

Memorandum

To:
RACHEL FALSETTI
Chief
Division of Construction

AMARJEET BENIPAL
District Director
District 3

CARRIE BOWEN
District Director
District 7

Date: July 11, 2018

File: P3010-0640

From:
WILLIAM E. LEWIS
Assistant Director
Independent Office of Audits and Investigations

Subject: FINAL AUDIT REPORT ON CONSTRUCTION CONTRACT MANAGEMENT

Attached is the Independent Office of Audits and Investigations' final audit report on Construction Contract Management. Your response has been included as part of our final report. This report is intended for your information and for Department Management.

Please provide our office with status reports on the implementation of your audit finding dispositions 60-, 180-, and 360-days subsequent to the transmittal date of this memorandum. If all findings have not been corrected within 360-days, please continue to provide status reports every 180-days until the audit findings are fully resolved. Senate Bill 1 requires the Inspector General to report at least annually, or upon request, to the Governor, the Legislature, and the California Transportation Commission with a summary of audit findings and recommendations. The summary along with this report and the status reports will be posted on the Independent Office of Audits and Investigations' Internet Web site.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please contact Kevin Yee, Acting Chief, Internal Audits, at (916) 323-7929, or me at (916) 323-7122.

Attachment

c: Susan Bransen, Executive Director, California Transportation Commission
Rodney Whitfield, Director of Financial Services, Federal Highway Administration
Michael R. Tritz, Deputy Secretary, California State Transportation Agency
Laurie Berman, Director, Caltrans
Ryan Chamberlain, Chief Deputy Director, Caltrans

RACHEL FALSETTI, et al.

July 11, 2018

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Attachment

Karla Sutliff, Deputy Director, Project Delivery

Susan Elkins, Deputy District Director, Administration, District 3

Duncan McIntosh, Deputy District Director, Administration, District 7

Andrew Alvarado, Chief, North Region Division of Construction, District 3

Mark A. Archuleta, Deputy District Director, Division of Construction, District 7 Kevin

Yee, Acting Chief, Internal Audits, Independent Office of Audits and Investigations

LAURIE BERMAN, Director

William E. Lewis, Assistant Director

CONSTRUCTION CONTRACT MANAGEMENT AUDIT

BACKGROUND

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations completed a Construction Contract Management Audit. The purpose of the audit was to evaluate the adequacy of internal controls over contract management for construction projects and to determine whether Caltrans is in compliance with the established construction policies, procedures, and guidelines.

KEY FINDINGS

Our audit disclosed that policies and internal control procedures related to construction contract management are generally adequate. However, we identified areas where Division of Construction and districts can improve. Specifically, we found:

- Safety policies and procedures were not consistently followed.
- Contract management procedures were not performed.
- Overpayments to contractors.
- Inadequate oversight over a construction project.

KEY RECOMMENDATIONS

We recommended:

- Division of Construction work with the districts to clarify safety requirements for emergency contracts.
- North Region Construction Management and District 7 Division of Construction Management:
 - Monitor construction personnel to ensure that construction safety and contract management procedures are performed and documented.
 - Ensure Resident Engineers (RE) are reviewing Extra Work Bills to confirm that they are supported and properly calculated to avoid overpayments.
 - Take necessary steps to recover the overpayments from the contractors.
 - Ensure that field office engineers organize project files in accordance with filing requirements of section 5-102(A) of the Manual.
- District 7 Division of Construction ensure construction contracts are properly managed by trained and experienced REs, and payments are only made in accordance with contract terms.

California Department of Transportation Construction Contract Management Audit Division of Construction



AUDIT REPORT

JULY 2018

PREPARED BY:

Independent Office of Audits and Investigations – MS 2

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AUDIT TEAM:

Kevin Yee, Acting Chief, Internal Audits

David Wong, Audit Manager

Randy Braun, Auditor-in-Charge

Eugene Ezimora, Auditor

P3010-0640

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List and Definition of 19 Categories of Uniform Filing System

Audit Response from Division of Construction

Audit Response From North Region Construction Management

Audit Response from District 7 Division of Construction Management

SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations completed a Construction Contract Management Audit. The purpose of the audit was to evaluate the adequacy of internal controls over contract management for construction projects and to determine whether Caltrans is in compliance with the established construction policies, procedures, and guidelines.

