

**Independent Office of Audits And Investigations**

P.O. BOX 942874, MS-2  
SACRAMENTO, CA 94274-0001  
PHONE (916) 323-7111  
FAX (916) 323-7123  
TTY 711  
<https://ig.dot.ca.gov>



September 17, 2021

Mr. Tony Tavares  
District Director  
District 7  
California Department of Transportation

Dear Mr. Tavares:

**Final Report – District 7, Proposition 1B Audit**

The Department of Finance, Office of State Audits and Evaluations, performed a Proposition 1B audit of the California Department of Transportation (Caltrans), District 7 (District). The audit was for the following projects totaling \$68.93 million:

- 0700000201-Los Angeles County Line to Route 23-Route 101 Improvements, Phase 1
- 0700000339-Orange County to Route 605-Carmenita Interchange
- 0700001833-Interstate 5 Carpool Lane-Orange County Line to Interstate 605 (I 605), Segment 3
- 0700001834-Interstate 5 Carpool Lane-Orange County Line to I-605, Segment 4
- 0700021119-Interstate 5 High Occupancy Vehicle/Empire Avenue and Burbank Boulevard, Segments 2 and 3

The audit was to determine whether Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans and California Transportation Commission program guidelines. In addition, the audit included determining whether deliverables and outputs were consistent with the project scopes and schedules and whether benefits and outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

The audit determined that there were ineligible indirect cost expenditures, the Final Delivery Report was not submitted timely, and expected project benefits and outcomes were not supported.

A detailed Corrective Action Plan (CAP) addressing the findings and recommendations is due from Caltrans within 60 days from receipt of this letter. The CAP should include milestones and target dates as applicable. Subsequent to the submission of the 60-day CAP, updated CAPs will be due every six months until all planned actions have been implemented.

The report is a matter of public record and will be posted on the IOAI's website. It will also be included in the Inspector General's Annual Report. The final report, including the District's response, is enclosed.

We thank you, your staff, and District personnel for the assistance provided during this audit. If you have any questions, contact Fabiola Torres, Audit Chief, at (916) 704-3628 or [fabiola.torres@dot.ca.gov](mailto:fabiola.torres@dot.ca.gov) or Jonathan Cox, Audit Manager, at (916) 704 3428 or [jonathan.cox@dot.ca.gov](mailto:jonathan.cox@dot.ca.gov).

Sincerely,

**ORIGINAL SIGNED BY:**  
DIANA C. ANTONY, CPA  
Acting Inspector General

Enclosure

c: Gloria Roberts, Chief Deputy District Director, District 7, California  
Department of Transportation  
Robert C.H. So, Deputy District Director, Division of Program and  
Project Management, District 7, California Department of  
Transportation  
Akm Tareque, Senior Transportation Engineer, Division of  
Program and Project Management, District 7, 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

P2500-0026



## California Department of Transportation District 7

Proposition 1B Bond Program  
Project Numbers 0700000201, 0700000339, 0700001833,  
0700001834, and 0700021119

Report No. 21-2660-048  
July 2021

### **Team Members**

Cheryl L. McCormick, CPA, Chief  
Rebecca G. McAllister, CPA, Assistant Chief  
Sherry Ma, CRP, Manager  
Robert L. Scott, CPA, GCMA, MSA, Supervisor  
Jeffrey Neller  
Blanca Sandoval  
Jedediah Thompson

Final reports are available on our website at [www.dof.ca.gov](http://www.dof.ca.gov).

You can contact our office at:

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

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July 14, 2021

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 7, 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 7's (District) Proposition 1B funded projects listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
070000201	P2500-0026	Los Angeles County Line to Route 23-Route 101 Improvements Phase 1
070000339	P2500-0026	Orange County to Route 605-Carmenita Interchange
0700001833	P2500-0026	Interstate 5 (I-5) Carpool Lane-Orange County Line to I-605 (Segment 3)
0700001834	P2500-0026	I-5 Carpool Lane-Orange County Line to I-605 (Segment 4)
0700021119	P2500-0026	I-5 High-Occupancy Vehicle/Empire Avenue and Burbank Boulevard (Segments 2 and 3)

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 Sherry Ma, 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.<sup>1</sup>

CTC awarded Caltrans District 7 (District) \$328.7 million of Proposition 1B funds from the Corridor Mobility Improvement Account (CMIA), \$28 million from the State-Local Partnership Program Account (SLPP), and \$10.3 million from the Trade Corridors Improvement Fund (TCIF). The five bond-funded projects were:

- **Los Angeles County Line to Route 23–Route 101 Improvements Phase 1 (070000201)** – Awarded \$10.3 million in TCIF funds to widen and improve Route 23 and Route 101 to the Moorpark Road off-ramp, median, and sound wall at the southbound Hampshire Road.
- **Orange County to Route 605–Carmenita Interchange (070000339)** – Awarded \$14.9 million in SLPP funds to remove an existing two-lane steel structure and construct a new eight-lane concrete structure, with tight diamond ramps, and improve existing frontage roads from the Alondra Boulevard and Shoemaker Avenue overcrossings.
- **Interstate 5 (I-5) Carpool Lane–Orange County Line to I-605 (Segment 3) (0700001833)** – Awarded \$105.7 million in CMIA funds to add one High-Occupancy Vehicle (HOV) and one mixed flow lane in each direction on I-5 in Norwalk from Shoemaker Avenue to Silverbow Avenue.

