



Memorandum

To:
RIHUI ZHANG
CHIEF
DIVISION OF LOCAL ASSISTANCE

Date: January 13, 2020

File: P2525-0064
P2535-0130

ANGEL PYLE
ACTING CHIEF
DIVISION OF RAIL AND MASS TRANSPORTATION

JOHN BULINSKI
DIRECTOR, DISTRICT 7

From:
MARSUE MORRILL, CPA
CHIEF
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS
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**SUBJECT: FINAL REPORT - LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY,
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 Los Angeles County Metropolitan Transportation Authority's (Metro) Proposition 1B funded projects listed below.

PROJECT NAME	PROJECT NUMBER	FUND
Raymer to Bernson Double Track	0012000130	IRI
Van Nuys North Platform	0012000136	IRI
I-405 Carpool Lane I-10 to US 101 (Northbound)	0700000107	CMIA
Transit Bus Acquisition	0713000001	SLPP
Exposition Light Rail Transit Phases II	0713000291	SLPP
Crenshaw/LAX Transit Corridor	0713000382	SLPP

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Based on the audit, Finance determined Metro:

- Claimed and was reimbursed unallowable final/engineering design expenditures totaling \$5,435,964
- Had deficiencies in their oversight responsibilities.
- Had issues with reporting project benefits/outcomes.
- Did not submit Final Delivery Reports timely.

The complete audit report is attached. Please provide our office with a corrective action plan, including time lines, by April 13, 2020.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, by email at luisa.ruvalcaba@dot.ca.gov

Attachment

c: Dawn Cheser, Deputy Director, California Transportation Commission
Paul-Albert Marquez, Deputy District 7 Director, Transportation Planning and Local Assistance, California Department of Transportation
Rambabu Bavirisetty, Chief, Office of Capital Improvement Programming, California Department of Transportation
Doris M. Alkebulan, Prop 1 B Specialist, Transportation Programming, California Department of Transportation
Felicia Haslem, Acting Chief, Office of Guidance and Oversight, Division of Local Assistance, California Department of Transportation
Daniel Burke, Audits Liaison, Division of Local Assistance, California Department of Transportation
Paula Bersola, Audits Analyst, Division of Local Assistance, California Department of Transportation
Luisa Ruvalcaba, Audit Manager, Independent Office of Audits and Investigations

P2550-0012



Los Angeles County Metropolitan
Transportation Agency

Proposition 1B Bond Programs

Project Numbers 0012000130, 0012000136, 0700000107, 0713000001,
0713000291, and 0713000382

Team Members

Cheryl L. McCormick, CPA, Chief
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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
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February 3, 2020

Ms. 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

Dear Ms. Morrill:

Final Report—Los Angeles County Metropolitan Transportation Authority, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Los Angeles County Metropolitan Transportation Authority's (Metro) Proposition 1B funded projects listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0012000130	P2550-0012	Raymer to Bernson Double Track
0012000136	P2550-0013	Van Nuys North Platform
0700000107	P2505-0117	I-405 Carpool Lane I-10 to US 101 (Northbound)
0713000001	P2535-0136	Transit Bus Acquisition
0713000291	P2535-0140	Exposition Light Rail Transit Phase II
0713000382	P2535-0137	Crenshaw/LAX Transit Corridor

The enclosed report is for your information and use. The draft report was issued December 9, 2019, and Metro's response to the draft report required further analysis. As a result of our analysis, changes were made to Finding 2 in the Results section. This report will be placed on our website.

We appreciate the assistance and cooperation of Metro. If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Cindie Lor, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

cc: Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.¹

The Los Angeles County Metropolitan Transportation Authority (Metro) serves as the transportation planner and coordinator, designer, builder and operator for a population of approximately 9.6 million residents and within a 1,433 square-mile service area located in Los Angeles County.²

CTC awarded Metro \$640.1 million of Proposition 1B funds from the Corridor Mobility Improvement Account (CMIA), \$10.5 million from the Intercity Rail Improvement (IRI), and \$114 million of State-Local Partnership Program Account (SLPP) funds. The six bond-funded projects were:

- **Raymer to Bernson Double Track (0012000130)** – Awarded \$6.5 million in IRI funds to complete the project’s final design to include plans, specifications, and estimates. This includes 65 percent, 90 percent, and 100 percent design and camera ready documents for the construction package.
- **Van Nuys North Platform (0012000136)** – Awarded \$4 million in IRI funds to complete the project’s final design to include plans, specifications, and estimates. This includes 65 percent, 90 percent, and 100 percent design and camera ready documents for the construction package.

PROGRAM DESCRIPTION¹

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.

IRI: \$400 million of bond proceeds made available to the IRI for passenger rail improvements, including a minimum of \$125 million for procurement of additional intercity passenger railcars and locomotives.

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.

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

² Excerpts obtained from LA Metro website <https://www.metro.net/about/about-metro/>.

- **I-405 Carpool Lane I-10 to US 101 (Northbound) (0700000107)** – Awarded \$640.1 million in CMIA funds to construct one High Occupancy Vehicle lane Northbound on Interstate 405 from I-10 to US 101.
- **Transit Bus Acquisition (0713000001)** – Awarded \$36.3 million in SLPP funds for the acquisition of up to 550 40-foot low floor Compressed Natural Gas buses to be deployed in Los Angeles County, including preparation of specifications, issuance of request for proposals, contract management, vendor audits, manufacturing inspections spare parts, diagnostic equipment, and other costs associated with the acquisition of the buses.
- **Exposition Light-Rail Transit Phase II (0713000291)** – Awarded \$28.3 million in SLPP funds to construct a maintenance facility.
- **Crenshaw/LAX Transit Corridor (0713000382)** – Awarded \$49.5 million in SLPP funds to construct an 8.5 mile extension from the Metro Green Line Aviation/LAX Station to the Metro Exposition Line Exposition/Crenshaw Station.

