. Determined if selected CCOs were authorized, within the scope of work, not a contract duplication, completed, and supported, by reviewing the CCOs, daily extra work reports, contractor correspondence, progress payments, and accounting records.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> • Determined whether the project's deliverables/outputs were consistent with the project scope by reviewing the CTC Vote lists, Contract Acceptance, and Google earth images to verify project existence. • Evaluated whether selected project deliverables/outputs were completed on schedule as described in the Caltrans Weekly Statement of Working Days Report by reviewing the Contract Acceptance, FDR, and Caltrans project delivery 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 FDR.</p>	<ul style="list-style-type: none"> • Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDR with expected project benefits/outcomes in a 2006 Willits Bypass Project Report. • Evaluated whether District project benefits/outcomes were adequately reported in the FDR by reviewing the District's project studies that support the Daily Vehicle Hours of Delay Saved and Daily Peak Person Minutes Saved.

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

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scope and schedule, except as noted in Finding 1.

However, we could not obtain reasonable assurance the project benefits/outcomes, as described in the 2006 Willits Bypass Project Report, were adequately reported in the FDR and achieved, as noted in Finding 1.

Finding 1: FDR Submission and Reporting of Benefits/Outcomes Need Improvement

The FDR was submitted to Caltrans/CTC without reporting all of the benefit/outcome measurements and after six months of the project becoming operable (Contract Acceptance date). Specifically, expected project benefits/outcomes as detailed in the 2006 Willits Bypass Project Report³ provided expected benefits/outcomes measured in Daily Vehicle Hours of Delay Saved and Daily Peak Person Minutes Saved. However, the FDR omitted reporting actual benefits/outcomes achieved in the Daily Peak Person Minutes Saved category. Additionally, the expected benefits/outcomes detailed in the 2006 Willits Bypass Project Report was for a 4-lane highway whereas the actual benefits/outcomes was based on a 2-lane highway. The estimated benefits/outcomes did not change when the project was reduced from a 4-lane highway to a 2-lane highway. Therefore, comparable pre and post-benefit/outcomes could not be determined. Appendix A-1 displays the full set benefits/outcomes.

Also, the project became operational in December 2016, requiring a FDR due date of June 2017. The FDR was submitted July 2020, 37 months late. According to the District, staff was not familiar with the FDR benefit/outcome and project completion reporting requirements.

The STIP Augmentation Accountability Implementation Plan, Follow-up Accountability, section A, requires a FDR to be submitted within six months after a project has become operable. Further, it states the implementing agency will provide a FDR to the CTC on performance outcomes derived from the project compared to expectations. The 2016 Proposition 1B Close-Out Process Update guidelines states a project becomes operable at the end of the construction phase when the construction contract is accepted.

³ The STIP AUG funded projects did not require baseline agreements. CTC/Caltrans considered the 2006 Willits Bypass Project Report as the project's approved baseline.

Without an accurate reporting of all actual project benefits/outcomes, CTC cannot determine whether approved project benefits/outcomes were met. Additionally, late submission of the FDR decreases transparency of the project status and prevents Caltrans/CTC's ability to timely review the completed project's scope, final costs, project schedule, and benefits/outcomes.

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the reporting requirements and to ensure the FDR addresses all project benefits/outcomes.
- B. Submit FDRs for future completed projects to Caltrans/CTC within the specified time frames as required.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Caltrans District 1: District
- Final Delivery Report: FDR
- State Transportation Improvement Program Augmentation: STIP AUG

Summary of Projects Reviewed

Project Number	Expenditures Incurred	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0100000005	\$131,125,000	C	Y	Y	Y	P	A-1

Legend

C = Construction is complete and the project is operational.

Y = Yes

P = Partial

Project Number: 0100000005

Project Name: Willits Bypass Project

Program Name: STIP AUG

Project Description: Construct a 2-lane highway of new alignment in and near Willits from 0.8 miles south of the Haehl overhead to 1.8 miles south of Reynolds Highway.