### PROGRAM DESCRIPTION<sup>1</sup>

**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.

**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.

**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.

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

- **I-5 Carpool Lane-Orange County Line to I-605 (Segment 4) (0700001834)** – Awarded \$158.3 million in CMIA funds to widen I-5 with HOV and mixed flow lanes in Norwalk from Silverbow Avenue to Orr and Day Road Overhead.
- **I-5 HOV/Empire Avenue and Burbank Boulevard (Segments 2 and 3) (0700021119)** – Awarded \$64.7 million in CMIA funds and \$13.1 million in SLPP funds to construct one HOV lane on I-5 in both directions between Magnolia Boulevard and Buena Vista, and an Empire Avenue interchange.

The District was required to provide a dollar-for-dollar match for projects 0700000201, 0700000339, and 0700021119.

Construction is complete and the projects are operational except for projects 0700001834 and 0700021119, which were in progress at the time of our fieldwork in March 2021.

## 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).

Incurred project expenditures for all of the projects were previously audited in our May 2018 report.<sup>2</sup> Therefore, we did not perform procedures to address audit Objectives 1 for expenditures incurred prior to the current audit period as stated in Appendices A-1 through A-5.

At the time of fieldwork in March 2021, construction was not complete for projects 0700001834 and 0700021119. Since the District had not yet submitted the FDRs, 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.

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<sup>2</sup> California Department of Transportation District 7 Proposition 1B Bond Programs, Project Numbers 0700000086, 0700000201, 0700000339, 0700000490, 0700000500, 0700001829, 0700001831, 0700001833, 0700001834, and 0700021119, audit report issued May 10, 2018.

For audit Objective 3, many of the benefits/outcomes are not expected to be achieved until years 2039, 2042, and 2043. Accordingly, we did not evaluate whether these project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether the estimated project benefits/outcomes described in the executed project agreements or approved amendments were adequately supported.

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, 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 projects and respective programs, and identified relevant criteria, by interviewing Caltrans and the District personnel, 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 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 personnel, observing processes, and testing transactions related to construction and construction engineering expenditures, 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 generated from AMS Advantage. To assess the reliability of data generated by this system, we interviewed personnel, reviewed information process flows, examined existing reports, and vouched data elements to supporting documents. 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><b>Objective 1:</b> To determine whether the District's Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines.<sup>3</sup></p>	<ul style="list-style-type: none"> <li>• Determined whether selected construction and construction engineering expenditures 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 and inspector logs, and comparing to relevant criteria.               <ul style="list-style-type: none"> <li>○ For all projects, selected 13 construction progress payments and 25 vendor invoices based on quantitative significance and qualitative factors such as timing of expenditures, reported object codes, and vendor description.</li> <li>○ For projects 0700000201 and 0700000339, we determined whether match requirements were met by comparing total reported project Proposition 1B expenditures with eligible match fund sources to ensure match funds were equal to or greater than the Proposition 1B funding. For project 0700021119, we identified the District had a system in place to ensure match funds were equal to or greater than the Proposition 1B funding.</li> </ul> </li> <li>• For project 0700001833, selected five District employees based on qualitative factors such as employee classification and time period. We determined whether the construction support expenditures were project-related, incurred within the allowable time frame, approved and authorized, and agreed to accounting records, by comparing to relevant criteria.</li> <li>• For project 0700001833, selected fiscal years 2018-19 and 2019-20 indirect cost expenditures and evaluated whether the indirect costs charged were allowable and supported by reviewing the general ledger expenditure report, the Expenditure Adjustment Request Form, and approved indirect cost rate proposals and comparing the expected allowable amounts against the actual amounts charged.</li> <li>• Selected 30 contract change orders (CCO) based on quantitative significance and qualitative factors such as bid items that exceeded 125 percent of original estimate resulting in a CCO. Determined if selected CCOs were within the scope of work, not a contract duplication, completed, properly approved, and supported, by reviewing the CCOs, daily extra work reports, contractor correspondence, progress payments, and accounting records.</li> </ul>

<sup>3</sup> Incurred project expenditures for all of the projects were previously audited in our May 2018 report. Therefore, we did not perform procedures to address audit Objective 1 for expenditures incurred prior to the current audit, period as stated in Appendices A-1 through A-5.

