

Independent Office of Audits And Investigations

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June 4, 2021

Transmitted via email

Gustavo Dallarda
District Director
District 11
California Department of Transportation

Dear Mr. Dallarda:

Final Report-City of San Marcos, Proposition 1B Audit

The Department of Finance, Office of State Audits and Evaluations performed a Proposition 1B audit of the City of San Marcos (City). The audit was for project 1100020258, State Route 78 Eastbound Auxiliary Lanes Project with costs totaling \$9.95 million 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, including the City's response, is enclosed.

The audit determined 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 taken. Your corrective action plan is due by August 30, 2021 and should address the recommendation in the enclosed report, including timelines.

Mr. Dallarda
June 4, 2021
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If you have any questions, contact MarSue Morrill, Audit Chief, at (916) 202-7626 or marsue.morrill@dot.ca.gov or Nancy Shaul, Audit Manager, at (916) 764-7891 or nancy.shaul@dot.ca.gov.

Sincerely,

RHONDA L. CRAFT
Inspector General

Enclosure

c: Lisa Fowler, Finance Director, City of San Marcos
Jack Griffin, City Manager, City of San Marcos
Donna Apar, Assistant Finance Director, City of San Marcos
Allan Kosup, Corridors Director, North County Corridors,
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David Stebbins, NCC Project Development, District 11,
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Zilan Chen, Deputy Director, Administration and Financial
Management, California Transportation Commission
MarSue Morrill, Audit Chief, Planning and Modal Programs,
Independent Office of Audits and Investigations

P2500-0013



City of San Marcos

Proposition 1B Bond Program
Project Number 1100020258

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Jennifer Arbis, Manager
Edwina Lynn Troupe, CPA, Supervisor
Cole Chev, Lead
Jared Smith

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



April 26, 2021

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

Final Report—City of San Marcos, Proposition 1B Audit

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
1100020258	P2500-0013	State Route 78 Eastbound Auxiliary Lanes Project

The enclosed report is for your information and use. The City's response to the report finding is incorporated into this final report. The City agreed with our finding. We appreciate the City'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 Jennifer Arbis, Manager, or Edwina Troupe, 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, METHODOLOGY, AND RESULTS

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

SHOPP: \$500 million of bond proceeds made available to the SHOPP to finance vehicle detection, ramp metering, and pavement rehabilitation projects.

CTC awarded the City of San Marcos (City) \$10.5 million of Proposition 1B State Highway Operations and Protection Program (SHOPP) funds for the State Route 78 Eastbound Auxiliary Lanes Project (1100020258). The project includes construction of auxiliary lanes from Woodland Parkway to Nordahl Road in the City, and widening of Mission Road overhead crossing.

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/>.

The State Highway Operations and Protection Program did not list project benefits/outcomes. Therefore, we did not perform procedures to address Objective 3.

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, reimbursement request preparation, review and approval process for expenditures, and project deliverables/outputs completion. Our assessment included conducting interviews with City personnel, observing processes, and testing transactions related to construction phase expenditures, contract procurement, and project deliverables/outputs. 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, Munis. To assess the reliability of data generated by this system, we interviewed City personnel, reviewed information process flows, 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, and the contract agreement, and comparing to the City's policies and procedures and Caltrans Local Assistance Procedures Manual (LAPM) requirements. • Selected four of the quantitatively significant reimbursement claims from the construction category and reviewed four construction progress payments/pay estimates. <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/pay estimates, and contractor's confirmation of payments, and comparing to relevant criteria. • Selected two quantitatively significant contract change orders (CCO). 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/pay estimates, and accounting records. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the executed project agreements by reviewing reimbursement requests submitted to Caltrans' for federal funding, and contractor invoices, and performed analytical procedures to identify possible duplicate payments.
<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 selected project deliverables/outputs were consistent with the project scope by reviewing the project agreement, Notice of Completion, and Google Maps images to verify project existence. • Evaluated whether selected project deliverables/outputs were completed on schedule as described in the project agreement and baseline schedule by reviewing the Notice of Completion, the Project Report of Construction Completion and Expenditures, and the FDR.

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.

Additionally, Caltrans provided the City an advance payment, in the amount of \$300,000, to be expended on project costs. The City had not deducted the advance payment from submitted claims to Caltrans, as described in Appendix A. The City plans to deduct the advance payment of \$300,000 from the final reimbursement request.