Audit Period: March 28, 2012 through December 16, 2016 for audit objectives 1⁴
March 28, 2012 through July 27, 2020 for audit objectives 2 and 3⁵

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

Schedule of Proposition 1B Expenditures

Category	Incurred
Construction	\$131,125,000
Total Proposition 1B Expenditures	\$131,125,000

Results:

Compliance–Proposition 1B Expenditures

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

Deliverables/Outputs

The construction phase of the project was completed in December 2016. At the time of fieldwork in September 2020, project deliverables/outputs were consistent with the project scope and schedule; however, the FDR was not submitted timely as noted in Finding 1.

Benefits/Outcomes

Although the District did not report actual project benefits/outcomes for Daily Peak Person Minutes Saved in the FDR, as noted in Finding 1, it provided a study supporting reduced average travel times of 5-6 minutes, as well as a reduction of 10-15 minutes during peak summer hours and 80 minutes during special event periods; however, the study did not conclude that the 22 Daily Peak Person Minutes were saved. Additionally, the pre and post-metrics are not comparable because the estimated benefits/outcomes were based on a 4-lane highway whereas the actual benefits/outcomes were based on a 2-lane highway.

⁴ The audit period end date is the last date project costs were posted in Caltrans’ general ledger.

⁵ The audit period end date reflects the FDR submission date.

Expected Benefits/Outcomes ⁶	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Daily Vehicle Hours of Delay Saved = 380 hours	Daily Vehicle Hours of Delay Saved = 750 hours	No
Daily Peak Person Minutes Saved = 22 minutes	Not Reported	No

⁶ There is no baseline agreement for District implemented STIP AUG funded projects. Expected benefits/outcomes are from the 2006 Willits Bypass Project Report, which data is assessed based on a 4-lane highway.

We considered the following internal control components and underlying principles significant to the audit objectives:

Internal Control Component	Internal Control Principle
Control Activities	<ul style="list-style-type: none"> • Management designs control activities to achieve objectives and respond to risks. • Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none"> • Management uses quality information to achieve the entity's objectives. • Management externally communicates necessary quality information to achieve the entity's objectives.

DEPARTMENT OF TRANSPORTATION

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Making Conservation
a California Way of Life.

January 4, 2021

CHERYL L. MCCORMICK, CPA
Department of Finance
Chief,
Office of State Audits & Evaluations

Dear Ms. McCormick,

This memorandum is in response to Proposition 1B Audit Draft Report by Department of Finance, Office of State Audits & Evaluations on December 18, 2020.

The project listed below and referenced above was the subject of the audit.

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0100000005	P2500-0002	Willits Bypass Project

I would like to thank the Department of Finance, Office of State Audits and Evaluations, for their work in performing this audit and for the opportunity to respond. Regarding the conclusions, I appreciate knowing that, based upon procedures and evidence gathered, this independent audit concluded reasonable assurance was obtained to conclude that the Willits Bypass Project Proposition 1B expenditures were incurred in compliance with Caltrans/CTC's program guidelines. I am also pleased to know that this audit found reasonable assurance to conclude the project deliverables/outputs were consistent with the project scope & schedule, except as noted in Finding 1. With regard to the conclusion, this audit could not obtain reasonable assurance the project benefits/outcomes as described in the 2006 Willits Bypass Project Report were adequately reported in the Final Delivery Report (FDR) and achieved, as also noted in Finding 1 and the FDR was submitted to Caltrans/CTC after six months of the project becoming operable (Contract Acceptance date), District 1 acknowledges the finding and provides the following response:

Finding 1: FDR Submission and Reporting of Benefits/Outcomes Need Improvement

The FDR was submitted to Caltrans/CTC without reporting all the benefit/outcome measurements and within six months of the project becoming operable (Contract Acceptance date). Specifically, expected project benefits/outcomes as detailed in the Willits Bypass Project Report provided expected benefits/outcomes measured in Daily Vehicle Hours of Delay Saved and Daily Peak Person Minutes Saved. However, the FDR omitted reporting actual benefits/outcomes achieved in the Daily Peak Person Minutes Saved category. Additionally, the expected benefits/outcomes detailed in the 2006 Willits Bypass Project Report was for a 4-lane highway whereas the actual benefits/outcomes were based on a 2-lane highway. The estimated benefits/outcomes did not change when the project was reduced from a 4-lane to a 2-lane highway. Therefore, comparable pre- and post-benefits/outcomes could not be determined.