Audit Objective	Methods
<p><b>Objective 2:</b> To determine whether deliverables/outputs were consistent with the project scopes and schedules.</p>	<ul style="list-style-type: none"> <li>• Determined whether 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.</li> <li>• Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Requests by reviewing the Contract Acceptance reports, FDRs, and Caltrans quarterly and semiannual progress reports.</li> <li>• As a follow up to our May 2018 audit report finding related to the untimely submittal of FDRs,<sup>4</sup> we verified that the District subsequently submitted FDRs for those projects.</li> </ul>
<p><b>Objective 3:</b> 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"> <li>• Determined whether the estimated projected benefits to be realized by years 2039, 2042, and 2043, as described in the executed project baseline agreements or approved amendments were supported.</li> <li>• Determined whether there is a system in place to determine and report actual project benefits/outcomes by interviewing District personnel.</li> </ul>

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.

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<sup>4</sup> California Department of Transportation District 7 Proposition 1B Bond Program, Project Numbers 0700000086, 0700000201, 0700000339, 0700000490, 0700000500, 0700001829, 0700001831, 0700001833, 0700001834, and 070002119 audit report issued May 10, 2018.

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## 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 agreements and Caltrans/CTC's program guidelines, except as noted in Finding 1.

We also obtained reasonable assurance the deliverables/outputs were consistent with the project scopes and schedules, except as noted in Finding 2. Although all projects were behind schedule, the District appropriately informed Caltrans and CTC of the delays.

Further, project benefits/outcomes for projects 0700000201, 0700000339, and 0700001833 were not reported in the FDRs because actual benefits/outcomes would not be achieved until a future date. Additionally, although we obtained reasonable assurance there is a system in place to determine and report actual project benefits/outcomes for all the projects, the District did not retain documents supporting all the expected project benefits/outcomes as described in the executed project agreements or approved amendments, as noted in Finding 3.

## FINDINGS AND RECOMMENDATIONS

### Finding 1: Ineligible Indirect Cost Expenditures

The District did not apply the correct indirect cost rates to allocate indirect costs to project 0700001833. Annually, Caltrans' Division of Accounting (Accounting) issues Indirect Cost Rate Proposal Rates via its *Accounting Bulletin* for the districts. For fiscal years 2018-19 and 2019-20, the District's approved indirect costs rates were 34.86 percent and 30.47 percent, respectfully. However, Accounting applied indirect cost rates of 38.45 percent and 35.25 percent, respectfully, which resulted in \$18,039 of ineligible indirect cost expenditures. According to the District and Accounting, the incorrect indirect cost rates were applied in error.

The State Administrative Manual section 8752 states "the state policy is for departments to recover full costs whenever goods or services are provided for others. This policy, which applies to all departments regardless of funding sources, is to be followed in all cases. The full cost of goods or services includes all costs attributable directly to the activity, plus a fair share of indirect costs which can be ascribed reasonably to the good or service provided." Additionally, Caltrans Accounting's March 9, 2018 and June 25, 2019 *Accounting Bulletin's* specify approved indirect cost rates.

Inadequate oversight and review of expenditures increase the risk of ineligible costs, which places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers and reduces the number of fundable Proposition 1B transportation projects.

**Recommendations:**

- A. Transfer \$18,039 to the CMIA Proposition 1B Fund.
- B. Implement procedures that ensure only approved indirect cost rates are used to allocate indirect costs to Proposition 1B funds.

**Finding 2: Final Delivery Report Was Not Submitted Timely**

The FDR for project 0700000201 was not submitted to Caltrans/CTC within six months of the project becoming operable (Contract Acceptance Date). The FDR was due December 2019, but was submitted December 2020, 12 months late. According to the District, the FDR was delayed due to onboarding of new personnel and their unawareness of submittal requirements.

As specified in TCIF Program Guidelines, section 17, the implementing agency is responsible for submitting the FDR within six months of the project becoming operable.

Late submission of FDRs decrease transparency of the status of a project and prevents Caltrans/CTC’s ability to timely review the completed project’s scope, final costs, and performance benefits/outcomes.

**Recommendations:**

- A. Design and implement controls to ensure timely project reporting requirements are not impacted by personnel turnover.
- B. Submit FDRs for completed projects to Caltrans/CTC within the specified time frames as required by developing and implementing project reporting processes.

**Finding 3: Expected Project Benefits/Outcomes Were Not Supported**

Certain expected project benefits/outcomes identified in approved Caltrans/CTC project agreements were not supported with documentation such as consultant or engineering studies, or other data. The District states the documents to support the benefits/outcomes have been misplaced and cannot be found. Specifically, the following benefits/outcomes were not supported:

Project Number	Unsupported Expected Benefits/Outcomes
0700000201	Throughput: 11 percent increase in throughout volume.
0700000339 0700001833 0700001834	Daily Vehicle Hours of Delay Saved = 32,705 Daily Peak Duration Person Minutes Saved = 2,387,480
0700021119	Daily Vehicle Hours of Delay Saved = 16,407 Daily Peak Person Minutes Saved = 1,223,200 Improve access, efficiency, and integration of multi-modal transportation system in the area. Reduction of out-of-direction travel. Reduction of community disruption and positive noise and air quality impacts.

