

Independent Office of Audits And Investigations

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December 21, 2020

JEANIE WARD-WALLER
DEPUTY DIRECTOR
Planning and Modal Programs
California Department of Transportation

Dear Ms. Ward-Waller:

The Department of Finance, Office of State Audits and Evaluations (Finance), performed a Proposition 1B audit of the City of Oxnard (City) of one project with costs totaling \$1,436,390 reimbursed by the California Department of Transportation (Caltrans). The audit was performed to determine whether project expenditures were incurred and reimbursed in compliance with the executed agreements, Caltrans/CTC'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 were achieved and adequately reported in the Final Delivery Report. The final audit report, including the City's response, is enclosed.

The audit determined that project costs totaling \$17,923 were billed prior to project funding allocation. In addition, the audit identified unsupported project benefits/outcomes reported in the final delivery report.

Please provide our office with a corrective action plan addressing the recommendations in the enclosed report, including timelines, by February 26, 2021.

Ms. Jeanie Ward-Waller
December 21, 2020
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If you have any questions contact MarSue Morrill, Audit Chief, at marsue.morrill@dot.ca.gov.

Sincerely,

RHONDA L. CRAFT
INSPECTOR GENERAL

Enclosures

Final Audit Report

c: Rosemarie Gaglione, Public Works Director, City of Oxnard
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MarSue Morrill, Audit Chief, Independent Office of Audits and Investigations

P2500-0011



City of Oxnard

Proposition 1B Bond Program
Project Number 0712000343

Report No. 20-2660-034
December 2020

Team Members

Cheryl L. McCormick, CPA, 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



December 7, 2020

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

Final Report—City of Oxnard, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Oxnard's (City) Proposition 1B funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0712000343	P2500-0011	Hueneme Road Widening Project

The enclosed report is for your information and use. After review of the draft report, the City chose not to provide a written response. This report will be placed on our website.

If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Jeremy Jackson, 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

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.

CTC awarded the City of Oxnard (City) \$1.5 million of Proposition 1B funds from the Trade Corridors Improvement Fund (TCIF) for the Hueneme Road Widening Project (0712000343). The project widens Hueneme Road from two lanes to four lanes, widens a culvert crossing over the Oxnard Industrial Drain to 110 feet, and upgrades and widens a railroad crossing. The City was required to provide a dollar-for-dollar matching of funds.

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 and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.
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/>.

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 City's management is responsible for ensuring accurate financial reporting; compliance with executed project agreements, state and federal regulations, 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 City personnel, and reviewing the executed project agreements and amendments, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations.

We conducted a risk assessment, including evaluating whether the City'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, reimbursement request preparation, review and approval process for expenditures, project deliverables/outputs completion, and project benefits/outcomes reporting. Our assessment included conducting interviews with City personnel, observing processes, 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 the City's financial system, Sungard Enterprise Resource Planning. To assess the reliability of data generated by this system, we interviewed City personnel, examined existing reports, reviewed system controls, and performed data testing. We determined the data were 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 City's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.</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 project advertisements, bidding documents, City Council approvals, and contract agreements, and comparing to the City's policies and procedures and Caltrans Local Assistance Procedures Manual (LAPM) requirements. • Determined whether the project was appropriately advertised, evaluated, and awarded to the most qualified consultant by reviewing procurement records, such as project advertisements, consultant proposals, City Council approvals, contract agreements, and task orders, and comparing to the City's policies and procedures and LAPM requirements. • Selected one quantitatively significant reimbursement claim from the construction category and reviewed seven construction progress payments. In addition, reviewed the invoice supporting construction force account expenditures. <ul style="list-style-type: none"> ○ Determined if selected reimbursed construction expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, contractor invoice for the force account, and copies of checks, and comparing to relevant criteria. ○ Determined if selected match expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, and copies of checks, and comparing project reimbursed amounts with project expenditure reports. • Selected one quantitatively significant contract change order (CCO). Determined if selected CCO was within the scope of work, not a contract duplication, incurred within the allowable period, completed, and supported, by reviewing the project's scope of work and comparing the work of the CCO to the bid items listed in the construction contract, and agreeing the work in the CCO to the contractor invoices. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the executed project agreements by interviewing City staff, reviewing a list of other funding sources, project accounting records, reimbursement request submitted to Caltrans' for federal funding, vendor invoices, and Caltrans financial records; and performed analytical procedures to identify possible duplicate payments.

Audit Objective	Methods
<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 project deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request, project agreements, Notice of Completion, Google earth images, and conducting a site visit to verify project existence. • Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing the Notice of Completion, FDR, and Caltrans quarterly progress 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 the expected project benefits/outcomes described in the executed project agreements. • Evaluated whether project benefits/outcomes were adequately reported in the FDR by interviewing City staff and requesting documentation to support the reported benefits/outcomes.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC’s program guidelines, and applicable state and federal regulations cited in the executed project agreements, except as noted in Finding 1.

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scope. Although the project was behind schedule, the City appropriately informed Caltrans and CTC of the delay.

The project benefits/outcomes were not adequately reported in the FDR and the City did not achieve the expected project benefits/outcomes as described in the executed project agreements or approved amendments, as noted in Finding 2.

FINDINGS AND RECOMMENDATIONS

Finding 1: Ineligible Construction Expenditures

The City entered into an agreement with Ventura County Railroad (VCRR) for construction work to improve the existing grade crossing on Hueneme Road, between Salvador Drive and Arcturus Avenue. The agreement required a \$580,000 deposit from the City to cover the estimated costs and upon completion of the work, VCRR would submit an invoice for actual costs. The City paid the \$580,000 deposit and VCRR submitted an invoice totaling \$581,437, including \$19,360 in expenditures incurred between April 2009 and January 2013.

However, the CTC Financial Vote List for the project allocated funding effective May 7, 2013. Therefore, expenditures prior to May 7, 2013, are not eligible for reimbursement. The City claimed expenses based on the \$580,000 deposit and did not review expenditures for eligibility. As a result, the City claimed and was reimbursed \$17,923 for ineligible construction expenditures incurred prior to May 7, 2013. See below for calculation.

Proposition 1B Ineligible Expenditures

Description	Amounts
VCRR Invoice Total	\$581,437
Less Ineligible Expenditures Claimed	19,360
Total Eligible for Proposition 1B Reimbursement	\$562,077
Less Deposit	580,000
Total Ineligible Reimbursed Proposition 1B Expenditures	\$17,923

Claiming unallowable costs places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers, increases oversight monitoring and post audit resolution costs, and reduces the number of fundable Proposition 1B transportation projects.

Recommendations:

- A. Remit \$17,923 to Caltrans.
- B. Develop, implement, and maintain an adequate review process to ensure claimed expenditures are incurred within the eligibility period based on CTC Financial Vote List, executed agreements, and program guidelines prior to submitting reimbursement claims to Caltrans.

Finding 2: Unsupported Project Benefits/Outcomes

The project benefit/outcomes reported in the FDR were not supported by a post-assessment study. According to the City, there has been staff turn-over, and current staff members could not locate the studies used to support the reported project benefits/outcomes.

TCIF program guidelines, section 17 states that within six months of the project becoming operable, the implementing agency will provide a FDR to CTC on the scope of the completed project, including performance outcomes derived from the project as compared to those described in the project baseline agreements. Additionally, LAPM, Chapter 19, section 19.2 requires project records to be retained by local agencies for a period of three years from state payment of the final voucher, or a four-year period from the date of the final payment under the contract, whichever is longer. Inaccurate or unsupported information in the FDR decreases the transparency of the project outcomes and prevents CTC from reviewing the success of the project based on the agreed upon projected benefits/outcomes.

Recommendations:

- A. Review project agreements and program guidelines to ensure a clear understanding of the requirements.
- B. Maintain documentation to support project benefits/outcomes reported in the FDR.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Oxnard: City
- Final Delivery Report: FDR
- Level of Service: LOS
- Trade Corridors Improvement Fund: TCIF

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0712000343	\$1,436,390	C	P	Y	N	N	A-1

Legend

- C = Construction is complete and the project is operational.
 N = No
 Y = Yes
 P = Partial

Project Number: 0712000343

Project Name: Hueneme Road Widening Project

Program Name: TCIF

Project Description: Between Saviers Road and Arcturus Road, widen Hueneme Road from two to four lanes and build a center-turn lane/raised median with left turn pockets to match the adjacent roadway; widen the existing 52-foot wide culvert crossing over the Oxnard Industrial Drain to 110 feet; and widen the railroad crossing, upgrade the existing gates and signals, and modify the road striping and signage.

Audit Period: May 7, 2013 – June 30, 2016 for audit objective 1²
August 22, 2013 – October 10, 2016 for audit objectives 2 and 3³

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

Schedule of Proposition 1B Expenditures

Category	Reimbursed	Ineligible Expenditure
Construction	\$1,282,466	\$17,923
Construction Engineering	153,924	0
Total Proposition 1B Expenditures	\$1,436,390	\$17,923

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements, except for \$17,923 in ineligible construction expenditures, as noted in Finding 1. Additionally, the match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in March 2016. At the time of our site visit in February 2020, project deliverables/outputs were consistent with the project scope. Although the project was behind schedule and completed 25 months late, the City appropriately informed Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were not adequately reported in the FDR. As noted in Finding 2, the City could not provide a post-assessment study to support the reported project benefits/outcomes.

² The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

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

Project Benefits/Outcomes Category	Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Safety	25 percent reduction in truck-involved accidents.	Not adequately reported.	No
Velocity	10 percent increase in vehicular motion.	Not adequately reported.	No
Throughput	50 percent change in highway volume.	Not adequately reported.	No
Reliability	LOS E to LOS C.	Not adequately reported.	No
Congestion Reduction	10 percent reduction in daily vehicle hours of delay.	Not adequately reported.	No
Emissions Reductions	2 percent reduction of tons per year of carbon dioxide and nitrogen oxides.	Not adequately reported.	No

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

Internal Control Component	Internal Control Principle
Control Environment	<ul style="list-style-type: none"> Management has established an organizational structure, assigned responsibility, and delegated authority to achieve the entity's objectives.
Risk Assessment	<ul style="list-style-type: none"> Management considers potential for fraud when identifying, analyzing, and responding to risks. Management identifies, analyzes, and responds to significant changes that could impact the internal control system.
Control Activities	<ul style="list-style-type: none"> 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 internally communicates necessary quality information to achieve the entity's objectives.