


# Memorandum

*Making Conservation  
a California Way of Life.*

**To:** RAY ZHANG  
Division Chief  
Division of Local Assistance

**Date:** November 6, 2018

**File:** P2535-0118

**From:** ALICE M. LEE   
Chief  
External Audits – Contracts  
Independent Office of Audits and Investigations

**Subject:** FINAL AUDIT REPORT – CITY OF HIGHLAND PROPOSITION 1B PROJECT

Attached is the audit report pertaining to the audit performed on the following Proposition 1B project:

<u>Project Name</u>	<u>Project Number</u>	<u>P Number</u>	<u>Amount Audited</u>
Greenspot Road Bridge Improvements Project	0800000849	P2535-0118	\$947,738

The project's implementing agency is the City of Highland. The project was funded using Proposition 1B State-Local Partnership Program Funds.

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the Department of Finance on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed. The audit disclosed the following finding:

- The Final Delivery Report was not submitted timely to Caltrans.

Please provide the Independent Office of Audits and Investigations a corrective action plan on the audit finding within 60 days of this memorandum's date and reference the Project Number identified above. If you have any questions, please contact Elena Guerrero, Audit Manager, at (916) 323-7954.

RAY ZHANG  
November 6, 2018  
Page 2 of 2

Attachment:

cc: Stephen Maller, Deputy Director, California Transportation Commission  
Rick Guevel, Associate Deputy Director, California Transportation Commission  
Teri Anderson, Assistant Deputy Director, California Transportation Commission  
Coco Briseño, Deputy Director, Planning and Modal Programs  
Bruce De Terra, Division Chief, Transportation Programming  
Sharon Bertozzi, Sr. Transportation Engineer, Division of Local Assistance  
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming  
Daniel Burke, Audit Liaison, Division of Local Assistance  
Paula Joy Bersola, Audits Analyst, Division of Local Assistance  
Elena Guerrero, Audit Manager, Audits and Investigations



## City of Highland

Proposition 1B Bond Program  
Program Number 0800000849

### **Team Members**

Jennifer Whitaker, Chief  
Cheryl L. McCormick, CPA, Assistant Chief  
Rick Cervantes, CPA, Manager  
Angie Williams, Supervisor  
Lakeisha Gulley, MBA

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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Transmitted via e-mail

October 2, 2018

Ms. Alice M. Lee, Chief  
External Audits—Contracts, Audits and Investigations  
California Department of Transportation  
1304 O Street, Suite 200  
Sacramento, CA 95814

Dear Ms. Lee:

**Final Report—City of Highland, Proposition 1B Audit**

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0800000849	P2535-0118	Greenspot Road Bridge Improvements Project

The enclosed report is for your information and use. The City's response to the report finding is incorporated into this final report. The City agreed with our finding. We appreciate their assistance and cooperation during the engagement, and their 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 Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Jennifer Whitaker, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Elena Guerrero, Audit Manager, External Audits—Contracts, Audits and Investigations, California Department of Transportation  
Mr. Ernest Wong, Public Works Director/City Engineer, City of Highland  
Mr. Chuck Dantuono, Director of Administrative Services/City Treasurer, City of Highland  
Mr. Carlos Zamano, Assistant Public Works Director, City of Highland

# BACKGROUND, SCOPE AND METHODOLOGY

## BACKGROUND

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

CTC awarded \$1 million of Proposition 1B State-Local Partnership Program Account (SLPP) funds to the City of Highland (City) for the Greenspot Road Bridge Improvements Project (0800000849). The project includes construction of a new bridge across the Santa Ana River, realignment of Greenspot Road with bike lanes and turn lanes, and rehabilitation of the Greenspot historical bridge for trail use. Construction for this project is complete.

The City was required to provide a dollar-for-dollar match of local funds.

## 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 audit period for the project is identified in Appendix A.

The audit objectives were to determine whether:

- 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 were consistent with the project scope and schedule.
- Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

At the time of our site visit in July 2018, construction was complete for the project. However, the City had not yet submitted the Final Delivery Report. Accordingly, we did not evaluate whether project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

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

**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.

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

We did not assess the efficiency or effectiveness of program operations.

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 program.