Proposition 1B Close-out Process Update 2016 states that within six months of the project becoming operable, the implementing agency will provide a FDR that reports on the scope, schedule, cost, and benefits of the completed project as compared to those described in the project's baseline agreement. Further, the TCIF guidelines, section 7 and the CMA guidelines, section 11, state that each project nomination should include documentation supporting the benefits cited in the nomination.

Unsupported information decreases the transparency and creditability of the project benefits/outcomes for comparable pre and post-construction metrics, and prevents Caltrans/CTC from determining whether project benefits/outcomes were met.

**Recommendation:**

- A. Maintain documents to support expected project benefits/outcomes in accordance with guideline requirements.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Caltrans District 7: District
- Corridor Mobility Improvement Account: CMIA
- Federal Highway Administration: FHWA
- Final Delivery Report: FDR
- High Occupancy Vehicle: HOV
- Interstate : I
- Level of Service: LOS
- Los Angeles: LA
- State-Local Partnership Program: SLPP
- Trade Corridors Improvement Fund: TCIF

## Summary of Projects Reviewed

Project Number	Expenditures Incurred <sup>5</sup>	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0700000201	\$ 72,285	C	Y	Y	N/A	N/A	A-1
0700000339	\$ 219,711	C	Y	Y	N/A	N/A	A-2
0700001833	\$13,393,062	C	P	Y	N/A	N/A	A-3
0700001834	\$38,289,211	I	Y	Y	N/A1	N/A1	A-4
0700021119	\$16,951,439	I	Y	Y	N/A1	N/A1	A-5

### Legend

C = Construction is complete and the project is operational.

I = Construction is not complete.

N = No

N/A = Not Applicable, FDR has been submitted but the project benefits/outcomes will be achieved in a future period.

N/A1 = Not Applicable, FDR has not been submitted because project is in progress.

P = Partial

Y = Yes

<sup>5</sup> Amounts do not include expenditures reported in our May 2018 audit report.

**Project Number:** 0700000201

**Project Name:** LA County Line to Route 23-Route 101 Improvements Phase 1

**Program Name:** TCIF

**Project Description:** Widen and improve the connectors at Route 23 and Route 101, the Moorpark Road off-ramp, median, and sound wall at southbound Hampshire Road.

**Audit Period:** September 2, 2017 through March 27, 2020 for audit objective 1<sup>6</sup>  
September 2, 2017 through December 3, 2020 for audit objectives 2 and 3<sup>7</sup>

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

#### Schedule of Proposition 1B Expenditures

Category	Incurred <sup>8</sup>
Construction	\$ 72,285
<b>Total Proposition 1B Expenditures</b>	<b>\$ 72,285</b>

#### Results:

##### Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines. Additionally, the match requirement was met.

##### Deliverables/Outputs

The construction phase of the project was completed in May 2019. At the time of fieldwork in March 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 45 months late. Although the project was behind schedule, the District appropriately informed Caltrans and CTC of the delays.

##### Benefits/Outcomes

Actual project benefits/outcomes were not reported in the FDR. The project benefits/outcomes described in the amended Project Programming Request dated November 7, 2012 are expected to be achieved in year 2039. However, the estimated benefits/outcomes for Throughput were not supported, as noted in Finding 3.

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<sup>6</sup> The audit period start date is based on the last date audited in the May 2018 report and the audit period end date is the last date project costs were posted in Caltrans' general ledger.

<sup>7</sup> The audit period end date reflects the FDR submission date.

<sup>8</sup> Total expenditures incurred for this project as of March 17, 2020 was \$8,766,164. However, \$8,693,879 was reviewed as noted in our May 2018 audit report. The amount identified reflects expenditures reviewed during this audit.

Project Benefits/Outcomes Category	Expected Benefits/Outcomes Reported in the Project Agreement <sup>9</sup>	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Safety	Update shoulder widths and lane widths to meet standard.  Retrofit three overcrossing structures.  Minimize weaving.	Not Reported. Expected to be achieved in 2039.	Not Applicable. Expected to be achieved in 2039.
Throughput	Improve operational capacity, alleviate current congestion, and mitigate anticipating future traffic demands.  11 percent increase in throughout volume.		
Reliability	Overall increase of 33 percent in LOS.  Improve LOS on 30 percent of the freeway segments.		
Congestion Reduction	2 percent reduction in Daily Vehicle Hours of Delay.		

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<sup>9</sup> Project agreement includes Project Programming Request, Baseline Agreement, and Project Fact Sheet.



**Project Number:** 0700000339

**Project Name:** Orange County to Route 605-Carmenita Interchange

**Program Name:** SLPP

**Project Description:** Remove an existing two-lane steel structure and construct a new eight-lane concrete structure, with tight diamond ramps and improve existing frontage roads from the Alondra Boulevard and Shoemaker Avenue overcrossings.