Our audit disclosed that policies and internal control procedures established in the construction contract management are generally adequate. Specifically, we noted that:

- Caltrans has established a clear reporting structure, appropriate authorities, and responsibilities for the Construction Program.
- Division of Construction has developed policies and procedures, including the Construction Manual and the Uniform Filing System, for the Construction Program.
- Caltrans has instituted qualification standards for Resident Engineers (RE) who perform construction contract management of projects.

Our audit also identified areas of improvement that can be made to ensure effective operation in managing and documenting construction contract work as follows:

- Safety policies and procedures were not consistently followed.
- Contract management procedures were not performed.
- Overpayments to contractors.
- Inadequate oversight over a construction project.

OBJECTIVES

The objectives of the audit were to determine whether:

- Policies, procedures, and processes are in place for the RE to manage construction projects.
- Districts' internal controls over construction projects are present to ensure Department's assets are safeguarded; projects' data is retained, accurate, and reliable; operational efficiency is promoted; and prescribed managerial policies are being followed.
- REs are properly trained to manage their construction projects according to the current Caltrans construction policies and procedures and any new requirements related to Senate Bill 1, such as:
 - Completed contracted item quantities are paid in accordance with contract provisions and specifications.
 - Contract Change Orders (CCOs) are justified and paid in compliance with contract provisions and specifications.
 - Contract materials were evaluated, measured, and tested.
- Road related improvement projects managed by non-REs received proper construction oversight.

SCOPE

The audit covered the period of January 1, 2015, through June 30, 2017. We conducted our audit from August 21, 2017, through February 21, 2018. Changes after these dates were not tested, and accordingly, our conclusions do not pertain to changes arising after February 21, 2018.

The scope of the audit included construction records from Resident Engineers and procedures based on the Caltrans Construction Manual (Manual) and State Administrative Manual and Departmental policies and procedures. Specifically, the testing included contract payment records, CCOs, and other pertinent records and audit test procedures as deemed necessary to achieve our objectives.

The audit focused on internal controls and procedural compliance as they relate to the construction contract management functions. The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing.

METHODOLOGY

We selected a sample of various types of contracts from districts 1, 3, and 7 that were awarded between January 1, 2015 and June 30, 2017. Our initial sample consisted of 21 project files; however, one emergency project file could not be located. Therefore, we performed tests of 20 project files (seven active and 13 archived) to achieve the audit objectives.

The audit methodology and procedures included:

- Reviewing existing policies, procedures, and processes to determine if they are adequate for the REs to manage construction projects.
- Interviewing personnel in the Division of Construction and in district construction field offices to gain understanding of the construction contract management functions.
- Assessing the reliability of data and sample selection of construction contracts for testing.
- Testing of project files in construction field offices in districts 1, 3, and 7 to determine their compliance with established rules and regulations.
- Reviewing the REs' training histories to determine whether they are properly trained to manage construction projects.
- Ensuring that all construction contracts received oversight by properly trained staff.

BACKGROUND

The Streets and Highways Code directs Caltrans to construct all state highways. The Caltrans Director has delegated to the Deputy Director of Project Delivery various responsibilities for administering construction contracts. The Deputy Director of Project Delivery has delegated the administering of construction contracts responsibilities to the Division of Construction which develops policies and procedures for the Construction Program. These policies and procedures are documented in the Manual. In addition, the Division of Construction acts as a consultant to the districts and helps facilitate the delivery of the Department's capital projects by providing training and ensuring the Manual is updated. Actual construction contract management is performed at the district level where contract management is delegated to the REs.

In addition to the Headquarters Division of Construction, there is regional or district oversight of construction projects. North Region Construction manages districts 1, 2, and 3, and Central Region Construction manages districts 5, 6, and 10. Districts 4, 7, 8, 9, 11, and 12 manage their own construction contracts.

Resident Engineer's Responsibility

The Resident Engineer is a licensed professional engineer assigned to manage construction projects. They are responsible to maintain complete, accurate, and concise records of work performed and to ensure that the contractor complies with all contract requirements. In addition, REs are required to organize the project records and reports in accordance with the Uniform Filing System of Section 5-102A of the Manual.

The Division of Construction developed a list of forms to be used in administering a construction project and monitoring records. The REs are required to use these forms to document required procedures performed and organize them in accordance with the established uniform filing system consisting of 63 Categories. Based on our prior audit experience, we selected 19 categories to perform the compliance testing of the project file. See Attachment 1 for the list and definition of the categories.

Types of Construction Contracts

Our audit focused on construction contracts for road construction, alteration, repair, and improvement. Caltrans uses five types of construction contracts which could be for emergency or non-emergency purposes.

Emergency construction contracts are:

- Emergency Force Account contract, which is for emergencies requiring immediate action because of road closure or danger to public safety. Bids are not required and work starts after the Confirmation of Verbal Agreement is executed while the actual contract is still being finalized.
- Emergency Limited Bid contract is generally used for urgent work that require immediate action such as for permanent restoration emergency work and occasionally for emergency opening work. Emergency Limited Bids include a competitive bidding element related to how much of a markup the contractor wants to add to their bills.

Non-emergency construction contracts require competitive bidding and are categorized by dollar amount into the following three types:

- Minor B contract: Project with the construction capital cost under \$291,000.
- Minor A contract: Project with construction capital cost between \$291,001 and \$1,250,000.
- Major contract: Project with construction capital cost over \$1,250,000.

CONCLUSION

Our audit disclosed that policies and internal control procedures related to construction contract management are generally adequate. However, we identified areas where the Division of Construction and districts can improve to ensure that policies and procedures are consistently applied. Specifically, we found:

- Safety policies and procedures were not consistently followed.
- Contract management procedures were not performed.
- Overpayments to contractors.
- Inadequate oversight over a construction project.

The report is a matter for public record and will be placed on Caltrans' website, which can be viewed at <wwwv.dot.ca.gov/hq/audits/reports_jssued.html>.

VIEWS OF RESPONSIBLE OFFICIALS

We requested and received written responses for our findings from Chief, Division of Construction, District Director, District 3, and Deputy District Director, Division of Construction, District 7.

WILLIAM E. LEWIS, CPA

Assistant Director

Independent Office of Audits and Investigations

June 6, 2018

Findings and Recommendations

FINDING 1 — Inefficient Practice by a District in Tracking Estimated Project Costs

Our testing of 20 construction contracts revealed that some Resident Engineers (REs) did not follow the safety policies and procedures in managing and documenting construction contracts. The REs did not prepare, obtain, and include safety reports, preconstruction safety meetings, contractors' safety meetings, and safety manuals in the project files. Table 1 below identifies safety procedures not performed by the REs:

Table 1
Number of Contracts Safety Procedures Not Performed

Required Safety Procedure	Number of 11 Emergency Contracts with No Document	Number of 9 Other Contract Types with No Document
Discuss safety requirements at reconstruction safety meeting (Section 5-506)	7	0
Prepare and sign Caltrans' Code of Safe Practices (Section 2-105A)	3	3
Obtain Contractor's Injury and Illness Prevention Program (Section 2-102D)	3	2
Document Contractors Safety Meetings (Section 2-102D)	10	5
Complete Project Safety Report/Checklist (Section 2-102D)	9	4

Note: Other contract types include Major, Minor A, and Minor B.

Caltrans Construction Manual (Manual) requires REs to:

- Discuss safety requirements during the initial meeting with the contractor (Section 5-506).
- Ensure that Caltrans and contractors are in compliance with the California Division of Occupational Safety and Health (Cal/OSHA) safety orders that require every employer adopt a written Code of Safe Practices (COSP) and that one is prepared and signed for every project (Section 2-105A).
- Ensure that the contractor complies with all aspects of the contract and applicable safety orders found in the California Code of Regulations, Title 8. This includes:

- Obtaining the Contractor's Injury and Illness Prevention Program and COSP submittals (Section 2-102D).
- Documenting the construction safety activities of both the contractor and Caltrans project personnel (Section 2-102D).
- Completing a project safety report at least weekly (Section 2-102D).

Based on observations and testing, district staff are not reviewing project files to ensure required safety procedures are performed and properly documented. According to some REs, project records and reports were either retained in an electronic format or missing from the project files. Others stated that the safety procedures are not required. Although the procedures are in the Manual, Division of Construction staff and some REs have different interpretations of the requirements. In addition, Division of Construction staff and some REs are not aware that a safety requirements discussion is required for emergency contract.

When District Construction personnel do not perform their duties or document the safety procedures, it may increase safety risk to Caltrans employees, contractors, and the public.

RECOMMENDATION

Efficiency Calculation Methodology

We recommend Division of Construction work with the districts to clarify safety requirements for emergency contracts.

We recommend North Region Construction Management and District 7 Division of Construction Management:

- Monitor construction personnel to ensure that construction safety procedures are performed and documented.
- Ensure that field office engineers organize project files in accordance with filing requirements of section 5-102(A) of the Manual.

DIVISION OF CONSTRUCTION RESPONSE

Division of Construction concurred with the audit finding and recommendation. Please see Attachment 2 for detail of their response and action plan.

NORTH REGION CONSTRUCTION RESPONSE

North Region Construction Management concurred with the audit finding and recommendations. Please see Attachment 3 for detail of their response and action plan.

DISTRICT 7 DIVISION OF CONSTRUCTION RESPONSE

District 7 Division of Construction Management concurred with the audit finding and recommendations. Please see Attachment 4 for detail of their response and action plan.

FINDING 2 — Contract Management Procedures Were Not Performed

Our audit found that the REs did not always follow established policies and procedures in managing and documenting construction project activities. On some projects, REs did not perform required procedures to ensure that materials used on the jobs comply with the requirements of the contract specifications. Further, there was no evidence to indicate that all the contract management procedures were performed and documented in the project files. Table 2 below identifies the procedures not performed by the REs:

Table 2
Number of Contracts Construction Procedures Not Performed

Required Construction Procedure	Number of 11 Emergency Contracts with No Document	Number of 9 Other Contract Types with No Document
Prepare RE Daily or Weekly Reports (CEM-4501), (Section 5-004)	3	5
Obtain and document Notice of Materials to be Used (CEM-3101). (Section 3-601 and 6-202B(1))	2	1
Obtain and document Notice of Materials to be Inspected (TL-0608) or Materials to be Furnished (TL-0608), (Section 6-302 and 6-202C(3))	3	6
Maintain Materials Test Result Summaries (CEM-3701) or Materials Inspected and Released on the Job (CEM-4102), (Section 6-105 and 6-203D)	1	2

The Manual requires REs to:

- Prepare the daily report using CEM-4501 “RE’s Daily Report” for each contract day during the project’s life and retain the original copy with project records (Section 5-004).
- Ensure that the contractor submits form CEM-3101 “Materials to Be Used” for all materials. The contractor uses this form to list sources of materials and the location at which those materials can be inspected. In addition, REs are required to obtain and forward this form to Caltrans’ Office of Materials Engineering and Testing Services (METS) and retain a copy in the project file (Section 3-601 and Section 6-202B (1)).
- Ensure that METS has sent form TL-0028 “Notice of Materials to Be Inspected at Job Site”. METS uses this form to assign inspection of the materials back to the RE. The materials on this form may be accepted based a certificate of compliance, or sampling, testing, and visual inspection (Section 6-302).
- Ensure that METS has sent form TL-0608 “Notice of Materials to be Furnished” for source inspection. METS uses this form to inform all parties, including the RE, that METS will inspect and release the material before it is sent to the job site, (Section 6-202C (3)).

- Maintain record of all samples and tests of materials and monitor acceptance testing using CEM-3701 "Test Result Summary" (Section 6-105).
- Field test and release materials assigned by METS at the job site using CEM-4101 (Section 6-203D).

RECOMMENDATION

We recommend North Region Construction Management and District 7 Division of Construction Management:

- Monitor construction personnel to ensure that contract management procedures are performed and documented.
- Ensure that field office engineers organize project files in accordance with filing requirements of section 5-102(A) of the Manual.

NORTH REGION CONSTRUCTION RESPONSE

North Region Construction Management concurred with the audit finding and recommendations. Please see Attachment 3 for detail of their response and action plan.

DISTRICT 7 DIVISION OF CONSTRUCTION RESPONSE

District 7 Division of Construction Management concurred with the audit finding and recommendations. Please see Attachment 4 for detail of their response and action plan.

FINDING 3 — Overpayments to Contractors

We reviewed 148 Extra Work Bills (EWB) totaling \$3,465,407 for contractors' payments and assessed compliance with contract terms, policies, procedures, rules and regulations. Based on our review, we noted \$59,426 was overpaid to contractors due to unsupported costs. An EWB is used to bill for extra work performed under an emergency force account contract. This extra work may consist of adding specified markups to the actual cost of labor, equipment, and material. Table 3 below details contractors' overpayments:

Table 3
Amounts and Reasons for Overpayments

Contractor	Amount Overpaid	Reason for Overpayment
A	\$21,450	Caltrans paid \$14,549 in unallowable markup of 21 percent, instead of the applicable ten percent for subcontractor costs. In addition, \$6,901 in duplicate payments were identified in the contractor's bill.
B	\$35,700	Overpayment for unallowable markup of 21 percent to the contractor for specialist cost when the contract did not allow markup.
C	\$1,227	Caltrans paid for unallowable markup of 21 percent for subcontracted costs instead of the applicable ten percent markup.
13	\$1,049	Contractor charged Caltrans for the use of chainsaws for paid by Caltrans.
Total	\$59,426	-

According to the Manual, REs are required to review extra work billing and approve payment in accordance to the contract terms. Construction Procedure Directive 16-3 reminds Construction personnel of this requirements.

The REs did not properly review EWBs prior to approving payment; consequently, the contractors were overpaid. Overpaying contractors may result in contract overruns and does not safeguard the use of State resources.

RECOMMENDATION

We recommend North Region Construction Management and District 7 Division of Construction Management:

- Ensure REs are reviewing EWBs to confirm that they are supported and properly calculated to avoid overpayments.
- Take necessary steps to recover the overpayments from the contractors.

NORTH REGION CONSTRUCTION RESPONSE

North Region Construction Management concurred with the audit finding and recommendations. Please see Attachment 3 for detail of their response and action plan.

DISTRICT 7 DIVISION OF CONSTRUCTION RESPONSE

District 7 Division of Construction Management concurred with the audit finding and recommendations. Please see Attachment 4 for detail of their response and action plan.

FINDING 4 — Inadequate Oversight Over a Construction Project

During the audit, we found that one of the projects did not have supporting documentation for the work performed. Further, the contractor was paid a lump sum of \$250,000 for a contract based on time and material work but the invoice did not provide the time and material used. This was an emergency construction contract to replace concrete slabs on the highway in District 7. The project was managed by Maintenance Engineer, and the RE did not provide oversight to ensure compliance with contract requirements.

The Manual requires REs to administer, and maintain accurate and complete records of all construction projects. In addition, construction personnel are required to use the uniform filing system for organizing project records and reports.

Since the contract was managed by the Maintenance Engineer who had no experience and training, contract management procedures were not appropriately performed and documented in accordance with contract terms. In addition, the project file was not maintained.

When District Construction personnel do not properly perform their duties and responsibilities, it increases the risk of overpayment and public safety due to the project not meeting standards and specifications.

RECOMMENDATION

We recommend District 7 Division of Construction Management ensure construction contracts are properly managed by trained and experienced REs, and payments are only made in accordance with contract terms.

DISTRICT 7 DIVISION OF CONSTRUCTION RESPONSE

District 7 Division of Construction Management concurred with the audit finding and recommendation. Please see Attachment 4 for detail of their response and action plan.

ATTACHMENT 1

**19 CATEGORIES OF UNIFORM FILING SYSTEM FOR ORGANIZING PROJECT RECORDS AND REPORTS
FROM CALTRANS CONSTRUCTION MANUAL WERE SELECTED FOR COMPLIANCE TESTING**

Attachment 1

List and Definition of 19 Categories of Uniform Filing System

19 CATEGORIES OF UNIFORM FILING SYSTEM FOR ORGANIZING PROJECT RECORDS AND REPORTS FROM CALTRANS CONSTRUCTION MANUAL WERE SELECTED FOR COMPLIANCE TESTING

- Category 5 — General Correspondence (letters to and from contractor).
- Category 6 — Safety (e.g., employee safety, Cal/OSHA document, contractor's code of safe practices, etc.).
- Category 11 — Information Furnished at Start of Project (copy of the bid items, RE's pending file, Environmental Certification, etc.).
- Category 12 — Contractor (Equipment List, Subcontractors List, Insurance, etc.).
- Category 26 — Progress Schedule (critical path method submittal, etc.).
- Category 27 — Weekly Statement of Working Days, Form CEM-2701.
- Category 31 — Notice of Materials to Be Used Form, CEM-3101.
- Category 32 — Notice of Materials to Be Inspected Form, TL-0028.
- Category 33 — Notice of Materials to Be Furnished Form, TL-0608.
- Category 37 — Initial Tests and Acceptance Tests, Form CEM 3701, 3702, and 3703.
- Category 41 — Report of Inspection of Material, Form CEM-4101, and 4102.
- Category 45 — Resident Engineer (RE) Daily Reports, Form 4501.
- Category 46 — Assistant RE/Inspector Daily Reports, CEM-4601.
- Category 48 — Bid Item Quantity Documents (Bid Item Quantity Documents).
- Category 49 — Contract Change Order and Supporting Documents, Form-4900, 4901, and 4903.
- Category 51 — Materials on Hand, Form CEM-5101.
- Category 60 — Contract Administration System Inputs and Reports, Form CEM-6002, CEM-6003, and CEM-6004.
- Category 61 — Estimate and Project Status (Project Record-Estimate Request Documents, Estimate Verification Form, Progress Payment Voucher, Estimate Processing Results, and Progress Record—Estimate and Project Status), Form CEM-6101.
- Category 62 — Disputes (Notices of Potential Claims, Photographs, etc.), Form CEM6201.

ATTACHMENT 2
AUDIT RESPONSE FROM DIVISION OF CONSTRUCTION

Memorandum

To:
WILLIAM E. LEWIS
Assistant Director
Independent Office of Audits and Investigations

Date: July 19, 2018

From:
RACHEL FALSETTI
Chief
Division of Construction

Subject: RESPONSE TO DRAFT AUDIT - CONSTRUCTION CONTRACT MANAGEMENT

The Division of Construction has reviewed the draft report for the Construction Contract Management Audit and concurs with the recommendation identified for finding #1 relative to the division. A detailed response to the finding is attached.

Attachment
Response to Draft Report

c: Ramon Hopkins, Deputy Division Chief, Division of Construction
Chuck Suszko, Office of Contract Administration

Independent Office of Audits and Investigations - Response to Draft Report

Audit Response from Division of Construction

**Audit Name: Construction Contract Management Audit
Division of Construction**

Auditee: Division of Construction

Audit Number: P3010-0640

Audit Report Finding #1

Safety Policies and Procedures were not Consistently Followed

IOAI Audit Recommendation

We recommend Division of Construction work with the districts to clarify safety requirements for emergency contracts

Auditee Response to Draft Report

Division of Construction will develop specific guidance for safety requirements on emergency contracts as part of a separate but related effort to revise both emergency force account and emergency limited bid agreement language. The agreement language revisions will remove confusing or unnecessary requirements that may hinder response to the emergency, but apply necessary language to assure that the work is done in a safe manner while satisfying, technical, legal and administrative requirements. Due to the very nature of an emergency contract, certain standard safety guidance within the Construction Manual may or may not be suitable in its current form for these types of contracts. Separate contract administration guidance for emergency contracts, including safety related guidance, will be developed and implemented.

Estimated Completion Date

1/19

Staff Responsible

Division of Construction - Office of Contract Administration, Chief

ATTACHMENT 3

AUDIT RESPONSE FROM NORTH REGION CONSTRUCTION MANAGEMENT

Memorandum

To:
WILLIAM E. LEWIS
Assistant Director
Independent Office of Audits and Investigations

Date: June 20, 2018

From:
AMARJEET BENIPAL
District Director
District 3

Subject: RESPONSE TO DRAFT AUDIT REPORT ON CONSTRUCTION CONTRACT MANAGEMENT

North Region Construction has reviewed the most recent draft report on Construction Contract Management and will be taking the actions noted in Attachment I to address the findings of the audit.

If you have any questions regarding implementation, please contact Andy Alvarado at 530-741 5590.

Attachment

Response to Draft Report

c: Official Personnel File

Independent Office of Audits and Investigations - Response to Draft Report

Audit Response From North Region Construction Management

Audit Name: Construction Contract Management Audit Division of Construction

Auditee: North Region Construction Management

Audit Number: P3010-0640

Audit Report Finding #1

Safety Policies and Procedures were not Consistently Followed

IOAI Audit Recommendation

North Region Construction Management monitor construction personnel to ensure that construction safety procedures are performed and documented.

Auditee Response to Draft Report

North Region Construction Management will issue a North Region Construction Procedure Bulletin (NRCPB) on process to perform document safety procedures in accordance with the Caltrans Policies and Procedures.

Estimated Completion Date

NRCPB issued in August, 2018; Monitor: ongoing

Staff Responsible

NRCPB Issuance: Andrew Alvarado, Chief, North Region Division of Construction. Monitor: Region's Area Construction Managers

IOAI Audit Recommendation

North Region Construction Management ensure that field office engineers organize project files in accordance with filing requirements of section 5-102(A) of the Manual.

Auditee Response to Draft Report

North Region Construction Management will issue a North Region Construction Procedure Bulletin (NRCPB) on organization of project files in accordance with filing requirements of section 5-102(a) of the Construction Manual. Construction Engineers will be tasked to monitor project files for compliance.

Estimated Completion Date

NRCPB issued in August, 2018; Monitor: ongoing

Staff Responsible

NRCPB Issuance: Andrew Alvarado, Chief, North Region Division of Construction. Monitor: Region's Area Construction Engineers

**Audit Report Finding #2
Contract Management Procedures were not Performed****IOAI Audit Recommendation**

North Region Construction Management monitor for construction personnel to ensure that contract management procedures are performed and documented.

Auditee Response to Draft Report

North Region Construction Management will issue a North Region Construction Procedure Bulletin (NRCPB) on performing and documenting contract management procedures.

Estimated Completion Date

NRCPB issued in August, 2018; Monitor: ongoing

Staff Responsible

NRCPB Issuance: Andrew Alvarado, Chief, North Region Division of Construction. Monitor: Region's Area Construction Managers

IOAI Audit Recommendation

North Region Construction Management ensure that field office engineers organize project files in accordance with filing requirement of section 5-102(A) of the Manual.

Auditee Response to Draft Report

North Region Construction Management will issue a North Region Construction Procedure Bulletin (NRCPB) on organization of project files in accordance with filing requirements of section 5-102(A) of the Construction Manual. Construction Engineers will be tasked to monitor project files for compliance.

Estimated Completion Date

NRCPB issued in August, 2018; Monitor: ongoing

Staff Responsible

NRCPB Issuance: Andrew Alvarado, Chief, North Region Division of Construction. Monitor: Region's Area Construction Engineers

**Audit Report Finding #3
Overpayments to Contractors**

North Region Construction Management ensure REs are reviewing EWBs to confirm that they are supported and properly calculated to avoid overpayments.

Auditee Response to Draft Report

North Region Construction Management will issue a North Region Construction Procedure Bulletin (NRCPB) on how to review and calculate Extra Work Bills for payment.

Estimated Completion Date

NRCPB issued in August, 2018; Monitor: ongoing

Staff Responsible

NRCPB Issuance: Andrew Alvarado, Chief, North Region Division of Construction. Monitor: Region's Area Construction Managers

IOAI Audit Recommendation

North Region Construction Management take necessary steps to recover the overpayments from the contractors.

Auditee Response to Draft Report

North Region Construction Management will take necessary action to recover overpayments.

Estimated Completion Date

December, 2018: ongoing

Staff Responsible

Andrew Alvarado, Chief, North Region Division of Construction. Monitor: Region's Area Construction Managers

ATTACHMENT 4

AUDIT RESPONSE FROM DISTRICT 7 DIVISION OF CONSTRUCTION MANAGEMENT

Memorandum

To:
WILLIAM E. LEWIS
Assistant Director
Independent Office of Audits and Investigations

Date: June 20, 2018

From:
MARK ARCHULETA, P.
Deputy District Director
District 7 - Division of Construction

Subject: RESPONSE TO DRAFT AUDIT REPORT - CONSTRUCTION CONTRACT MANAGEMENT

District 7 Construction has reviewed the most recent draft of the Ca/trans -Construction Contract Management Audit, dated May 2018, and will be taking the actions noted in Attachment 1 to address the findings of the audit.

Progress Reports on the status of work plan items will be provided at the 60-day, 180-day and 360-day milestones.

If you have any questions or need additional information, please contact me at (213) 897-0362.

Attachment

(1) Response to Draft Report - Construction Contract Management

c: Carrie Bowen, District Director, District 7
Shirley Choate, Chief Deputy District Director, District 7
Duncan McIntosh, Deputy District Director, Administration
All Construction Office Chiefs

Independent Office of Audits and Investigations - Response to Draft Report

Audit Response from District 7 Division of Construction Management

**Audit Name: Construction Contract Management Audit
Division of Construction**

Auditee: District 7 Division of Construction Management

Audit Number: P3010-0640

Audit Report Finding #1

Safety Policies and Procedures were not Consistently Followed

IOAI Audit Recommendation

District 7 Division of Construction Management to monitor construction personnel to ensure that construction safety procedures are performed and documented.

Auditee Response to Draft Report

District 7 Construction Management will issue a memorandum to all Construction Engineers to outline a process to ensure that the construction safety procedures are performed and documented.

Estimated Completion Date

Memorandum to be issued by September 2018; Monitor=Ongoing

Staff Responsible

Memo issuance: Tiffany Hong, Office of Contract Administration; Monitor: All Field Office Chiefs

IOAI Audit Recommendation

District 7 Division of Construction Management to ensure that field office engineers organize project files in accordance with filing requirements of Section 5-102(A) of the Construction Manual.

Auditee Response to Draft Report

District 7 Construction Management will issue a memorandum to all Construction Engineers to outline a process to ensure that the construction safety procedures are performed and documented.

Estimated Completion Date

Memorandum to be issued by September 2018; Monitor=Ongoing

Staff Responsible

Memo issuance: Tiffany Hong, Office of Contract Administration; Monitor: All Field Office Chiefs

**Audit Report Finding #2
Contract Management Procedures were not Performed****IOAI Audit Recommendation**

District 7 Division of Construction Management to monitor construction personnel to ensure that contract management procedures are performed and documented.

Auditee Response to Draft Report

District 7 Construction Management will issue a memorandum to all Construction Engineers to outline a process to monitor construction personnel to ensure that the contract management procedures are performed and documented.

Estimated Completion Date

Memorandum to be issued by September 2018; Monitor=Ongoing

Staff Responsible

Memo issuance: Tiffany Hong, Office of Contract Administration; Monitor: All Field Office Chiefs

IOAI Audit Recommendation

District 7 Division of Construction Management to ensure that field office engineers organize project files in accordance with filing requirements of Section 5-102(A) of the Construction Manual.

Auditee Response to Draft Report

District 7 Construction Management will issue a memorandum to all Construction Engineers to outline a process to ensure that the field office engineers organize project files in accordance with filing requirements of Section 5-102(A) of the Construction Manual.

Estimated Completion Date

Memorandum to be issued by September 2018; Monitor=Ongoing

Staff Responsible

Memo issuance: Tiffany Hong, Office of Contract Administration; Monitor: All Field Office Chiefs

**Audit Report Finding #3
Overpayments to Contractors****IOAI Audit Recommendation**

District 7 Division of Construction Management to ensure that REs are reviewing EWES to confirm that they are supported and properly calculated to avoid overpayments.

Auditee Response to Draft Report

District 7 Construction Management will issue a memorandum to all Construction Engineers to outline a process to ensure that RE's are reviewing EWBs to confirm that they are supported and properly calculated to avoid overpayments.

Estimated Completion Date

Memorandum to be issued by September 2018; Monitor=Ongoing

Staff Responsible

Memo issuance: Tiffany Hong, Office of Contract Administration; Monitor: All Field Office Chiefs

IOAI Audit Recommendation

District 7 Division of Construction Management to take necessary steps to recover the overpayments from the contractors.

Auditee Response to Draft Report

District 7 Construction Management will work with HQ Construction to take the necessary steps to recover the overpayments from the contractors.

Estimated Completion Date

Memorandum to be issued by July 31, 2018

Staff Responsible

Ted Han, Chief, Office of 1-5 North Construction

**Audit Report Finding #4
Inadequate Oversight over a Construction Project**

IOAI Audit Recommendation

District 7 Division of Construction Management to ensure that construction contracts are properly managed by trained and experienced REs, and that payments are only made in accordance with contract terms.

Auditee Response to Draft Report

District 7 Construction Management will issue a memorandum to all Construction Engineers to outline a process to ensure that construction contracts are properly managed by trained and experienced RE's and that payments are only made in accordance with contract terms.

Estimated Completion Date

Memorandum to be issued by September 2018; Monitor=Ongoing

Staff Responsible

Memo issuance: Tiffany Hong, Office of Contract Administration; Monitor: All