Also, the project became operational in December 2016, requiring an FDR due date of June 2017. The FDR was submitted in July 2020, 37 months late. According to the District, staff was not familiar with the FDR benefit/outcome and project completion reporting requirements. The STIP Augmentation Accountability Implementation Plan Follow-up Accountability Section A requires an FDR to be submitted within six months after the project has become operable. Further, it states the implementing agency will provide an FDR to the CTC on performance outcomes derived from the project compared to expectations. The 2016 Proposition 1B Close-Out Process Update guidelines state a project becomes operable at the end of the construction phase when the construction contract is accepted. Without an accurate reporting of all actual benefits/outcomes, Caltrans/CTC cannot determine whether approved project benefits/outcomes were met. Additionally, late submission of the FDR decreases transparency of the project status and prevents Caltrans/CTC's ability to timely review the completed project's scope, final costs, project schedule and benefits/outcomes.

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the reporting requirements and to ensure the FDR addresses all project benefits/outcomes.
- B. Submit FDRs for future completed projects to Caltrans/CTC within the specified timeframes as required.

Acknowledgment:

Regarding Finding 1; Recommendation A, District 1 acknowledges the FDR was submitted to Caltrans/CTC without reporting all of the benefit/outcome measurements. However, for the record email communications between District 1 staff and Department of Finance auditors prior to FDR approval did include benefits/outcomes measured in both Daily Vehicle Hours of Delay Saved and Daily Peak Person Minutes Saved. Unfortunately, when the FDR was finally prepared and approved on July 27, 2020, measured Daily Peak Person Minutes Saved was inadvertently omitted. This omission was pointed out by Department of Finance auditors in an email correspondence on November 3, 2020, prompting District 1 to correct the FDR and include the omitted benefit/outcome. The corrected FDR was approved by Caltrans, HQ Office of Project Management, and uploaded to the Proposition 1B database on November 6, 2020, and then a hard copy of the corrected FDR was provided to the Department of Finance in an email on November 7, 2020.

Regarding Finding 1; Recommendation B, District 1 acknowledges the FDR was submitted late and after six months of the project becoming operable (Contract Acceptance), which was on December 22, 2016. As noted above, the FDR was submitted on July 27, 2020, and then was corrected for omitted benefit/outcome on November 6, 2020. District 1 further acknowledges it was not aware of the STIP Augmentation Accountability Implementation Plan Follow-up Accountability Section A requirement for submittal within six months of project becoming operable. In conjunction with this audit finding the District 1 is now familiar with the STIP Augmentation Accountability Implementation Plan Follow-up Accountability requirements and will follow these guidelines to ensure future STIP Augmentation Proposition 1B project FDR's address all project benefits/outcomes and are submitted to Caltrans/CTC within the specified timeframe as required.

District 1 appreciates the opportunity to respond to the Office of State Audits and Evaluations.

Confidential Draft Report. Should you have any questions regarding this response, or require additional information, please feel free to contact Richard Mullen, District 1 Deputy District Director, Project & Asset Management at (707) 498-3516.

Ms. Cheryl McCormick
January 4, 2021
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Sincerely,

original signed by

MATTHEW K BRADY
District 1 Director

cc:

MarSue Morrill, Chief, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

Nancy Shaul, 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

Richard Mullen, Deputy District Director, California Department of Transportation, District 1, Division of Project & Asset Management

Cathy McKeon, Project Manager, California Department of Transportation, District 1, Division of Project & Asset Management

Jennifer Buck, Chief, Project Management, California Department of Transportation, District 1, Division of Project & Asset Management

Mark Sobota, Chief Program Management, California Department of Transportation, District 1, Division of Project & Asset Management

The District's response to the draft report has been reviewed and incorporated into the final report. We acknowledge the District's willingness to implement our recommendations. In evaluating the District's response, we provide the following comments:

Finding 1: FDR Submission and Reporting of Benefits/Outcomes Need Improvement

The District acknowledged the FDR was submitted to Caltrans/CTC late and without all of the benefits/outcomes measurements. However, the District was silent regarding the incomparability of the pre and post-benefits/outcomes. Therefore, without additional supporting documentation from the District, the finding and recommendations will remain unchanged.