**Audit Period:** August 9, 2017 through May 11, 2018 for audit objective 1<sup>10</sup>  
August 9, 2017 through October 30, 2018 for audit objectives 2 and 3<sup>11</sup>

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

#### Schedule of Proposition 1B Expenditures

Category	Incurred <sup>12</sup>
Construction	\$219,711
<b>Total Proposition 1B Expenditures</b>	<b>\$219,711</b>

#### Results:

##### Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines. Additionally, the match requirement was met.

##### Deliverables/Outputs

The construction phase of the project was completed in April 2018. At the time of fieldwork in March 2021, project deliverables/outputs were consistent with the project scope. Additionally, the project was behind schedule and completed 36 months late. Although the project was behind schedule, the District appropriately informed Caltrans and CTC of the delays.

##### Benefits/Outcomes

Actual project benefits/outcomes were not reported in the FDR because this project is one of six segments within a multi-segmented project. Per the District, project benefits/outcomes cannot be reported until all segments have been completed. The District's July 1, 2020 through December 31, 2020 Progress Report states the target date

<sup>10</sup> The audit period start date is based on the last date audited in the May 2018 report and the audit period end date is the last date project costs were posted in Caltrans' general ledger.

<sup>11</sup> The audit period end date reflects the FDR submission date.

<sup>12</sup> Total expenditures incurred for this project as of May 11, 2018 was \$12,891,386. However, \$12,671,675 was reviewed as noted in our May 2018 audit report. The amount identified reflects expenditures reviewed during this audit.

for completion of the last segment is year 2023. The District also states that studies to measure benefits/outcomes achievement will not occur until 20 years from the completion of the last segment. Although the District has a system in place to determine and report actual project benefits/outcomes, the Daily Vehicle Hours of Delay Saved and Daily Peak Duration Person Minutes Saved estimated benefits/outcomes were not supported, as noted in Finding 3.

Expected Benefits/Outcomes Reported in the Project Agreement <sup>13</sup>	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved <sup>14</sup>
Daily Vehicle Hours of Delay Saved = 32,705	Not Reported. Expected to be achieved in 2043.	Not Applicable. Expected to be achieved in 2043.
Daily Peak Duration Person Minutes Saved = 2,387,480		
Elimination of northbound bottleneck as a result of the lane drop between the Orange and LA County line.		
Improve performance of major intersections and interchanges in the I-5 corridor.		
Upgrade I-5 corridor to meet current Caltrans and FHWA design standards.		
Improve access to regional transit and HOV facilities.		
Improve freeway LOS during AM and PM peak hours.		
Reduce travel time delays and congestion-related accidents.		

<sup>13</sup> Project agreement includes Project Programming Request, Baseline Agreement, and Project Fact Sheet.

<sup>14</sup> Project 0700000339 is one of six segments within a multi-segmented project, which includes Projects 0700001833 and 070001834.

**Project Number:** 0700001833

**Project Name:** I-5 Carpool Lane–Orange County Line to I-605 (Segment 3)

**Program Name:** CMIA

**Project Description:** Add one HOV and one mixed-flow lane in each direction in Norwalk from Shoemaker Avenue to Silverbow Avenue.

**Audit Period:** August 18, 2017 through October 28, 2020 for audit objective 1<sup>15</sup>  
August 18, 2017 through December 16, 2020 for audit objectives 2 and 3<sup>16</sup>

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

### Schedule of Proposition 1B Expenditures

Category	Incurred <sup>17</sup>	Ineligible Expenditures
Construction	\$12,830,559	\$ 0
Construction Engineering	562,503	18,039
<b>Total Proposition 1B Expenditures</b>	<b>\$13,393,062</b>	<b>\$18,039</b>

### Results:

#### Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC’s program guidelines, except for \$18,039 in ineligible indirect cost expenditures, as noted in Finding 1.

#### Deliverables/Outputs

The construction phase of the project was completed in December 2019. At the time of fieldwork in March 2021, project deliverables/outputs were consistent with the project scope. Additionally, the project was behind schedule and completed 12 months late. Although the project was behind schedule, the District appropriately informed Caltrans and CTC of the delays.

#### Benefits/Outcomes

Actual project benefits/outcomes were not reported in the FDR because this project is one of six segments within a multi-segmented project. Per the District, project benefits/outcomes cannot be reported until all segments have been completed. The District’s July 1, 2020 through December 31, 2020 Progress Report states the target date for completion of the last segment is year 2023. The District also states that studies to measure benefits/outcomes achievement will not occur until 20 years from the

<sup>15</sup> The audit period start date is based on the last date audited in the May 2018 report and the audit period end date is the last date project costs were posted in Caltrans’ general ledger.

<sup>16</sup> The audit period end date reflects the FDR submission date.

