

## Memorandum



**To:**  
JESSIE BHULLAR  
DIVISION CHIEF  
Division of Traffic Operations

**Date:** May 18, 2020

**File:** P2525-0087

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

### **SUBJECT: FINAL REPORT – CITY OF LOS ANGELES 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 Los Angeles (City) Proposition 1B funded projects listed below.

#### **Project Name**

ATCS Santa Monica Freeway Corridor Phase 2

#### **Project Number**

0714000089

#### **Fund**

TLSP

#### **Project Name**

ATCS Los Angeles

#### **Project Number**

0714000340

#### **Fund**

TLSP

Based on the audit, Finance determined that the City did not submit the Final Delivery Report (FDR) to Caltrans with six months of the project becoming operable, and that the City could not provide documentation to support project benefits and outcomes reported in the FDR.

The complete audit report is attached. Please provide our office with a corrective action plan, including timelines, by July 17, 2020.

Jesse Bhullar  
May 18, 2020  
Page 2

If you have any questions, contact Luisa Ruvalcaba, Audit Manager, by email at [luisa.ruvalcada@dot.ca.gov](mailto:luisa.ruvalcada@dot.ca.gov)

Attachment:

c: Seleta J. Reynolds, General Manager, Los Angeles Department of Transportation  
Jennifer Ashby-Camp, TLSP Coordinator, Division of Traffic Operations, California  
Department of Transportation  
John Bulinski, District Director, District 7, California Department of Transportation  
Steve Novotny, District Local Assistance Engineer, District 7, California Department of  
Transportation  
Kacey Ruggiero, Staff Services Manager, Transportation Programming, California  
Department of Transportation  
Luisa Ruvalcaba, Audit Manager, Independent Office of Audits and Investigations

P2525-0087



## City of Los Angeles

Proposition 1B Bond Programs

Project Numbers 0714000089 and 0714000340

### **Team Members**

Cheryl L. McCormick, CPA, Chief  
Rebecca G. McAllister, CPA, Assistant Chief  
Humberto E. Cervantes, CPA, Manager  
Hanzhao Meng, CPA, Supervisor  
Nicole Prisakar, CPA, Lead  
Amy Xu

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, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

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May 14, 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 Los Angeles, Proposition 1B Audit**

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Los Angeles (City) Proposition 1B funded projects as listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0714000089	P2525-0088	ATCS Santa Monica Freeway Corridor Phase 2
0714000340	P2525-0087	ATCS Los Angeles

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 Rick Cervantes, Manager, or Hanzhao Meng, 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, California Department of Transportation

# BACKGROUND, SCOPE, AND METHODOLOGY

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## 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 \$18 million of Proposition 1B Traffic Light Synchronization Program (TLSP) funds to the City of Los Angeles (City) for the Adaptive Traffic Control System (ATSC) Santa Monica Freeway Corridor Phase 2 (0714000089) and ATSC Los Angeles (0714000340). The projects signalize intersections using real-time computer based traffic signal systems to manage high traffic volumes throughout the City.

Construction for these projects is complete and these projects are operational.

## 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 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 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).

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

**TLSP:** \$250 million of bond proceeds made available to the TLSP to finance traffic light synchronization projects or other technology-based improvements to improve safety, operations and the effective capacity of local streets and roads. Project funding is limited to the costs of construction and acquisition and installation of equipment.

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

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

The City's management is responsible for ensuring accurate financial reporting; compliance with 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 programs.

## **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 were properly designed, implemented, and operating effectively. Key internal controls evaluated focused on procurement, progress payment preparation, reimbursement request preparation, and review and approval processes for expenditures, tracking progress for deliverables, and reporting processes for benefits. Our assessment included conducting interviews with City personnel, observing processes, and testing related to construction expenditures, contract procurement, project deliverables/outputs, and project benefits/outcomes. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of data in the Labor Cost Only Without Overtime and the Overtime Cost reports generated from the City's Fiscal Management System. To assess the reliability of data generated by this system, we interviewed City personnel, examined existing reports, reviewed information process flows, reviewed system controls, and performed data testing by tracing 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 next page.

## Table of Methodologies

Audit Objective	Methods
<p><b>Objective 1:</b> 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"> <li>• Determined whether the projects were appropriately advertised and awarded to the lowest, responsible bidder by reviewing construction contract procurement records, such as bidding documents and project advertisements; and selecting construction contracts and comparing to the City's internal policies and procedures and Caltrans Local Assistance Procedures Manual (LAPM).</li> <li>• Selected items from significant expenditure categories to verify compliance with selected project requirements. Specifically, we selected expenditures from the construction, construction engineering, and equipment categories.               <ul style="list-style-type: none"> <li>○ For construction expenditures, we selected one quantitatively significant reimbursement claim for project 0714000089 and two quantitatively significant reimbursement claims for project 0714000340, and two construction progress payments from each claim. We determined if contractor expenditures were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, and daily engineer logs and comparing to relevant criteria.</li> <li>○ For construction engineering expenditures, we selected the most quantitatively significant reimbursement claim from project 0714000089. We determined if the City's labor expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing timesheets, personnel files, the payroll register, and labor reports, and comparing to relevant criteria. Additionally, we recalculated the labor costs.</li> <li>○ For equipment expenditures, we selected a total of four invoices from both projects, including two quantitatively significant invoices and two invoices with possible duplicate payments. We determined if selected expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, invoices, purchase orders, and receiving logs and comparing to relevant criteria. We also verified equipment existence and payments to vendors.</li> </ul> </li> <li>• Selected a total of four contract change orders (CCO) from project 0714000340, including one quantitatively significant CCO from each of the related three bid items, and one CCO with decreased costs. Determined if selected CCOs were within the scope of work, not a contract duplication, completed, and supported by reviewing CCO justifications and daily engineer logs, and comparing to the related construction contracts.</li> <li>• For project 0714000340, we evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the executed project agreements by reviewing a list of other funding sources, project accounting records, and vendor activity reports; and performed analytical procedures to identify possible duplicate payments.</li> </ul>



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 selected project deliverables/outputs were consistent with the project scopes by reviewing the Project Programming Request and supporting documentation, and conducting a site visit to verify existence.</li> <li>• Evaluated whether selected project deliverables/outputs were completed on schedule as described in the approved amendments by reviewing statements of completions and quarterly progress reports submitted to Caltrans.</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 FDR.</p>	<ul style="list-style-type: none"> <li>• Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDRs with the expected project benefits/outcomes described in the executed project agreements and CTC Financial Vote List.</li> <li>• Evaluated whether project benefits/outcomes were adequately reported in the FDRs by reviewing studies that support reduced air emissions and reduced travel times.</li> </ul>

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.

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scopes. Although projects 0714000089 and 0714000340 were behind schedule, the City appropriately informed Caltrans and CTC of the delays. However, the FDR for project 0714000089 was not submitted timely to Caltrans, as noted in Finding 1.

Additionally, project benefits/outcomes were adequately reported in the FDRs, and the City achieved the expected project benefits/outcomes as described in the executed project agreements. However, the City did not maintain documents to support the reported project benefits/outcomes for project 0714000089, as noted in Finding 1.

## FINDINGS AND RECOMMENDATIONS

### **Finding 1: Improvements Needed in Reporting Project Benefits/Outcomes**

The benefits/outcomes for project 0714000089 were not reported timely or adequately supported with documentation. Specifically:

- The FDR was not submitted to Caltrans within six months of the project becoming operable (Statement of Completion date). The project's FDR was due in November 2016, but was not submitted until December 2017, 13 months late. According to the City, FDRs were submitted after the Caltrans TLSP program coordinator initiated the request. The City was not aware it had not submitted the FDR to Caltrans, and does not have a system in place to ensure FDRs are submitted on or before the due date.
- The City could not provide documentation, including the floating car study cited in the FDR, to support project benefits/outcomes reported in the FDR. According to the City, a study was conducted subsequent to project completion to support benefits/outcomes reported in the FDR; however, the City was unable to locate the study. Subsequently, the City conducted an additional floating car study in November 2019 to support the project benefits/outcomes reported in the FDR. Although the City was able to perform the additional study during November 2019, it should have maintained the original study used to support the FDR in December 2017.

TLSP program guidelines, section 16, requires the local agency to provide a FDR on the project benefits/outcomes derived from the project as compared to those described in the project agreements within six months of the project becoming operable.

Additionally, LAPM, Chapter 19, section 19.2 requires project records to be retained by local agencies for a period of three years from state payment of the final voucher, or a four-year period from the date of the final payment under the contract, whichever is longer. Late submission of FDRs and unsupported information in the FDR decreases the transparency of project outcomes and prevents Caltrans and CTC from reviewing the success of the project based on the agreed upon project benefits/outcomes.

**Recommendations:**

- A. Develop and implement processes to ensure sufficient monitoring of projects to meet all necessary deadlines, including the timely submittal of FDRs.
- B. Maintain documentation to support benefits/outcomes reported in the FDRs.
- C. Submit FDRs for future state funded projects as required.

# APPENDIX A

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The following acronyms are used throughout Appendix A.

- Adaptive Traffic Control System: ATSC
- Automated Traffic Surveillance and Control: ATSAC
- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Los Angeles: City
- Final Delivery Report: FDR
- Traffic Light Synchronization Program: TLSP

## Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0714000089	\$4,017,960	C	Y	Y	Y	Y	A-1
0714000340	\$6,121,397	C	Y	Y	Y	Y	A-2

### Legend

C = Construction is complete and the project is operational.

Y = Yes

**Project Number:** 0714000089

**Project Name:** ATCS-Santa Monica Freeway Corridor Phase 2

**Program Name:** TLSP

**Project Description:** This project, located in the west-central portion of the City, will upgrade intersections by providing a fully traffic adaptive signal control system based on real-time traffic conditions.

**Audit Period:** May 20, 2014 through December 9, 2016 for audit objective 1<sup>2</sup>  
May 20, 2014 through December 1, 2017 for audit objectives 2 and 3<sup>3</sup>

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

#### Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$2,855,341
Construction Engineering	417,045
Equipment	745,574
<b>Total Proposition 1B Expenditures</b>	<b>\$4,017,960</b>

#### 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.

##### Deliverables/Outputs

The construction phase of the project was completed in May 2016. At the time of our site visit in December 2019, project deliverables/outputs were consistent with the project scope. The FDR was due in November 2016 but was submitted 13 months late in December 2017, as noted in Finding 1. Although the project was behind schedule and completed 16 months late, the City appropriately updated Caltrans and CTC of the delay.

##### Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. The City achieved the expected project benefits/outcomes as described in the executed project agreement and CTC Financial Vote List. Although the City could not provide the original study that supports the benefits/outcomes achieved as noted in Finding 1, subsequent study results support the benefits/outcomes reported in the FDR.

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

<sup>3</sup> The audit period end date reflects the FDR submission date.

Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Improved Level of Service and reduced traffic congestion, fuel consumption and air pollution.	All ATSAC projects on an average provide congestion relief by improving travel times, travel speeds, delay reduction and reduction in air emissions. Based on the speed/travel studies performed for this project there is a 4 to 9 percent reduction in travel times.	Yes

**Project Number:** 0714000340

**Project Name:** ATCS-Los Angeles

**Program Name:** TLSP

**Project Description:** This project will improve the overall level of service on arterial streets by effectively managing high traffic volumes and dynamic traffic flow within the City-owned right-of-way.

**Audit Period:** August 20, 2014 through January 31, 2019 for audit objective 1<sup>4</sup>  
August 20, 2014 through June 28, 2019 for audit objectives 2 and 3<sup>5</sup>

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

#### Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$2,524,487
Construction (Force Account)	
Equipment	3,137,428
City Labor	608,753
Construction Engineering	459,482
<b>Total Proposition 1B expenditures prior to adjustments</b>	<b>\$6,730,150</b>
Less: Caltrans adjustment	246,181 <sup>6</sup>
Less: Expenditures refunded subsequent to audit fieldwork	362,572 <sup>7</sup>
<b>Total Proposition 1B Expenditures</b>	<b>\$6,121,397</b>

#### 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.

##### Deliverables/Outputs

The construction phase of the project was completed in June 2019. At the time of our site visit in December 2019, project deliverables/outputs were consistent with the project scope. Although the project was behind schedule and completed 37 months late, the City appropriately updated Caltrans and CTC of the delay.

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

<sup>5</sup> The audit period end date reflects the FDR submission date.

<sup>6</sup> Caltrans adjustment for unallowable City labor expenditures claimed in the Force Account on Reimbursement Claim # 4.

<sup>7</sup> Subsequent to audit fieldwork in December 2019, the City remitted \$362,572 in January 2020 to Caltrans for previously reimbursed City labor expenditures paid from the Force Account.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. The City achieved the expected project benefits/outcomes as described in the executed agreement and CTC Financial Vote List.

<b>Expected Benefits/Outcomes Reported in the Project Agreement</b>	<b>Actual Benefits/Outcomes Reported in the FDR</b>	<b>Benefits/Outcomes Achieved</b>
Improvement in Level of Service and reduced traffic congestion, fuel consumption, and air pollution.	Improved travel times, travel speeds, delay reduction and air emissions. The floating car study showed a 4 to 9 percent reduction in travel time.	Yes



## APPENDIX B

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 designs the entity's information system and related control activities to achieve objectives and responds 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>



**CITY OF LOS ANGELES**  
CALIFORNIA

**Seleta J. Reynolds**  
GENERAL MANAGER



**ERIC GARCETTI**  
MAYOR

**DEPARTMENT OF TRANSPORTATION**  
100 South Main Street, 10th Floor  
Los Angeles, California 90012  
(213) 972-8470  
FAX (213) 972-8410

April 17, 2020

Cheryl L. McCormick, CPA  
Chief, Office of State Audits and Evaluations  
California Department of Finance  
915 L Street  
Sacramento, CA 95814-3706

Subject: **RESPONSE TO CONFIDENTIAL DRAFT AUDIT REPORT FOR  
CITY OF LOS ANGELES PROPOSITION 1B BOND PROGRAMS  
PROJECT NUMBERS 0714000089 AND 0714000340**

Dear Ms. McCormick:

Thank you for the opportunity to respond to the confidential draft report which summarized the California State Audit for the Proposition 1B Bond Programs for the referenced project numbers below:

<u>Project Numbers</u>	<u>Project Names</u>
0714000089	ATCS Santa Monica Fwy Corridor Phase 2
0714000340	ATCS Los Angeles

The City of Los Angeles Department of Transportation (LADOT) has reviewed the confidential draft report and accepts the findings of the audit. LADOT will work to implement the associated recommendations over the coming months.

If you have any questions or require any further information, please contact Bill Shao at (213) 972-8428 or [Bill.Shao@lacity.org](mailto:Bill.Shao@lacity.org).

Sincerely,

Seleta J. Reynolds  
General Manager

c: Monique Earl, LADOT  
Dan Mitchell, LADOT  
Bill Shao, LADOT