Metro was required to provide a dollar-for-dollar match of local funding for projects 0713000001, 0713000291, and 0713000382.

Construction for projects 0713000001 and 0713000291 is complete and these projects are operational. The final design for the plans, specifications, and estimates (PS&E) for project 0012000136 is complete. Projects 0700000107 and 0713000382 are still in progress (interim projects) and project 0012000130 has been suspended indefinitely.

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, are 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 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).

Project 0713000291 expenditures and deliverables/outputs were previously included in our October 2016 report. Subsequently, Metro submitted an FDR for the project. Therefore, we did not complete Objective 1 and completion of Objective 2 was limited to evaluating FDR reporting compliance.

Projects 0012000130 and 0012000136 received funding to complete the final design for the PS&E phase of the project. Reporting of actual project benefits/outcomes in a FDR is required once construction is complete and the project is operable. Therefore, we did not complete Objective 3 to evaluate whether project benefits/outcomes were achieved as it was not applicable.

At the time of our audit fieldwork in July 2019, the FDRs have not been submitted for interim projects 0700000107 and 0713000382. Accordingly, we did not evaluate whether project benefits/outcomes were achieved or adequately reported for these projects. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

Metro management is responsible for ensuring accurate financial reporting; compliance with executed project agreements, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. Caltrans and CTC are responsible for the state-level administration of the programs.

METHODOLOGY

In planning the audit, we gained an understanding of the projects and respective programs, and identified relevant criteria, by reviewing the executed project agreements and amendments, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations, and interviewing Caltrans and Metro personnel.

We conducted a risk assessment, including evaluating whether Metro's key internal controls relevant to our audit objectives, such as procurement, progress payment preparation, reimbursement request preparation, and review and approval processes were properly designed, implemented, and operating effectively. Our assessment included conducting interviews with Metro personnel, observing processes, and testing transactions related to construction and construction support expenditures, contract procurement, project deliverables/outputs, and project benefits/outcomes. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of data from Metro's Contract Change System. To assess the reliability of data generated by this system, we interviewed Metro staff, examined existing purchase order reports, contract change orders, contract change order logs, and supporting documents, and reviewed system controls. We determined the data was sufficiently reliable to address the audit objectives.

We determined a reliability assessment of data from Metro's financial system, Financial Information System, was not necessary because other sufficient evidence was available 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	
<p>Objective 1 (applicable to all projects except 0713000291): To determine whether Metro’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 agreements.</p>	<ul style="list-style-type: none"> • Reviewed procurement records to verify compliance with Caltrans’ Local Assistance Procedures Manual (LAPM) requirements to determine if the projects were appropriately advertised and awarded to the most qualified consultant/lowest responsible bidder by reviewing proposal/bidding documents, evaluation scoring sheets, contracts, and project advertisements. • For projects 0012000136, 0700000107, 0713000001, and 0713000382 we selected significant expenditure categories to verify compliance with certain project requirements. <ul style="list-style-type: none"> ○ Project 0012000136: Expenditures were selected from the final/engineering design category. We selected the three most quantitatively significant reimbursement claims and selected one expenditure item from each significant sub task from each claim. The last reimbursement claim was also selected because it contained dates outside of our audit period and all expenditure items were selected. We determined if the selected reimbursed final/engineering design expenditures, including overhead and fixed fees, were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing accounting records, invoices, electronic payments, and comparing to relevant criteria. ○ Project 0700000107: Expenditures were selected from the construction category. We selected the eight most quantitatively significant reimbursement claims funded solely with Proposition 1B funds. Within each claim, we selected the most quantitatively significant task and the most quantitatively significant expenditure item from each task. We then selected two to three additional expenditures based on quantitative significance. We determined if the selected construction expenditures were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, electronic payments, and comparing to relevant criteria. ○ Project 0713000001: Expenditures were selected from the construction category. We selected one qualitatively significant reimbursement claim because it had a retention amount withheld by Caltrans. Within the claim, we selected a total of seven invoices beginning with the first and selecting every fifteenth thereafter, and five additional invoices by selecting cost outliers. We determined if the selected reimbursed and matched construction expenditures were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, electronic payments, and comparing to relevant criteria, and evaluating the project’s additional funding sources. ○ Project 0713000382: Expenditures were selected from the construction category. We selected the most quantitatively significant reimbursement claim. Within the claim, we selected the most quantitatively significant progress payment and then selected the two most quantitatively significant expenditures reimbursed

Audit Objective	Methods
	<p>solely with Proposition 1B funding. We determined if the selected reimbursed and match construction expenditures were allowable, authorized, project related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, electronic payments, and comparing to relevant criteria, and evaluating the reimbursement ratio and the project's additional funding sources.</p> <ul style="list-style-type: none"> • Project 0012000130: We did not select expenditures for testing. The project agreement limited allowable final/engineering design expenditures to 10 percent of total project expenditures. Construction was suspended indefinitely, resulting in approximately 90 percent of unallowable expenditures. See Finding 1 in the Results section. • Contract change orders (CCO) for projects 0012000136, 0700000107, and 0713000001: We selected the most quantitatively significant CCO for project's 0012000136 and 0713000001. We selected five CCOs for project 0700000107 based on quantitative and qualitative significance (i.e., description). We determined if selected CCOs were within the scope of work, not a contract duplication, completed, and supported, by reviewing CCO memorandums, pricing analyses, independent cost estimates, board meeting minutes, contractor correspondence, contracts, technical specifications, progress payments, and accounting records. • Projects 0700000107 and 0713000382: Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreements by reviewing vendor progress payments, vendor activity reports, project expenditure reports, and performing analytical procedures to identify possible duplicate payments.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the project scopes and schedules.</p>	<ul style="list-style-type: none"> • Projects 0012000130, 0012000136, and 0713000001: Determined whether the project's deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request, the Final Design, and bus asset listing, letter of acceptance, maintenance records, and route, mileage, and status logs. • Projects 0012000136 and 0713000001: Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing the FDR, the approved Final Design, and Contract Close-out Letter. • Project 0713000291: Evaluated whether the FDR was submitted on schedule by reviewing the Notice of Completion and FDR submitted to Caltrans. • Projects 0700000107 and 0713000382: For project 0700000107, reviewed Google Earth images, construction pictures provided by Caltrans, and fiscal year 2018-19 first quarter report to verify project existence and to confirm consistency with the project scope and schedule. For project 0713000382, conducted a site visit and reviewed 2018-19 first quarter report to verify project existence and to confirm consistency with the project scope and schedule.