<sup>17</sup> Total expenditures incurred for this project as of October 28, 2020 was \$105,260,408. However, \$91,867,346 was reviewed as noted in our May 2018 audit report. The amount identified reflects expenditures reviewed during this audit.

completion of the last segment. Although the District has a system in place to determine and report actual project benefits/outcomes, Daily Vehicle Hours of Delay Saved and Daily Peak Duration Person Minutes Saved estimated benefits/outcomes were not supported, as noted in Finding 3.

Expected Benefits/Outcomes Reported in the Project Agreement <sup>18</sup>	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved <sup>19</sup>
Daily Vehicle Hours of Delay Saved = 32,705	Not Reported. Expected to be achieved in 2043.	Not Applicable. Expected to be achieved in 2043.
Daily Peak Duration Person Minutes Saved = 2,387,480		
Elimination of northbound bottleneck as a result of the lane drop between the Orange County and LA County line.		
Improve performance of major intersections and interchanges in the I-5 corridor.		
Upgrade I-5 corridor to meet current Caltrans and FHWA design standards.		
Improve access to regional transit and HOV facilities.		
Improve freeway LOS during AM and PM peak hours.		
Reduce travel time delays and congestion-related accidents.		

<sup>18</sup> Project agreement includes Project Programming Request, Baseline Agreement, and Project Fact Sheet.

<sup>19</sup> Project 0700001833 is one of six segments within a multi-segmented project, which includes Projects 0700000339 and 0700001834.

**Project Number:** 0700001834

**Project Name:** I-5 Carpool Lane–Orange County Line to I-605 (Segment 4)

**Program Name:** CMIA

**Project Description:** Widen I-5 with HOV and mixed flow lanes in Norwalk from Silverbow Avenue to Orr and Day Road Overhead.

**Audit Period:** August 18, 2017 through October 28, 2020 for audit objective 1<sup>20</sup>  
August 18, 2017 through March 5, 2021 for audit objectives 2 and 3<sup>21</sup>

**Project Status:** Construction is not complete.

#### Schedule of Proposition 1B Expenditures

Category	Incurred <sup>22</sup>
Construction	\$38,289,211
<b>Total Proposition 1B Expenditures</b>	<b>\$38,289,211</b>

#### 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

Target completion for this project is June 2021. At the time of fieldwork in March 2021, project deliverables/outputs were consistent with the project scope and schedule as stated in the January 1, 2020 through June 30, 2020 Progress Report submitted to Caltrans. Although the project was behind schedule, the District appropriately informed Caltrans and the CTC of the delays.

##### 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 March 2021. Additionally, this project is one of six segments within a multi-segmented project. Per the District, actual project benefits/outcomes cannot be reported until all segments are complete and the achievement of benefits/outcomes will not be realized until 20 years from the completion of the last segment. The District's July 1, 2020 through December 31, 2020 Progress Report states the target date for completion of the last

<sup>20</sup> The audit period start date is based on the last date audited in the May 2018 report and the audit period end date is the last date project costs were posted in Caltrans' general ledger.

<sup>21</sup> The audit period is the end of fieldwork date.

<sup>22</sup> Total expenditures incurred for this project as of October 28, 2020 was \$150,287,667. However, \$111,998,456 was reviewed as noted in our May 2018 audit report. The amount identified reflects expenditures reviewed during this audit.

segment is year 2023. Although the District has a system in place to determine and report actual project benefits/outcomes, the Daily Vehicle Hours of Delay Saved and Daily Peak Duration Person Minutes Saved estimated benefits/outcomes were not supported, as noted in Finding 3.

Expected Benefits/Outcomes Reported in the Project Agreement <sup>23</sup>	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved <sup>24</sup>
Daily Vehicle Hours of Delay Saved = 32,705	No Report Due. Project In-Progress.	Expected to be achieved in 2043.
Daily Peak Duration Person Minutes Saved = 2,387,480		
Elimination of northbound bottleneck as a result of the lane drop between the Orange County and LA County line.		
Improve performance of major intersections and interchanges in the I-5 corridor.		
Upgrade I-5 corridor to meet current Caltrans and FHWA design standards.		
Improve access to regional transit and HOV facilities.		
Improve freeway LOS during AM and PM peak hours.		
Reduce travel time delays and congestion-related accidents.		

<sup>23</sup> Project agreement includes Project Programming Request, Baseline Agreement, and Project Fact Sheet.

<sup>24</sup> Project 0700001834 is one of six segments within a multi-segmented project, which includes Projects 0700000339 and 0700001833.

<b>Project Number:</b>	0700021119
<b>Project Name:</b>	I-5 HOV/Empire Avenue and Burbank Boulevard (Segments 2 and 3)
<b>Program Name:</b>	CMIA and SLPP
<b>Project Description:</b>	Construct one HOV lane on I-5 in both directions between Magnolia Boulevard and Buena Vista and an Empire Avenue interchange.
<b>Audit Period:</b>	August 18, 2017 through October 28, 2020 for audit objective 1 <sup>25</sup> August 18, 2017 through March 5, 2021 for audit objectives 2 and 3 <sup>26</sup>
<b>Project Status:</b>	Construction is not complete.