## **METHODOLOGY**

To achieve the audit objectives, we performed the following procedures:

- Examined the project files, project agreements, program guidelines, and applicable policies and procedures to gain an understanding of the project and respective program.
- Reviewed procurement records to verify compliance with applicable local and state procurement requirements.
- Selected a risk-based sample of claimed expenditures and determined whether they were allowable, authorized, project-related, incurred within the allowed time frame, and supported by reviewing accounting reports, progress pay estimates, cancelled checks, and bid schedule. The sample was selected based on the quantitative significance of the claimed expenditures. The results from our sample cannot be projected to the entire population of claimed expenditures.
- Selected a risk-based sample of contract change orders and determined whether they were within the scope of the project, properly approved, and supported by reviewing progress pay estimates, contract change order memorandums, contract change order log, bid schedule, and bid cost analysis. The sample was selected based on quantitative significance of the claimed expenditures. The results from our sample cannot be projected to the entire population of claimed expenditures.
- Evaluated whether other revenue sources were used to reimburse expenditures already reimbursed with bond funds.
- Verified the match requirement was met by selecting a risk-based sample of claimed expenditures and determined whether they were allowable, authorized, project-related, incurred within the allowed time frame, and supported by accounting reports, progress pay estimates, cancelled checks, and bid schedule. The sample was selected based on the quantitative significance of the claimed expenditures. The results from our sample cannot be projected to the entire population of claimed expenditures.
- Evaluated whether project deliverables/outputs were met by reviewing supporting documentation and conducted a site visit to verify project existence.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements or approved amendments.
- Evaluated whether there is a system in place to report actual project benefits/outcomes by reviewing supporting documentation and interviews with the City.

In conducting our audit, we obtained an understanding of the City's internal control, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed, implemented, and operating effectively. 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.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Based on the procedures performed, 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, project deliverables/outputs were consistent with the project scope and schedule.

The City has a system in place to report actual project benefits/outcomes, although information is not reported timely as noted in Finding 1. The Summary of Projects Reviewed is presented in Appendix A.

### **Finding 1: Final Delivery Report Not Submitted Timely**

The Final Delivery Report for project 0800000849 was not submitted to Caltrans within six months of the project becoming operable. The Final Delivery Report for the project was due October 2016. However, the City has not submitted a Final Delivery Report to Caltrans as of July 2018. According to the City, the Final Delivery Report was delayed due to a pending claim. The City was unaware a Supplemental Final Delivery Report could be submitted to include revised expenditures, project deliverables, and actual project benefits/outcomes.

The SLPP Program Guidelines, section 14, require a Final Delivery Report within six months of the project becoming operable. The guidelines state a project becomes operable at the end of the construction phase when the construction contract is accepted. For this project, the construction contract was accepted in April 2016. The Proposition 1B Project Close-out Process Update 2016 further states final project expenditures should be reported in the Supplemental Final Delivery Report.

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. Read and review program guidelines to ensure a clear understanding of the requirements.
- B. Submit Final Delivery Reports for completed projects to Caltrans within the specified timeframes as required.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Highland: City
- 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
0800000849	\$947,738	C	Y	Y	N/A	N/A	A-1

**Legend**

C = Complete

Y = Yes

N/A = Not Applicable, Final Delivery Report had not been submitted.

**Project Number:** 0800000849

**Project Name:** Greenspot Road Bridge Improvements Project

**Program Name:** SLPP

**Project Description:** Construction of a new bridge across the Santa Ana River, realignment of Greenspot Road with bike lanes and turn lanes, and rehabilitation of the Greenspot historical bridge for trail use.

**Audit Period:** March 4, 2014 through May 31, 2015<sup>1</sup>

**Project Status:** Construction is complete.

#### **Schedule of Proposition 1B Expenditures**

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>
Construction	\$947,738
<b>Total Proposition 1B Expenditures</b>	<b>\$947,738</b>

#### **Audit 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 phase of the project was completed in April 2016. At the time of our site visit in July 2018, project deliverables/outputs were consistent with the project scope and schedule. However, the Final Delivery Report was due in October 2016, and has not been submitted to Caltrans as of July 2018.

##### Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the Final Delivery Report has not been submitted to Caltrans. Although there is a system in place to report actual project benefits/outcomes, the City does not report information timely as noted in Finding 1.

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<sup>1</sup> The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.





Transmitted via e-mail

September 24, 2018

Ms. Jennifer Whitaker, Office of State Audits and Evaluations Chief  
Department of Finance  
915 L Street  
Sacramento, CA 95814-3706

Subject: Proposition 1B Audit – City Response  
Project No. 0800000849  
Greenspot Road Bridge Improvements Project

Dear Ms. Whitaker:

Following is the City's response in regards to the late submission of the Final Delivery Report for the subject project:

1. We have read and reviewed the program guidelines to ensure a clear understanding of the requirement, and
2. We will make sure that future Final Delivery Reports are submitted in a timely fashion.

If you have any questions, please feel free to call me at (909) 864-8732, ext. 254.

Sincerely,

Carlos Zamano  
Assistant Public Works Director

c: Project File

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