

Memorandum



To:
JEANNIE WARD-WALLER
DEPUTY DIRECTOR
Planning and Modal Programs

Date: May 22, 2020

File: P2525-0054

From:
MARSUE MORRILL, CPA
AUDIT CHIEF
Independent Office of Audits
and Investigations

SUBJECT: FINAL REPORT – CITY OF FAIRFIELD PROPOSITION 1B AUDIT

At the request of the Independent Office of Audits and Investigations the California Department of Finance, Office of Audits and Evaluations (Finance) completed an audit of the City of Fairfield (City) Proposition 1B funded project listed below.

Project Name

Fairfield/Vacaville Intermodal Station Segment 2C

Project Number

0014000284

Fund

TCIF

Based on the audit, Finance determined that the City was reimbursed \$3,907 for unsupported labor and equipment expenditures, and that the project benefits/outcomes reported in the FDR for economic/job growth, throughput, congestion reduction, and emissions reduction were not supported by a post-assessment study.

The complete audit report is attached. Please provide our office with a corrective action plan, including timelines, by July 21, 2020.

Jeannie Ward-Waller
May 22, 2020
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If you have any questions, contact MarSue Morrill, Audit Chief at marsue.morrill@dot.ca.gov.

Attachment:

c: Paul V. Kaushal, Director of Public Works, City of Fairfield
Dee Lam, Acting Chief, Division of Local Assistance, California Department of
Transportation
Marlon Flournoy, Chief, Division of Transportation Planning, California Department of
Transportation
Kyle Gradinger, Chief, Division of Rail and Mass Transportation, California Department of
Transportation
Tony Tavares, Director, District 4, California Department of Transportation
Jean Finney, Local Assistance Deputy District Director, District 4, California Department of
Transportation
Xi Zhang, Acting District Local Assistance Engineer, District 4, California Department of
Transportation
Gilbert Petrissans, Chief, Division of Accounting, California Department of Transportation
Kacey Ruggiero, Chief, Office of Resource Management and Administration, Division of
Transportation Programming, California Department of Transportation

P2525-0054



City of Fairfield

Proposition 1B Bond Program

Project Number 0014000284

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Sherry Ma, CRP, Manager
Kylie L. Oltmann, CPA, Supervisor
Thong Thao, Lead
Amanda Voie
Mathew Rios

Final reports are available on our website at <http://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



May 21, 2020

MarSue Morrill, 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—City of Fairfield, Proposition 1B Audit

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0014000284	P2525-0054	Fairfield/Vacaville Intermodal Station Segment 2C

The City's response to the report findings and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

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

Sincerely,

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

cc: Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations
Charles Meadows, Associate Management Auditor, Planning and Modal Office, Independent Office of Audits and Investigations

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 Fairfield (City) \$11 million in Proposition 1B funds from the Trade Corridor Improvement Fund (TCIF) for the Fairfield/Vacaville Intermodal Station (FVIS) Segment 2C project (0014000284). The FVIS Segment 2C portion is part of a four-segment project. Segment 2C built a six lane overpass at Peabody Road. In addition, the project added a new track of which (combination of new main line track, siding, and spur track), and installed new electronic switching gear for the Union Pacific Railroad track at both ends of the project. The City was required to provide a dollar-for-dollar match funding.

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 periods 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 agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreement.
2. Deliverables/outputs were consistent with the project scope and schedule.
3. Benefits/outcomes, as described in the executed project agreement or approved amendment, 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 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. CTC and Caltrans 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 agreement and amendment, 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 relevant to our audit objectives were properly designed, implemented, and operating effectively. Key internal controls evaluated focused on procurement, vendor progress payment preparation, reimbursement request preparation, and review and approval processes. Our assessment included conducting interviews with City personnel, observing processes, and testing related to construction contractor expenditures, construction engineering, contract procurement, and project deliverables/outputs and project benefits/outcomes. Deficiencies in internal controls 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 accounting system, Cayenta. To assess the reliability of the data generated from this system, we interviewed City personnel, reviewed information process flows, examined system reports and documents, reviewed system controls, and compared system generated data to source documents. We determined the data was sufficiently reliable to address the audit objectives.

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

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 agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreement.</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 bidding documents, project advertisements, and the selected construction contractor's contract and comparing to the City's internal policies and procedures and Public Contract Code sections 20160-20174. • Determined whether the project was appropriately advertised and awarded to the most qualified consultant by reviewing construction engineering procurement records, such as project advertisements, consultant proposals, final ranking sheets, and the selected construction engineering's contract and comparing to the City's internal policies and procedures and Government Code section 4526. • Selected seven reimbursement claims from the construction/project management² category based on the type of services provided and selected the most quantitatively significant invoices and performed the following: <ul style="list-style-type: none"> ○ Determined if selected Segment 2C reimbursed expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, cancelled checks, and comparing to relevant criteria. ○ Determined if all contract change orders related to Segment 2C were within the scope of the project, not a contract duplication, incurred within the allowable time frame, justified, and supported, by reviewing the project agreement, project's scope of work, contract change order description, and comparing the additional work to the original construction contract; and comparing the Daily Extra Work Report (DEWR) to the daily diaries and invoices. • Determined whether the match requirement was met by reviewing accounting records to determine total project costs, and verifying the amount claimed was less than 50 percent of total project costs. In addition, we verified the source of funds used to meet the match requirement complied with TCIF guidelines. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreement by reviewing a list of other funding sources, project accounting records, a vendor activity report, the City's chart of accounts, and performing analytical procedures to identify possible duplicate payments.

² Construction/Project Management category includes both construction contractor and construction engineering expenditures.

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 the project’s deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request (PPR), supporting documentation, and conducting a site visit to verify project existence. • Evaluated whether project deliverables/outputs were completed on schedule as described in the PPR by reviewing Caltrans quarterly progress reports, the FDR, and the Notice of Completion.
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreement or approved amendment, 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 agreement. • Evaluated whether project benefits/outcomes were adequately supported and reported in the FDR by interviewing City staff and reviewing pre- and post-assessment studies.

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 agreement, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreement, except as noted in Finding 1.

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

Not all project benefits/outcomes were adequately reported in the FDR, as noted in Finding 2. However, the expected project benefits/outcomes that were adequately reported were met. The *Summary of Projects Reviewed* is presented in Appendix A.

FINDINGS AND RECOMMENDATIONS

Finding 1: Unsupported Contract Change Order Expenditures

Labor and equipment charges for 3 of 11 contract change orders totaling \$3,907 were not supported. Specifically, the DEWRs identified additional contractor employees and equipment charges that were not evidenced on the City inspector's signed daily diaries.³ The DEWR is an extension of the daily diaries, which identify the rates and the total costs for the labor, materials, and equipment used. See Table 1 for the contract change orders and related unallowable costs.

Table 1: Unsupported Contract Change Order Expenditures

Contract Change Order #	Unallowable Costs
5.2	\$ 996
7	461
12.2	2,450
Total	\$3,907

The City contracts with a construction engineering consultant, to provide project coordination and construction management services, including ensuring and verifying work performed daily was in accordance with agreed upon project specifications. However, a breakdown in the consultant's review process occurred resulting in reimbursement claims being submitted and paid with unsupported labor and equipment charges.

³ The daily diary documents all work performed on the project for the day. The diary include work progress, site conditions, labor, materials, and equipment used.

TCIF Agreement, paragraph 14, states expenditures must be reasonable and a necessary part of the project. Additionally LAPM section 5.2 states amounts claimed must reflect the cost of completed work, which have been paid. Without supporting documentation to substantiate the additional costs, the City has not demonstrated the costs were reasonable and necessary.

Recommendations:

- A. Remit \$3,907 to Caltrans.
- B. Strengthen and review the invoice process to ensure reimbursement claim costs are supported.

Finding 2: Improvements Needed in Reporting Project Benefits/Outcomes

Project benefits/outcomes reported in the FDR for economic/job growth, throughput, congestion reduction, and emissions reduction were not supported by a post-assessment study. The City assumed the projected benefits/outcomes would be achieved by virtue of project completion and was not aware of the requirement to report on actual benefits/outcomes including providing studies or other documents to support the amounts reported.

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 agreement. Further, TCIF guidelines, section 7 states that each project nomination should include documentation supporting the benefits cited in the nomination. 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. Conduct a post-assessment study of the intended benefits/outcomes and develop a mechanism to track and maintain documentation to support the project benefits/outcomes reported in the FDR.
- C. Submit a Supplemental FDR listing the pre- and post-comparable benefits/outcomes.

APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Fairfield: City
- Final Delivery Report: FDR
- Union Pacific Railroad: UPRR
- Trade Corridor Improvement Fund: TCIF

Summary of Project Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0014000284	\$11,000,000	C	P	Y	P	P	A-1

Legend

C = Construction is complete and the project is operational.

P = Partial

Y = Yes

Project Number: 0014000284

Project Name: Fairfield/Vacaville Intermodal Station Segment 2C

Program Name: TCIF

Project Description: Construct a six lane overpass at Peabody Road to replace the existing two lane at-grade crossing with UPRR tracks, install new tracks, and an electronic switching gear for the UPRR tracks.

Audit Period: August 20, 2014 through December 31, 2017 for audit objective 1⁴
August 20, 2014 through October 11, 2018 for audit objectives 2 and 3⁵

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

Schedule of Proposition 1B Expenditures

Category	Reimbursed	Unallowable Expenditures
Construction/Project Management	\$11,000,000	\$3,907
Total Proposition 1B Expenditures	\$11,000,000	\$3,907

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 agreement, except for \$3,907 of unallowable construction contractor expenditures, as noted in Finding 1. Additionally, the match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in October 2018. At the time of our site visit in May 2019, project deliverables/outputs were consistent with the project scope and schedule. Although the project was behind schedule and completed 10 months late, the City appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes for economic/job growth, throughput, congestion reduction, and emissions reduction were not adequately reported in the FDR, as noted in Finding 2. Since the City did not perform a post-assessment study, no support was available to evidence the intended benefits/outcomes were achieved. The City adequately reported and achieved project benefits/outcomes for safety, reliability, and partially for congestion reduction.

⁴ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

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

Project Benefits/Outcomes Category	Expected Benefits/Outcomes	Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Safety	100% Reduction in train-involved accidents	Elimination of grade crossing, 100% reduction in train-involved accidents	Yes
Economic/Job Growth	720 jobs created during construction	Not Adequately Reported	No
Throughput	80 additional flat cars per week in rail volume	Not Adequately Reported	No
Reliability	10-36 work travel time reduction in minutes per day (train versus car)	No vehicular stopping for railroad crossing which results in approximately 10-30 minutes of reduced travel time	Yes
Congestion Reduction	<ul style="list-style-type: none"> • 8,320 Reduction in Annual Truck Trips • 6,081,920 reduction in annual truck miles traveled (VMT) 	Not Adequately Reported	No
	50 reduction in daily vehicle/train interaction	The construction of the overpass eliminates all vehicle and train interaction at this location	Yes
Emissions Reduction	<p>The emissions benefit of the project is estimated to eliminate the following:</p> <ul style="list-style-type: none"> o 0.06 tons/year of PM_{2.5}, PM₁₀ o 2845 tons/year of CO₂ o 5 tons/year of NO_x o 3.5 tons/year of VOC 	Not Adequately Reported	No

Legend

CO₂ = Carbon dioxide

NO_x = Nitrogen oxide

PM = Particulate matter

VMT = Vehicle miles traveled

VOC = Volatile organic compounds



CITY OF FAIRFIELD

Founded 1856

Incorporated December 12, 1903

PUBLIC WORKS DEPARTMENT

March 26, 2020

Home of
Travis Air Force Base

COUNCIL

Mayor
Harry T. Price
707.428.7395

Vice-Mayor
Pam Bertani
707.429.6298

Councilmembers
707.429.6298

Catherine Moy

Chuck Timm

Rick Vaccaro

•••

City Manager
Stefan T. Chatwin
707.428.7400

•••

City Attorney
Gregory W. Stepanicich
707.428.7419

•••

City Clerk
Karen L. Rees
707.428.7384

•••

City Treasurer
Arvinda Krishnan
707.428.7036

DEPARTMENTS

City Manager's Office
707.428.7400

•••

Community Development
707.428.7461

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Finance
707.428.7036

•••

Fire
707.428.7375

•••

Human Resources
707.428.7394

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Parks & Recreation
707.428.7465

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Police
707.428.7362

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Public Works
707.428.7485

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluation
915 L Street
Sacramento CA 95814-3706
Submitted via email to OSAEReports@dof.ca.gov

Re: City of Fairfield, Proposition 1B Audit
Fairfield/Vacaville Intermodal Station Segment 2C

To Ms. Cheryl L. McCormick,

The following is the City of Fairfield's formal written response to the California Department of Finance, Office of State Audits and Evaluations (Department) letter dated March 5, 2020, regarding the Fairfield/Vacaville Intermodal Station Segment 2C (Project). As indicated in my email on March 20, 2020, the receipt of the letter came at a time when City staff was navigating the unprecedented events surrounding COVID-19. During this time, the City focused attention on the health and wellbeing of our employees, their families, and the residents of Fairfield. While the City is continuing to deliver on the commitments, there is a delay in responding within the required ten business days as a result of this situation that has impacted the nation. Staff appreciates your understanding and flexibility at this time.

FINDING 1: Unsupported Contract Change Order (CCO) Expenditures

RESPONSE:

The following is an abbreviated summary of the progress payment procedure.

- The City's construction and inspection team consists of the Construction Manager, Resident Engineer, Assistant Resident Engineer, and Inspectors (collectively referred to as CM team).
- The CM team conducts a minimum of one monthly meeting with the contractor for the duration of the construction period.
- The purpose of the meeting is to document the contract pay items and any change order items authorized/issued during the period.

CCO 5.2 – Attached is the standard "Force Account Summary" page associated with this change order. The Resident Engineer is the signatory on the page confirming labor, equipment, and hours.

Letter to Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluation
Subj: City of Fairfield, Proposition 1B Audit – Fairfield/Vacaville Intermodal Station
Segment 2C
March 26, 2020
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CCO 7- This Force Account Change Order was issued to address and create a mechanism to account separately for unforeseen, non-contractual items that Union Pacific Railroad (UPRR) required outside of the Construction Contract during the course of work. The contractor, Teichert Construction, has a contract with the City and not UPRR. The City and UPRR have an agreement in place for UPRR's work. During the course of the construction, there were items that UPRR required the City to provide in order for them to perform their work. For example, the City was to furnish a small construction trailer for UPRR crews. This Change Order was used to compensate the City's contractor, Teichert Construction. Teichert Construction was not compensated directly by UPRR. The completion of the required track work could not be completed without the execution of this CCO.

CCO 12 – The CM team performed an Independent Cost Estimate (ICE) for the labor and equipment related to the acceleration. Our estimate, as provided, was in the range of \$65,000, close to the contractor's estimate. Factoring into account cost for loss of efficiency, based upon published and acceptable practices (as provided), there is a 10% inefficiency factor of estimated labor hours for overtime. That loss of efficiency estimate is provided in the contractor's estimate (\$41,994) and found to be fair and reasonable in our engineering judgement. The CM combined ICE of \$65,000 and the loss of efficiency cost of \$41,994 totaling \$106,994, which is more than the contractor's proposal of \$95,402. Therefore, the CM and City used engineering judgement and ICE to determine the proposal is fair and acceptable.

FINDING 2: Improvements Needed in Reporting Project Benefits/Outcomes

RESPONSE: See attached a revised Final Delivery Report to reflect the project benefits/outcomes.

Sincerely,


Paul V. Kaushal
Director of Public Works

rnp:lp

Attachment 1: Force Account Summary – Fairfield/Vacaville Train Station Project
Attachment 2: Project Delivery Report – Trade Corridors Improvement Fund

Letter to Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluation
Subj:City of Fairfield, Proposition 1B Audit – Fairfield/Vacaville Intermodal Station
Segment 2C
March 26, 2020
Page 3

cc: Ryan Panganiban, Assistant Public Works Director/City Engineer
Diane Feinstein, Interim Transportation Manger
Thomas Martian, Construction Manager
Thong Thao, Office of State Audits and Evaluations
Kylie Oltmann, Office of State Audits and Evaluations

EVALUATION OF RESPONSE

The City's response to the draft audit report has been reviewed and incorporated into the final report. The attachments included in the City's response were removed for brevity. In evaluating the City's response, we provide the following comments:

Finding 1: Unsupported Contract Change Order Expenditures

The City did not provide new support for questioned costs related to labor and equipment charges in its response. The City's response included daily diaries provided during our fieldwork for contract change orders 5.2, 7, and 12.2. As noted in the Finding, the daily diaries do not support the questioned costs within the DEWR. Therefore, the Finding and Recommendations will remain unchanged.

Finding 2: Improvements Needed in Reporting Project Benefits/Outcomes

The City provided a revised Final Delivery Report (FDR); however, the City did not provide post-assessment studies supporting the project benefits/outcomes as reported in the FDR. Therefore, the Finding and Recommendations will remain unchanged.