#### Schedule of Proposition 1B Expenditures

Category	Incurred <sup>27</sup>
Construction – CMIA	\$14,444,621
Construction – SLPP	2,506,818
<b>Total Proposition 1B Expenditures</b>	<b>\$16,951,439</b>

#### Results:

##### Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines. In addition, there is a system in place to ensure the match requirement is met.

##### Deliverables/Outputs

Target completion date for this segment of the project is July 2022. At the time of fieldwork in March 2021, project deliverables/outputs were consistent with the project scope and schedule as stated in the January 1, 2020 through June 20, 2020 Progress Report submitted to Caltrans. Although the project was behind schedule, the District appropriately informed Caltrans and the CTC of the delays.

##### Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed at the time of fieldwork in March 2021. Additionally, this project is one of four segments within a multi-segmented project. Per the District, actual project benefits/outcomes cannot be reported until all segments are complete and the

<sup>25</sup> The audit period start date is based on the last date audited in the May 2018 report and the audit period end date is the last date project costs were posted in Caltrans' general ledger.

<sup>26</sup> The audit period is the end of fieldwork date.

<sup>27</sup> Total expenditures incurred for this project as of October 28, 2020 was \$77,742,019. However, \$60,790,580 was reviewed as noted in our May 2018 audit report. The amount identified reflects expenditures reviewed during this audit.

achievement of benefits will not be realized until 20 years from the completion of the last segment. Although the District has a system in place to determine and report actual benefits/outcomes, the below expected benefits/outcomes were not supported, as noted in Finding 3.

Expected Benefits/Outcomes Reported in the Project Agreement <sup>28</sup>	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Daily Vehicle Hours of Delay Saved = 16,407	No Report Due. Project In-Progress.	Expected to be achieved in 2042.
Daily Peak Person Minutes Saved = 1,223,200		
Improve access, efficiency and integration of multi-modal transportation system in the area.		
Reduction of out-of-direction travel.		
Reduction of community disruption and positive noise and air quality impacts.		

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<sup>28</sup> Project agreement includes Project Programming Request, Baseline Agreement, and Project Fact Sheet.



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

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



## California Department of Transportation

DISTRICT 7  
 100 S. MAIN STREET, SUITE 100 | LOS ANGELES, CA 90012  
 PHONE (213) 897-0362 | FAX (213) 897-0360 TTY 711  
[www.dot.ca.gov](http://www.dot.ca.gov)



June 15, 2021

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

Dear Ms. McCormick:

This letter is in response to the "Confidential Draft Report-California Department of Transportation, District 7, Proposition 1B Audit". The following projects were part of your audit:

<u>Project Number</u>	<u>EA Number</u>	<u>Project Name</u>
0700000201	07-1952U	Los Angeles County Line to Route 23-Route 101 Improvements Phase 1
0700000339	07-2159C	Orange County to Route 605-Carmenita Interchange
0700001833	07-21593	Interstate 5 (I-5) Carpool Lane-Orange County Line to I-605 (Segment 3)
0700001834	07-21594	I-5 Carpool Lane-Orange County Line to I-605 (Segment 4)
0700021119	07-1218W	I-5 High-Occupancy Vehicle/Empire Avenue and Burbank Boulevard (Segments 2 and 3)

The result of the audit concluded three findings and five total recommendations to the findings as briefly described below. Caltrans accepts all the recommendations and proposes the following corrective measures:

### **Finding 1: Ineligible Indirect Cost Expenditures**

The District did not apply the correct indirect cost rates to allocate indirect costs to project 0700001833. Annually, Caltrans' Division of Accounting (Accounting) issues Indirect Cost Rate Proposal Rates via its *Accounting Bulletin* for the districts. For fiscal years 2018-19 and 2019-20, the District's approved indirect costs rates were 34.86 percent and 30.47 percent, respectfully. However, Accounting applied indirect cost rates of 38.45 percent and 35.25 percent, respectfully, which resulted in \$18,039 of ineligible indirect cost expenditures. According to the District and Accounting, the incorrect indirect cost rates were applied in error.

The State Administrative Manual section 8752 states "the state policy is for departments to recover full costs whenever goods or services are provided for others." This policy,

"Provide a safe and reliable transportation network that serves all people and respects the environment"

which applies to all departments regardless of funding sources, is to be followed in all cases. The full cost of goods or services includes all costs attributable directly to the activity, plus a fair share of indirect costs which can be ascribed reasonably to the good or service provided." Additionally, Caltrans Accounting's March 9, 2018 and June 25, 2019 *Accounting Bulletins* specify approved indirect cost rates.

Inadequate oversight and review of expenditures increase the risk of ineligible costs, which places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers and reduces the number of fundable Proposition 1B transportation projects.