Audit Objective	Methods
<p>Objective 3 (applicable to all projects except 0012000130 and 0012000136): 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"> • Projects 0713000001 and 0713000291: Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDR with the expected project benefits/outcomes described in the executed project agreements or approved amendments. We also evaluated whether the project benefits/outcomes were adequately reported in the FDR by inquiring with Metro personnel and reviewing bus inspection forms and acceptance letters. • Project 0700000107: Determined whether there is a system in place to report actual project benefits/outcomes by evaluating whether the estimated project benefits described in the executed project agreements or approved amendments were adequately supported by inquiring with Metro and Caltrans personnel and reviewing a consultant's traffic study. • Project 0713000382: Determined whether there is a system in place to report actual project benefits/outcomes by reviewing ridership data provided by Metro.

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 agreements, except as noted in Finding 1. Additionally, as described in Finding 2, we observed several weaknesses in Metro's project management practices that require improvement.

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scopes and schedules, except as noted in Findings 1 and 4. Although project 0700000107 and 0713000001 were behind schedule, Metro appropriately informed Caltrans and CTC of the delay.

Project benefits/outcomes were not always reported adequately in the FDRs, as noted in Finding 3. However, the expected project benefits/outcomes that were adequately reported were achieved. Additionally, Metro does not have a system in place to determine and report actual benefits/outcomes for interim project 0700000107, as noted in Finding 3. However, Metro does have a system in place to report actual benefits/outcomes for interim project 0713000382. FDRs for interim projects 0700000107 and 0713000382 have not been submitted to Caltrans as of July 2019.

FINDINGS AND RECOMMENDATIONS

Finding 1: Unallowable Final/Engineering Design Expenditures

Metro claimed and was reimbursed unallowable final/engineering design expenditures totaling \$5,435,964 for project 0012000130. According to the project agreement, Metro was required to complete the final design, consisting of PS&E, including 65 percent, 90 percent, and 100 percent design and camera-ready documents for the construction package. However, Metro did not finalize the final design package and suspended construction indefinitely. Metro stated that the final design was not completed due to community concerns about the potential impact of the project on the residential neighborhood bordering the rail corridor. Further, Metro did not construct the project due to reallocation of funding to other construction projects.

Project Agreement 75A0406, Article IV, section 2 states Metro is limited to reimbursement of design and engineering expenditures not to exceed 10 percent of total project expenditures. With the termination of construction, eligible reimbursable expenditures is limited to \$644,599 (\$6,445,989 in total project expenditures x 10 percent). As a result, unallowable reimbursed expenditures totaled \$5,435,964 (\$6,080,563 in reimbursed expenditures less \$644,599).

Unfamiliarity with Proposition 1B funding provisions in the project agreement resulting in unallowable costs places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers, increases oversight agency monitoring and post audit resolution costs, and reduces the number of fundable Proposition 1B transportation projects.

Recommendations:

- A. Remit \$5,435,964 to Caltrans.
- B. Develop, implement, and maintain an adequate review process to ensure claimed expenditures are allowable based on executed agreements and program guidelines prior to submitting reimbursement claims to Caltrans.

Finding 2: Project Management Controls Require Improvement

As a recipient of state transportation funds, Metro should implement stronger project management controls to ensure compliance with project agreements and Caltrans/CTC's program guidelines. We identified deficiencies in Metro's oversight responsibilities for four projects, as noted below:

- a. *Contract award documents were not retained or consistently documented.*
 - Documentation was not available to support verification of qualifications, prior experience, and licenses of the responding companies for projects 0012000130, 0012000136, and 0713000382.
 - Summary evaluation score sheets were not consistent with individual evaluator score sheets for projects 0012000130 and 0012000136.
 - Date and time stamp log to support timeliness of submittals for the request for qualifications (RFQ) and request for bids were not retained for project 0700000107.

Metro stated that the documents above were not available due to the length of time since contract award. Additionally, the inconsistencies between evaluation documents were due to adjustments verbally communicated by the evaluators or hand written adjustments made to pre interview scores to reflect post interview scores.

- b. *Inadequate documentation to support claimed construction expenditures for project 0700000107.* Metro was unable to provide documents such as resident engineer logs, weight tickets, and subcontractor invoices. Metro stated that all supporting construction documents were in archive offsite due to the length of time that had passed since the final reimbursement claim submitted in 2014. Further, Metro did not have resident engineer logs because they were completed by Caltrans. As a result, we relied on Caltrans' role as a key participant in Metro's process to review the contractor's progress pay estimates and schedules as a mitigating control since Caltrans was present at the project site on a daily basis. However, Metro is the implementing agency and should have all project documentation and backup records readily available for inspection.

- c. *Independent cost estimates (ICE) were not provided to support CCOs for project 0700000107.* Two CCOs reviewed did not have an ICE to support completion of a cost analysis. Metro stated the ICE was not required because the changes were related to provisional contract items and did not change the project scope. Although the project scope was not changed as a result of the CCOs, the total budget for the provisional items did change. Therefore, any extra work resulting in increased costs in excess of the original contract amount requires completion of a cost analysis to demonstrate the approved CCO amounts were reasonable and supported.

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. Metro's Acquisition Policy and Procedure Manual, Chapter 15, section 15.0 (B)(2) states requirements in Chapter 15 should be followed for CCOs. Additionally, Metro's Acquisition Policy and Procedure Manual, Chapter 15, section 15.15 (A), requires a cost analysis to review and evaluate the cost elements and profits of a contractor's proposal, and section 15.15 (C)(3)(d) identifies costs analysis procedures, which include a comparison of proposed costs for individual cost elements with an independent cost estimate by Metro technical personnel.

Metro's management is responsible for compliance with fiscal and performance requirements of the projects. This includes maintaining documentation to support contracts were properly awarded and claimed expenditures were eligible for reimbursement. In the absence of adequate project management practices, Metro increases the risk that state funds may not be expended in the most prudent and economical matter.

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the requirements.
- B. Ensure a clear audit trail is established and documentation is maintained to support the contract award process, contractor invoices, and CCOs.

Finding 3: Improvements Needed in Reporting Project Benefits/Outcomes

The benefits/outcomes approved by Caltrans/CTC were not adequately reported for project 0713000001. Additionally, a system is not in place for the reporting of project benefits/outcomes for interim project 0700000107. Specifically:

- For project 0713000001, the emissions reduction benefit/outcome included in the project agreement was not reported in the FDR. According to Metro, a study was not conducted subsequent to project completion to determine if emission reductions occurred as a result of the bus acquisitions.
- For project 0700000107, the project agreement included expected benefits/outcomes of 22,929 daily vehicle hours of delay saved and 1,673,840 daily peak person-minutes saved over a period of 20 years. Although Metro conducted a before and after study evaluating the project, the

benefits/outcomes listed in the study did not agree with the benefits/outcomes listed in the project agreement. Additionally, Metro could not provide documentation to support how the daily vehicle hours of delay saved and daily peak person minutes saved benefits/outcomes were determined. According to Metro, Caltrans calculated the expected benefits/outcomes and it was unaware of the requirement to report actual benefits/outcomes. Metro stated that it was Caltrans's responsibility to ensure a system was in place to evaluate the project's benefits/outcomes upon project completion. However, Metro is the implementing agency and is ultimately responsible for ensuring accurate project benefits/outcomes are reported in the FDR and maintaining supporting documentation.

CMIA and State Route 99 Accountability Implementation Plan, section IV C.1 and SLPP Guidelines, section 14, states that within six months of the project becoming operable, the implementing agency will provide a FDR on the scope of the completed project, including performance outcomes derived from the project as compared to those described in the project agreements. Inaccurate and incomplete information in the FDR decreases the transparency of the project outcomes and prevents CTC from determining whether project benefits/outcomes were met.

Recommendations:

- A. Review the project agreements and program guidelines to ensure a clear understanding of the reporting requirements and to ensure FDRs address all project benefits/outcomes.
- B. Maintain documentation to support projected and actual benefits/outcomes included in the project agreements and reported in the FDRs.
- C. Submit a Supplemental FDR for project 0713000001 that addresses the emissions reduction benefit/outcome.

Finding 4: Final Delivery Report Not Submitted Timely

The FDR for project 0713000291 was not submitted to Caltrans within six months of the project becoming operable (notice of completion date). The project's FDR was due May 2017, but was submitted October 2018. According to Metro, the submittal of the FDR was delayed to allow for outstanding project related items to be completed.

SLPP Guidelines, section 14, requires submittal of a FDR within six months of the project becoming operable. Late submission of reports decreases transparency of the status of a project and prevents Caltrans/CTC's ability to timely review the completed project's scope, final costs, project schedule, and performance outcomes.

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the reporting requirements.
- B. Submit FDRs for completed projects to Caltrans within the specified time frames as required.

APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Compressed Natural Gas: CNG
- Corridor Mobility Improvement Account: CMIA
- Final Delivery Report: FDR
- High Occupancy Vehicle: HOV
- Intercity Rail Improvement: IRI
- Los Angeles County Metropolitan Transportation Authority: Metro
- Plans, Specifications, and Estimates: PS&E
- State-Local Partnership Program Account: SLPP

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0012000130	\$6,080,563	N/A 1	N	N	N/A 3	N/A 3	A-1
0012000136	\$3,801,342	C 1	Y	Y	N/A 3	N/A 3	A-2
0700000107	\$640,100,000	I	Y	Y	N/A 4	N/A 4	A-3
0713000001	\$36,250,000	C	Y	Y	P 1	P 1	A-4
0713000291	N/A 2	C	N/A 2	N/A 2	Y	Y	A-5
0713000382	\$49,529,000	I	Y	Y	N/A 4	N/A 4	A-6

Legend

- C = Project is complete and is operational.
- C 1 = PS&E phase is complete.
- I = Construction is not complete.
- N = No
- N/A 1 = Not applicable, the PS&E phase of the project was suspended and has not been completed, see Finding 1.
- N/A 2 = Not applicable, project costs and deliverables/outputs were previously included in our October 2016 report.
- N/A 3 = Not applicable, PS&E project.
- N/A 4 = Not applicable, FDR has not been submitted.
- P 1 = Partial benefits/outcomes adequately reported and achieved, see Finding 3.
- Y = Yes

Project Number: 0012000130

Project Name: Raymer to Bernson Double Track

Program Name: IRI

Project Description: Complete the final design to include PS&E for the Raymer to Bernson Double Track project. This includes 65 percent, 90 percent, and 100 percent design and camera ready documents for the construction package.

Audit Period: January 29, 2014 through June 30, 2016 for audit objective 1³
January 29, 2014 through November 5, 2018 for audit objective 2⁴

Project Status: The final design for the PS&E was not completed, see Finding 1.

Schedule of Proposition 1B Expenditures

Category	Reimbursed	Unallowable Expenditures
Final/Engineering Design	\$6,080,563	\$5,435,964
Total Proposition 1B Expenditures	\$6,080,563	\$5,435,964

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were not incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations cited in the executed agreements; resulting in \$5,435,964 in unallowable expenditures, as noted in Finding 1.

Deliverables/Outputs

Metro did not complete the final design for the project, as noted in Finding 1.

Benefits/Outcomes

Actual project benefits/outcomes are not assessed for the PS&E phase. Actual project benefits/outcomes are reported when construction is complete and the project becomes operable. However, construction of this project has been suspended, as noted in Finding 1.

³ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁴ The audit period end date reflects the FDR submission date.

Project Number: 0012000136

Project Name: Van Nuys North Platform

Program Name: IRI

Project Description: Complete final design to include PS&E for the Van Nuys North Platform project. This includes 65 percent, 90 percent, and 100 percent design and camera ready documents for the construction package.

Audit Period: December 11, 2013 through April 30, 2017 for audit objective 1⁵
December 11, 2013 through October 25, 2017 for audit objective 2⁶

Project Status: The final design for the PS&E is complete.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Final/Engineering Design	\$3,801,342
Total Proposition 1B Expenditures	\$3,801,342

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 agreements.

Deliverables/Outputs

The final design for the PS&E phase of the project was completed in November 2015. At the time of our fieldwork in July 2019, project deliverables/outputs were consistent with the project scope and schedule. Although an FDR was submitted for the PS&E phase, we did not assess whether the report was submitted timely because Caltrans requires the FDR to be submitted upon construction completion. Additionally, the Southern California Regional Rail Authority is the implementing agency for the construction phase.

Benefits/Outcomes

Actual project benefits/outcomes are not assessed for the PS&E phase. Actual project benefits/outcomes are reported when construction is complete and the project becomes operable.

⁵ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁶ The audit period end date reflects the FDR submission date.

Project Number: 0700000107

Project Name: I-405 Carpool Lane I-10 to US 101 (Northbound)

Program Name: CMIA

Project Description: Construct one HOV lane Northbound on Interstate 405 from I-10 to US 101.

Audit Period: June 4, 2007 through January 31, 2014 for audit objective 1⁷
June 4, 2007 through July 18, 2019 for audit objectives 2 and 3⁸

Project Status: Construction is not complete⁹

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$640,100,000
Total Proposition 1B Expenditures	\$640,100,000

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 agreements.

Deliverables/Outputs

Construction was substantially complete in September 2015 and is operational; however, a Notice of Completion had not been filed. Metro did not provide a target completion for this project. At the time of our fieldwork in July 2019, project deliverables/outputs were consistent with the project scope and schedule as stated in the fiscal year 2018-19 first quarter progress report submitted to Caltrans. Although project completion was initially due in April 2013, Metro updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed and the FDR has not been submitted. Additionally, as noted in Finding 3, Metro does not have a system in place to measure achievements of actual project benefits and was not able to support the original calculations of the projected benefits/outcomes in the executed project agreement.

⁷ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁸ The audit period end date reflects the end of audit fieldwork date.

⁹ The project is considered interim because Metro had not submitted a Notice of Completion as of July 2019, the end of our audit fieldwork.

Project Number: 0713000001

Project Name: Transit Bus Acquisition

Program Name: SLPP

Project Description: Acquisition of up to 550 40-foot low floor CNG buses to be deployed in Los Angeles County, including preparation of specifications, issuance of request for proposals, contract management, vendor audits, manufacturing inspections, spare parts, diagnostic equipment, and other costs associated with the acquisition of the buses. The buses will have a capacity of 40 seats and space for two wheelchairs with four tie-downs each.

Audit Period: August 22, 2012 through June 20, 2014 for audit objective 1¹⁰
August 22, 2012 through August 23, 2017 for audit objectives 2 and 3¹¹

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

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction/Project Management	\$36,250,000
Total Proposition 1B Expenditures	\$36,250,000

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 agreements. Additionally, the match requirement was met.

Deliverables/Outputs

The construction/project management phase of the project was completed in July 2017. At the time of our fieldwork in July 2019, project deliverables/outputs were consistent with the project scope. Additionally, the project was behind schedule and completed 24 months late. Metro appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were not adequately reported in the FDR. As stated in Finding 3, benefits/outcomes related to emissions reduction included in the project agreement were not reported in the FDR.

¹⁰ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

¹¹ 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
Meet service needs and ensure that vehicles eligible for retirement are replaced with new vehicles. This will help Metro meet the overall goals of maintaining low average fleet age and improving service quality, fleet reliability, and customer appeal.	Maintain low average fleet age and improve service quality, fleet reliability, and customer appeal.	Yes
Reduce emissions.	Not Reported.	No

Project Number: 0713000291

Project Name: Exposition Light Rail Transit Phase II

Program Name: SLPP

Project Description: Maintenance facility is to be constructed as part of the Expo Phase II project at 1955 Centinela Avenue in Santa Monica, CA. The facility will store, operate, and maintain light rail vehicles required for the project, and will be constructed to meet the operations and maintenance requirements of the light rail vehicles that will be used to operate the Expo light rail project.

Audit Period: March 5, 2013 through October 5, 2018 for audit objectives 2 and 3¹²

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

Results:

Deliverables/Outputs

Project deliverables/outputs were previously included in our October 2016 report. However, the Notice of Completion was issued November 2016, after the issuance of our October 2016 audit report. As noted in Finding 4, the FDR was due in May 2017 and was submitted 17 months late.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. Additionally, Metro achieved the expected project benefits/outcomes as described in the executed project agreement.

Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
Provide high-capacity transit maintenance service to the rail vehicles that will be operating on the Exposition Gold Line.	Provide high-capacity and sustainable transit maintenance service to the rail vehicles operating on the Expo Line to support a world class transportation system.	Yes

¹² The audit period end date reflects the Final Delivery Report submission date.

Project Number: 0713000382

Project Name: Crenshaw/LAX Transit Corridor

Program Name: SLPP

Project Description: The Metro Crenshaw/LAX Line will extend from the existing Metro Exposition Line at Crenshaw and Exposition Boulevards. The Line will travel 8.5 miles to the Metro Green Line's Aviation/LAX Station and will serve the cities of Los Angeles, Inglewood, Hawthorne, and El Segundo; and portions of unincorporated Los Angeles County.

Audit Period: May 7, 2013 through January 31, 2014 for audit objective 1¹³
May 7, 2013 through July 18, 2019 for audit objectives 2 and 3¹⁴

Project Status: Construction is not complete.¹⁵

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$49,529,000
Total Proposition 1B Expenditures	\$49,529,000

Results:

Compliance–Proposition 1B Expenditure

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 agreements. Although construction is not complete, the \$49,529,000 match requirement has been met.

Deliverables/Outputs

Estimated target completion for this project is January 2020. At the time of our fieldwork in July 2019, project deliverables/outputs were consistent with the project scope as stated in the 2018-19 first quarter progress report submitted to Caltrans. Although project completion was due in October 2019, the estimated target completion date is within six months.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed and the FDR has not been submitted. However, a system is in place to measure achievements of actual project benefits/outcomes.

¹³ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

¹⁴ The audit period end date reflects the end of audit fieldwork date.

¹⁵ The project is considered interim because Metro had not submitted a Notice of Completion as of July 2019, the end of our audit fieldwork.



Metro

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December 24, 2019

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

**Subject: Response to Draft Report No. 19-2660-080 - Los Angeles County
Metropolitan Transportation Authority, Proposition 1B Audit**

Dear Ms. McCormick:

Thank you for the opportunity to respond to the Draft Report No. 19-2660-080 - Proposition 1B Bond Programs dated December 9, 2019. Provided are Metro's responses to the findings and recommendations for Project Numbers 0012000130, 0012000136, 0700000107, 0713000001, 0713000291, and 0713000382. We look forward to continuing efforts to address the outlined deficiencies and initiate actions in response to the recommendations.

Should you have any questions and/or require additional response, please contact myself at washingtonp@metro.net or (213) 922-7555; and/or Shalonda Baldwin at baldwins@metro.net or (213) 418-3265.

Sincerely,

Original signed by Phillip A. Washington

Phillip A. Washington
Chief Executive Officer

Enclosures:
Response to Draft Report No. 19-2660-08
Supplemental Attachments

cc: John Bulinski, District 7 Director, California Department of Transportation
MarSue Morrill, Chief, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Richard Clarke, Chief Program Management Officer, Metro
Shalonda Baldwin, Interim Chief Auditor, Metro
James De La Loza, Chief Planning Officer, Metro

Finding 1: Unallowable Final/Engineering Design Expenditures

Recommendations:

- A. Remit \$5,435,964 to Caltrans.
- B. Develop, implement, and maintain an adequate review process to ensure claimed expenditures are allowable based on executed agreements and program guidelines prior to submitting reimbursement claims to Caltrans.

Metro's Response:

Project: Raymer to Bernson Double Track Project (0012000130)

The draft report states that due to the termination of construction, reimbursable design and engineering expenditures is limited to \$644,599 based on 10 % of total project expenditures of \$6,445,989. As such, the recommendation is to remit \$5,435,964 to Caltrans.

Metro disagrees with the finding and the corresponding recommendation due to the following:

Under Article IV, Section 2 of the State of California Department of Transportation Intercity Rail Passenger Facility Contract Agreement No. 75A0406 (Contract Agreement No. 75A0406) attached as Enclosure A, limits Metro's reimbursement for design and engineering costs to 10% of the total project costs. Inclusion of the term "herein" under Article IV, Section 2 of Contract Agreement 75A0406 suggests that the total project cost used for this purpose must be pulled from the contract itself and not from a calculation using actual expenditures. The total project cost of \$72,454,000 inclusive of construction costs, can be found on page 2 of Enclosure A-2 CTC Project Allocation- Resolution ICR1B-A-1314-02. Please note that Contract Agreement No. 75A0406 contains three attachments:

- a) Enclosure A-1 Project Description, Scope of Work and Project Budget
- b) Enclosure A-2 CTC Project Allocation- Resolution ICR1B-A-1314-02
- c) Enclosure A-3 Contractor Resolution.

Under Article I, Section 2 of the Contract Agreement No. 75A0406 states that the CTC Resolution is made an express part of this Contract. Using the total project cost of \$72,454,000, Metro's total project expenditures in the amount of \$6,080,563 are within the not to exceed amount of 10% of total project costs as described in Enclosure A-1 Project Description, Scope of Work and Project Budget. In addition, Metro submitted

invoices which were reviewed and approved by Caltrans in the amount of \$6,080,563 for the final design. Therefore, Metro's expenditures for the final design are consistent with the intent of reimbursable amount in accordance with the terms of the Agreement.

Regarding the draft report's reference to the suspension of the Project construction indefinitely, we received strong community opposition to the Project as stated in the letter from Assembly member Scott Wilk dated November 13, 2015, attached as Enclosure B. Furthermore, Metro received a letter from the Southern California Regional Rail Authority dated August 31, 2018 informing Metro of the California State Transportation Agency's intent to reprogram the construction funds of \$61 million, attached as Enclosure C.

Finding 2: Project Management Controls Require Improvement

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the requirements.
- B. Ensure a clear audit trail is established and documentation is maintained to support the contract award process, contractor invoices, and CCOs.

Metro's Response (a):

Projects: Raymer to Bernson Double Track (0012000130) and Project Van Nuys Platform (0012000136)

Metro disagrees with the finding. Documentation was available to support verification of qualifications and prior experience for the selected company. A reference check was performed on the selected company and was included in the contract file. Refer to Attachment 1 and Attachment 2 for Project 0012000130 and Project 0012000136.

Metro disagrees with the finding that summary evaluation score sheets were not consistent with individual evaluator score sheets for projects 0012000130 (Raymer to Bernson Double Track) and 0012000136 (Van Nuys Platform). Each final evaluation scoring sheet is inclusive of the impact of oral interviews. As a result, the summary evaluation score sheet is consistent with the cumulative individual final scores.

Project: Crenshaw/LAX Transit Corridor (0713000382)

Metro acknowledges the finding and while the hard copy advertisement was not located in the file, Attachment C0988.1 is evidence of the advertisement from Metro's archived website evidencing the RFQ advertisement. Regarding the finding of "inconsistencies between evaluation documents," the evaluation score sheets reflected the scores based on just the written proposals and the adjustments to the initial scoring based on

information received from the proposers through discussions and resulting from the Best and Final Offer (BAFO) submittals. The adjustments made to the scoring were consistent with the proposal evaluation plan established prior to receipt of the proposals. The adjustments were supported by the evaluators' comments on the evaluation sheets, an acceptable practice with such documentation.

Project: I-405 Carpool Lane I-10 to US 101 Northbound (0700000107)

Metro acknowledges the finding. Metro typically maintains evidence in the hard copy file, but in this case the evidence was misplaced. Metro has controls in place for time stamping the receipt of Statement of Qualifications submitted in response to an RFQ and receipt of a bid/proposal submitted in response to an IFB/RFP in that all such submittals are brought to a single location and logged.

Metro's Response (b):

Project: Project: I-405 Carpool Lane I-10 to US 101 Northbound (0700000107)

Metro agrees that we did not produce all the engineering logs, weight tickets and subcontractor invoices. As explained to the auditors, the Design/Build method was used for this project. Caltrans was our project partner (not only a Key Participant) for the project. Our Design Build contractor submitted the monthly pay applications based on schedule of values of the Contract. The Schedule of Values for this project were prepared based on the Schedule of Quantities and Prices (Schedules A, E, F, G) included in the Contract. As such, weight tickets were not applicable because the bid line items were not listed as work item quantities as stipulated by Caltrans Special Section 2-1.12B. In fact, this section was deleted per Contract Special Provisions.

As our project partner, Caltrans provided the Resident Engineers (RE) on the job. Caltrans also provided the Integrated Quality Assurance program IQA oversight responsibility and all RE reports and logs were prepared and documented by Caltrans RE's. As such, the RE's were consulted on the items which required their verification during monthly progress payments. We provided the auditors samples of the RE schedule markups prepared based on this type of partnership with Caltrans using the Design/Build method.

Construction documentation for this project were archived off-site due to the fact that the final reimbursement claim was submitted in 2014 (approximately 5 years ago) and the large volume of projects do not allow us to keep older documents on site. However, they can be produced if needed.

Metro's Response (c):

Project: I-405 Carpool Lane I-10 to US 101 Northbound (0700000107)

Metro agrees that two of the CCOs reviewed did not have an ICE, because they were related to Provisional Sums increase that did not require ICE as they were general administrative budget additions for multiple scopes of work. That is the nature of provisional sums. They were change orders to the contractor only because the original provisional sums budget was awarded to the contractor as part of the contract which they could not use without proper authorization. Individual PSAs had cost estimates as applicable.

Regarding Metro's Acquisition Policies and Procedures, the Acquisition Policies and Procedures do require that cost principles and procedures set forth in the manual be followed for the pricing or estimation of costs for change orders and modifications. Section 15.15A addresses when a Cost Analysis is to be performed. While that Section does not specifically address Contract Change Orders, Metro views Contract Changes as a single source procurement and contractor's proposed pricing subject to a cost analysis. Metro staff primarily rely on Independent Cost Estimates to perform a cost analysis for a change order or contract modifications. However, Section 15.15 C provides for other techniques to perform a cost analysis and not just the use of an independent cost estimate.

Additionally, all staff are trained in maintaining documentation that accurately records the procurement history. When a procurement is completed the supervising manager is required to go through the procurement file, following the standardized table of contents, signing off on the table of contents as evidence that all the documentation is in the file.

Finding 3: Improvements Needed in Reporting Project Benefits/Outcomes

Recommendations:

- A. Review the project agreements and program guidelines to ensure a clear understanding of the reporting requirements and to ensure FDRs address all project benefits/outcome.
- B. Maintain documentation to support projected and actual benefits/outcomes included in the project agreements and reported on the FDRs.
- C. Submit a Supplemental FDR for the Transit Bus Acquisition project that addresses the emissions reduction benefit/outcome.

Metro's Response:

Project: Transit Bus Acquisition (0713000001)

Metro agrees with the finding and the recommendations. Metro submitted a revised FDR to include the missing information to Caltrans on December 12, 2019. Refer to

attached revised FDR. Moving forward, we are going to enhance our review process of the FDR by preparing a table that compares the benefit/outcome in the original Project Programming Request (PPR) against the benefit/outcome in the FDR to ensure that FDR information is complete and consistent with the PPR.

Regarding the study to determine if emission reductions occurred as result of the bus acquisitions, we did not conduct a study because the new buses procured by Metro are already certified as lower emission buses.

Project: I-405 Carpool Lane I-10 to US 101 Northbound (0700000107)

Metro agrees with the finding and will implement the recommendations. Although we were unable to substantiate that we achieved the Expected Daily Vehicle hours of delay saved and the Daily Peak person totals in a before and after study evaluating the project benefits/outcomes, we did find that the project created multiple benefits. The completion of this 10-mile HOV Lane segment allows HOV use for Commuters for AM and PM commuting. We prepared a benefits study using the Countywide Baseline Condition Analysis project traffic counts collected by manual data collection in February 2015. Using those data, we were able to prepare a profile of the project's multiple benefits. Our analysis found that the completion of this project created an increase of HOV Lane vehicle traffic which led to multiple benefits including:

- An increase in Freeway Capacity by 15% more vehicle capacity and 30% more per person capacity
- An increase in transit ridership on our Rapid Express route using the HOV lane.
- A Reduction in Freeway PM Peak Period by approximately 2 hours
- A reduction of downstream traffic bottlenecks
- A reduction of 25% decrease in Freeway Service Patrol service
- A decrease of over 20% in abutting arterial flow volumes.

Finding 4: Final Delivery Report Not Submitted Timely

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the reporting requirements.
- B. Submit FDRs for completed projects to Caltrans within the specified timeframes as required.

Metro's Response:

Project: Exposition Light Rail Transit Phase II (07000291)

Metro agrees with the finding that the FDR was not submitted within six months of the project becoming operable. To avoid missing critical deadlines and prevent recurrences, we have implemented a report due date calendar that will remind Grants Managers and their Supervisors of report due dates to ensure timely submittal.

EVALUATION OF RESPONSE

Metro's response to the draft report has been reviewed and incorporated into the final report. The attachments included in Metro's response were removed for brevity. We acknowledge Metro's willingness to implement our recommendations specific to Findings 3 and 4. In evaluating Metro's response to Findings 1 and 2, we provide the following comments:

Finding 1: Unallowable Final/Engineering Design Expenditures

Metro disagrees with the unallowable final/engineering design expenditures of \$5,435,964. Metro explained that allowable total reimbursement expenditures (i.e. 10 percent) should be calculated based on total project costs of \$72,454,000, which is the amount noted in the CTC Resolution ICR1B-A-1314-02 (CTC Resolution). However, the inclusion of the CTC Resolution in the project agreement is to support total estimated Proposition 1B funding allocated for the project, and does not establish total project costs. Our use of actual total project costs to calculate allowable total reimbursement expenditures is consistent with the project agreement, Article IV, section 3, which states the method of payment for the contract will be based on reimbursement for actual allowable project costs incurred and paid by Metro.

Metro did not provide additional documentation to support intended project deliverables were met or actual (i.e. incurred) expenditures were greater than the \$6,445,989 used to calculate the unallowable expenditures. As a result, the Finding and Recommendations will remain unchanged.

Finding 2: Project Management Controls Require Improvement

a) Contract award documents were not retained or consistently documented

Metro disagreed with three of the four subbullets within this Finding as follows:

- Metro disagrees documentation was not available to support verification of qualifications, prior experience, and licenses of the responding companies for projects 0012000130, 0012000136, and 0713000382, and summary evaluation score sheets were not consistent with individual evaluator score sheets for projects 0012000130 and 0012000136. Metro explained that reference checks were only completed for each company that was awarded the contract for projects 0012000130 and 0012000136. Although the reference checks verified prior experience, it was not sufficient for verification of qualifications and licenses, and reference checks were not completed for the other responding companies. Metro did not provide any new additional documentation; and as a result, the Finding and Recommendation will remain unchanged.

- Metro acknowledged that hard copies of the request for qualifications (RFQ) advertisement was not retained for project 0713000382. However, Metro provided additional new documentation in response to this portion of the finding. The attachments included in Metro's response consisted of the RFQ advertisement for project 0713000382 obtained from Metro's archive website. We acknowledge the documentation provided was sufficient. This resulted in revisions to Finding 2, in which "Evidence of RFQ advertisement was not retained for project 0713000382" was removed.

b) Inadequate documentation to support claimed construction expenditures for project 0700000107.

Metro agrees engineering logs, weight tickets, and subcontractor invoices were not provided. The contractor submitted monthly pay applications based on the contract's Schedule of Values, which were based on the Schedule of Quantities and Prices. As such, Metro disagrees that weight tickets were required since they were not applicable. Metro continued to state Caltrans was responsible for the preparation and retention of resident engineer reports and logs. According to Metro, the resident engineers were consulted on the work items that required their verification during monthly progress payments and resident engineer schedule markup samples were provided during the audit.

Within our Finding, weight tickets was listed as an example of a type of document to support construction expenditures; the list was not intended to be an inclusive listing of required documents. During the audit, we requested documents to support Metro's review and verification of the quantities and percentage completed noted on the monthly pay schedules and did not receive any corroborating documentation despite numerous requests and additional time provided to Metro to retrieve construction documents from its archive location. Ultimately, Metro is the implementing agency and should have all project documentation and backup records readily available for inspection. As a result, the Finding and Recommendation will remain unchanged.

c) Independent cost estimates (ICE) were not provided to support contract change orders (CCO) for project 0700000107.

Metro agrees two CCOs reviewed did not have an ICE. However, Metro disagrees that an ICE is required for CCOs related to provisional sums increase since they were general administrative budget additions for multiple scopes of work. Metro contended that its Acquisition Policies and Procedures, section 15.15 (C) provides for other techniques to perform a cost analysis and not just the use of an ICE. However, no support was included in the CCO packet to demonstrate the "other technique" used to perform a costs analysis to support the provisional sums budget increase. As a result, the Finding and Recommendation will remain unchanged.