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. Finally, the FDR was not submitted timely, as noted in Finding 1.

FINDINGS AND RECOMMENDATIONS

Finding 1: Final Delivery Report Not Submitted

The FDR was not submitted to Caltrans within six months of the project becoming operable (the Notice of Acceptance date). The project became operational in November 2018, requiring an FDR to be submitted in May 2019. As of September 2020, the City had not submitted an FDR to Caltrans. The City did not have a system in place to ensure the FDR was submitted on or before the due date.

The Proposition 1B Project Close-out Process Update 2016 requires an FDR within six months of the project becoming operable. The guidelines state a project becomes operable at the end of the construction phase, when the construction contract is accepted.

Late submissions of the FDR decreases transparency of the project status, and prevents Caltrans/CTC from determining whether project benefits and outcomes were met.

Recommendations:

- A. Review the project agreements and the program guidelines to ensure an understanding of the reporting requirements.
- B. Develop and implement processes to ensure sufficient monitoring of projects to meet all necessary deadlines, including the timely submittal of FDRs.
- C. Complete and submit project 1100020258's FDR to Caltrans by April 2021.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of San Marcos: City
- Final Delivery Report: FDR
- State Highway Operations and Protection Program: SHOPP

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
1100020258	\$9,949,132	C	Y	Y	N/A	N/A	A-1

Legend

C = Construction is complete and the project is operational.

N/A = Not Applicable, SHOPP does not require project benefits/outcomes reporting.

Y = Yes

Project Number: 1100020258

Project Name: State Route 78 Eastbound Auxiliary Lanes Project

Program Name: SHOPP

Project Description: Construct auxiliary lanes from Woodland Parkway to Nordahl Road in the City and widen the Mission Road overhead crossing.

Audit Period: January 20, 2011 through January 16, 2018 for audit objective 1²
January 20, 2011 through November 14, 2018 for audit objective 2³

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

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$9,949,132
Total Proposition 1B Expenditures	\$9,949,132

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.

Caltrans provided the City an advance payment in the amount of \$300,000 for the project. At the time of our audit fieldwork in September 2020, the City had not deducted the advance payment from the reimbursement claims submitted to Caltrans. According to Caltrans and the City, the advance payment will be deducted from the final reimbursement request submitted to Caltrans.

Deliverables/Outputs

The construction phase of the project was completed in November 2018. At the time of our fieldwork in September 2020, project deliverables/outputs were consistent with the project scope. As noted in Finding 1, the FDR was due May 2019, but had not been submitted to Caltrans as of September 2020. Additionally, the project was behind schedule and completed six months late. Although the project was behind schedule, the City appropriately updated Caltrans and CTC of the delay.

² The audit period end date reflects the billing period end date of the last reimbursement claim reimbursed by Caltrans.

³ The audit period end date reflects the Notice of Completion date.

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 identifies, analyzes, and responds to significant changes that could impact the internal control system.
Control Activities	<ul style="list-style-type: none"> Management designs control activities to achieve objectives and respond to risks. Management designs the entity's information system and related control activities to achieve objectives and respond to risk. 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.



April 15, 2021

Cheryl L. McCormick
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

SENT VIA EMAIL

RE: Management's Response to Office of State Audits and Evaluations Confidential Draft Report: Proposition 1B Bond Program/Project Number 1100020258

Ms. McCormick:

This letter is in response to the California Department of Finance, Office of State Audits and Evaluations, draft audit of the City of San Marcos (City) Proposition 1B funded State Route 78 Eastbound Auxiliary Lanes Project (CIP #88247/1100020258/P2500-0013). The City is in receipt of said draft and agrees with the conclusion. In regards to the one (1) finding noted in the report, Management has initiated the corrective actions described below.

Finding 1: Final Delivery Report Not Submitted

Management has completed a final draft of the Final Delivery Report (FDR) and is working with Caltrans to complete the Proposition 1B Project Close-out no later than April 30, 2021. Management has reviewed the project agreements and program guidelines and has implemented a process that will ensure sufficient monitoring and reporting of the project objectives in the FDR.

Sincerely,

Original signed by:

Lisa Fowler
Finance Director

CC: Donna Apar, Assistant Finance Director
Isaac Etchamendy, City Engineer
Michelle Bender, Deputy City Manager
Jack Griffin, City Manager