**Recommendations:**

- A. Transfer \$18,039 to the CMIA Proposition 1B Fund.
- B. Implement procedures that ensure only approved indirect cost rates are used to allocate indirect costs to Proposition 1B funds.

**Caltrans Response:**

- A. Caltrans concurs with the recommendation. The said amount was transferred based on the standard indirect cost rates to the CMIA Proposition 1B Fund on April 26, 2021.
- B. Caltrans accepts this recommendation. To ensure that only approved indirect cost rates are used to allocate indirect costs to Proposition 1B and other funds, the supervisors will remind employees at the beginning of the fiscal year to use the new approved rate specified in the *Accounting Bulletin*.

**Finding 2: Final Delivery Report Was Not Submitted Timely**

The FDR for project 0700000201 was not submitted to Caltrans/CTC within six months of the project becoming operable (Contract Acceptance Date). The FDR was due December 2019, but was submitted December 2020, 12 months late. According to the District, the FDR was delayed due to onboarding of new personnel and their unawareness of submittal requirements.

As specified in TCIF Program Guidelines, section 17, the implementing agency is responsible for submitting the FDR within six months of the project becoming operable.

Late submission of FDRs decrease transparency of the status of a project and prevents Caltrans/CTC's ability to timely review the completed project's scope, final costs, and performance benefits/outcomes.

**Recommendations:**

- A. Design and implement controls to ensure timely project reporting requirements are not impacted by personnel turnover.
- B. Submit FDRs for completed projects to Caltrans/CTC within the specified time frames as required by developing and implementing project reporting processes.

**Caltrans Response:**

- Caltrans accepts both recommendations. Currently, email reminders are being sent to Project Managers (PMs) and their supervisors to prepare FDRs for Prop 1B projects once the Construction Contract Acceptance (CCA) date is recorded in the system and submit them to HQ within 6-months from CCA. In addition to reminding PMs and their supervisors on the preparation and submittal of the FDRs, the preparation and submittal will be verified through the Internal Quarterly Audit Meetings that District is planning to conduct from fiscal year 2021/22 with the PMs and their supervisors to ensure timely project reporting regardless of personnel turnover.

**Finding 3: Expected Project Benefits/Outcomes Were Not Supported**

Certain expected project benefits/outcomes identified in approved Caltrans/CTC project agreements were not supported with documentation such as consultant or engineering studies, or other data. The District states the documents to support the benefits/outcomes have been misplaced and cannot be found. Specifically, the following benefits/outcomes were not supported:

Project Number	Unsupported Expected Benefits/Outcomes
0700000201	Throughput: 11 percent increase in throughout volume.
0700000339 0700001833 0700001834	Daily Vehicle Hours of Delay Saved = 32,705 Daily Peak Duration Person Minutes Saved = 2,387,480
0700021119	Daily Vehicle Hours of Delay Saved = 16,407 Daily Peak Person Minutes Saved = 1,223,200 Improve access, efficiency, and integration of multi-modal transportation system in the area. Reduction of out-of-direction travel. Reduction of community disruption and positive noise and air quality impacts.

Proposition 1B Close-out Process Update 2016 states that within six months of the project becoming operable, the implementing agency will provide a FDR that reports on the scope, schedule, cost, and benefits of the completed project as compared to those described in the project's baseline agreement. Further, the TCIF guidelines, section 7 and the CMIA guidelines, section 11, state that each project nomination should include documentation supporting the benefits cited in the nomination.

Unsupported information decreases the transparency and creditability of the project benefits/outcomes for comparable pre and post-construction metrics, and prevents Caltrans/CTC from determining whether project benefits/outcomes were met.

**Recommendations:**

- A. Maintain documents to support expected project benefits/outcomes in accordance with guideline requirements.

**Caltrans Response:**

- Caltrans accepts this recommendation. We are planning to submit the supporting documents, which were used to identify the expected project benefits/outcomes in the preparation of Baseline Agreement and later

Ms. Cheryl L. McCormick, Chief  
June 15, 2021  
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translating into the preparation of FDR, as attachments with the Baseline Agreement/FDR to the CTC. The submittal of the supporting documents as attachments to the CTC will ensure the maintenance of all supporting documents.

Should you have any questions or need further information, please contact Robert So, Deputy District Director of Program/Project Management (PPM), at 213-248-4610.

Sincerely,



**TONY TAVARES**  
District Director

cc: Gloria Roberts, Chief Deputy District Director  
Lynette Vann, Deputy District Director of Administration  
Paul Marquez, Deputy District Director of Planning and Local Assistance  
Mark Archuleta, Deputy District Director of Construction  
Greg Farr, Assistant District Division Chief, PPM  
Nancy Pe, Chief of Project Management Office (C), PPM  
Karen Fong, Chief of Project Management Office (A), PPM  
Gabriela Venegas, Chief of COS Management Office, PPM

Attachments: