

## Memorandum


*Making Conservation a  
California way of life*

**To:** BRUCE DE TERRA  
Division Chief  
Division of Transportation Programming  
  
KYLE GRADINGER  
Acting Division Chief  
Division of Rail and Mass Transportation

**Date:** November 16, 2017

**File:** P2545-0016  
P2545-0017  
P2545-0018  
P2525-0020  
P2535-0061

RAY ZHANG  
Division Chief  
Division of Local Assistance

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

**Subject: AUDIT OF CITY OF STOCKTON PROPOSITION 1B PROJECTS**

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

<u>Project Name</u>	<u>Project number</u>	<u>P Number</u>	<u>Amount Audited</u>
Eight Project Mile Name Road/UPRR East Grade Separation	HRCSA 5008-001	P2545-0016	\$5,280,446.00
Eight Project Mile Name Road/UPRR West Grade Separation	HRCSA 5008-002	P2545-0017	\$7,423,785.00
Lower Sacramento Road/ UPRR Grade Separation	HRCSA 5008-003/ SLPPFL 10-5008(095)	P2545-0018	\$11,583,506.00
Sperry Road Extension	TCIFL 5008-105	P2525-0020	\$22,160,052.00
French Camp Road/1-5 Interchange	STPIMDL 5008-116	P2535-0061	\$3,800,000.00

The projects' implementing agency is the City of Stockton. The projects were funded using Proposition 1 B Highway -Railroad Crossing Safety Account funds, Trade Corridors Improvement funds, and State-Local Partnership Program Account 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:

- Inadequate Fiscal Controls and Questioned Expenditures -The City claimed ineligible construction and construction engineering expenditures totaling \$23,086,071.

Please provide Audits and Investigations a Corrective Action Resolution (CAR) on the audit finding within 90 days of this memorandum's date and reference the project numbers above on the CAR.

If you have any questions, please contact Elena Guerrero, Acting Audit Manager, at (916)323-7954.

Attachment

cc: Stephen Maller, Deputy Director, California Transportation Commission  
Rick Guevel, Associate Deputy Director, California Transportation Commission  
Reza Afhami, Acting Assistant Deputy Director, California Transportation Commission  
Coco Briseno, Deputy Director, Planning and Modal Programs  
Dennis Agar, District 10 Director  
Bruce De Terra, Division Chief, Transportation Programming  
Doris M. Alkebulan, Prop 1 B Specialist, Transportation Programming  
Carlos Ruiz, Rail Transportation Manager I, Division of Rail and Mass Transportation  
Antonio Cano, Sr. Transportation Planner, Transportation Planning  
Sharon Bertozzi, Sr. Transportation Engineer, Division of Local Assistance  
Carmen Wills, Audit Liaison, Division of Local Assistance  
Elena Guerrero, Acting Audit Manager, Audits and Investigations



## City of Stockton

Proposition 1B Bond Programs

Project Numbers HRCSA 5008-001, HRCSA 5008-002,  
HRCSA 5008-003/SLPPFL 10-5008(095), TCIFL 5008-105, and STPIMDL 5008-116

#### Team Members

Jennifer Whitaker, Chief  
Cheryl L. McCormick, CPA, Assistant Chief  
Jon G. Chapple, CPA, Manager  
Angie Williams, Supervisor  
Alexandria Jiral, Lead  
Steve Backlund  
Jedediah Thompson

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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DEPARTMENT OF  
**FINANCE**

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

October 30, 2017

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

Dear Ms. Lee:

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

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
HRCSA 5008-001	P2545-0016	Eight Mile Road/UPRR East Grade Separation
HRCSA 5008-002	P2545-0017	Eight Mile Road/UPRR West Grade Separation
HRCSA 5008-003/SLPPFL 10-5008(095)	P2545-0018	Lower Sacramento Road/UPRR Grade Separation
TCIFL 5008-105	P2525-0020	Sperry Road Extension
STPIMDL 5008-116	P2535-0061	French Camp Road/I-5 Interchange

The enclosed report is for your information and use. The City's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

If you have any questions regarding this report, please contact Jon Chapple, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Jennifer Whitaker, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Elena Guerrero, Acting Audit Manager, External Audits-Contracts, Audits and Investigations, California Department of Transportation  
Mr. Gordon MacKay, Director, Public Works Department, City of Stockton  
Mr. Matt Paulin, Chief Financial Officer, City of Stockton  
Ms. Claire Tyson, Assistant Chief Financial Officer, City of Stockton  
Ms. Robin Borre, Finance and Contract Compliance Manager, Public Works Department, City of Stockton  
Mr. James Wong, Senior Civil Engineer, Public Works Department, City of Stockton

# 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 the City of Stockton (City) \$19.2 million of Proposition 1B funds from the Highway-Railroad Crossing Safety Account (HRCSA), \$8.9 million from the State-Local Partnership Program Account (SLPP), and \$23.6 million from the Trade Corridors Improvement Fund (TCIF). The five bond-funded projects were Eight Mile Road/Union Pacific Railroad (UPRR) East Grade Separation (HRCSA 5008-001), Eight Mile Road/UPRR West Grade Separation (HRCSA 5008-002), Lower Sacramento Road/UPRR Grade Separation (HRCSA 5008-003/SLPPFL 10-5008(095)), Sperry Road Extension (TCIFL 5008-105), and French Camp Road/I-5 Interchange (STPIMDL 5008-116). Construction for these projects is complete.

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

**HRCSA:** \$250 million of bond proceeds made available to HRCSA to finance completion of high-priority grade separation and railroad crossing safety improvements.

**SLPP:** \$1 billion of bond proceeds made available to 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.

**TCIF:** \$2 billion of bond proceeds made available to TCIF to finance infrastructure improvements along corridors that have a high volume of freight movement.

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

The audit objectives were to determine whether:

- Project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines.
- Project deliverables (outputs) were consistent with the project scopes and schedules, and project outcomes were consistent with benefits described in the executed project agreements or approved amendments thereof.

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

The City's management is responsible for ensuring accurate financial reporting; compliance with contract provisions, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable costs. CTC and Caltrans are responsible for the state-level administration of the program.

## **METHODOLOGY**

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

### ***For All Projects***

- Examined the project files, project agreements, program guidelines, and applicable policies and procedures.
- Reviewed procurement records to ensure compliance with applicable local and state procurement requirements.
- Reviewed accounting records, progress payments, project billing summaries, contractor/consultant invoices, and cancelled checks.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported by accounting records.
- Reviewed a sample of contract change orders to ensure they were within the scope of the projects, properly approved, and supported.
- Evaluated whether project deliverables/outputs were met by reviewing a sample of supporting documentation and conducting site visits to verify project existence.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements or amendments, the Baseline Agreements, and the Final Delivery Reports.
- Evaluated whether project outcomes were consistent with the project scope and benefits by reviewing a sample of supporting documentation and interviewing City staff.

### ***For Projects HRCSA 5008-003/SLPFL 10-5008(095), TCIFL 5008-105, and STPIMDL 5008-116***

- Verified the match requirement was met.

In conducting our audit, we obtained an understanding of 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.



Except as noted below, Proposition 1B costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines. In addition, the project deliverables (outputs) were consistent with the project scopes and schedules. Although all of the projects were behind schedule, the City appropriately informed Caltrans and CTC of the delays. Project outcomes were also consistent with the benefits described in the executed project agreements or approved amendments. The *Summary of Projects Reviewed* is presented in Appendix A.

## Finding 1: Inadequate Fiscal Controls and Questioned Expenditures

The City claimed ineligible construction and construction engineering expenditures totaling \$23,086,071. A summary of the questioned project costs is as follows:

Project Number	Ineligible Construction Costs	Ineligible Construction Engineering Costs - Consultants	Ineligible Construction Engineering Costs – City Personnel	Total Questioned Costs
HRCSA 5008-001	\$ 4,946,003	\$ 37,388	\$ 8,274	\$ 4,991,665
HRCSA 5008-002	7,058,924	27,038	6,233	7,092,195
HRCSA 5008-003/ SLPPFL 10-5008(095)	10,522,516	463,536	8,048	10,994,100
TCIFL 5008-105	0	0	4,358	4,358
STPIMDL 5008-116	0	0	3,753	3,753
<b>Total</b>	<b>\$22,527,443</b>	<b>\$527,962</b>	<b>\$ 30,666</b>	<b>\$23,086,071</b>

The City is responsible for exercising appropriate fiscal controls over Proposition 1B bond funded projects. However, the City lacked the necessary fiscal controls to ensure compliance with applicable Proposition 1B bond-funded project requirements. Specifically, the City's accounting records did not adequately separate and identify project-related costs for projects HRCSA 5008-001, HRCSA 5008-002, and HRCSA 5008-003/SLPPFL 10-5008(095). Additionally, expenditures for these projects were commingled with other unrelated expenditures, and the City could not demonstrate how the project expenditures claimed traced to the accounting records. The City also claimed ineligible personnel costs for all five projects. As a result, the following was identified:

- Reimbursement claims submitted to Caltrans could not be traced to project billing summaries itemizing project expenditures, contractor/consultant invoices, or general ledger reports, resulting in questioned construction costs of \$22,527,443 and questioned engineering costs (consultants) of \$527,962.
- Contractor/consultant invoices were submitted more than once to support expenditures incurred in different reimbursement claim periods.



- The Program Manager involved in preparing reimbursement claims manually overrides the Engineer's assessment of cost allocation to each project resulting in inaccurate expenditure tracking and audit trail.
- Construction and construction engineering expenditures are not consistently and accurately classified when submitting reimbursement claims to Caltrans.
- The City was not able to identify total project expenditures for the HRCSA 5008-003/SLPPFL 10-5008(095) project. The City reported \$462,517 more in project expenditures on the HRCSA reimbursement claim than reported on the SLPP reimbursement claim submitted to Caltrans.
- The City reported inconsistent project expenditure amounts for project TCIFL 5008-105. Specifically, the City reported \$106,272 more in construction engineering costs to Caltrans than reported to the San Joaquin Council of Governments (another project funding source), and \$70,254 more on the Final Delivery Report than stated in the City's accounting system.
- The City claimed and was reimbursed for \$30,666 of ineligible construction engineering expenditures for City personnel. Specifically, the City claimed direct personnel expenditures (reported as construction engineering costs) for the Public Works Director and Deputy Director (who are not first level supervisors), instead of using an Indirect Cost Rate Proposal/Indirect Cost Allocation Plan as required.

The Code of Federal Regulations (CFR) 49, Part 18, section 18.20 states adequate records should be maintained to identify the source and application of funds provided for financially assisted activities and accounting records must be supported by such source documents.

Per the Local Assistance Procedures Manual, section 5.3, supervisory activities above the first level of supervision are only recoverable as indirect costs. For a local agency to receive reimbursement of their indirect costs, they must have an Indirect Cost Rate Proposal/Indirect Cost Allocation Plan approved by Caltrans.

The City completed annual reconciliations of existing accounting records and initiated new accounting policies and procedures in July 2012. However, the accounting for projects HRCSA 5008-001, HRCSA 5008-002, and HRCSA 5008-003/SLPPFL 10-5008(095) continued to commingle project expenditures and did not separate and identify project-related costs for each of the projects. The City's accounting records for projects TCIFL 5008-105 and STPIMDL 5008-116 appropriately separated project-related transactions and allowed for tracing of project costs to accounting records.

#### **Recommendations:**

- A. Remit \$23,086,071 to Caltrans for the ineligible costs the City could not demonstrate were allowable, project-related, and supported.
- B. Implement the following fiscal controls:
  1. Ensure a clear audit trail is maintained for all claimed expenditures. The audit trail should facilitate the tracing of expenditures claimed for reimbursement to the City's accounting records and supporting documentation.

2. Ensure the accounting system is structured to separately identify and account for project funds.
3. Review policies and procedures to ensure claimed expenditures are allowable, project-related, incurred within the project period, supported by accounting records, and properly recorded. The project agreements, and applicable state and federal provisions should be used as a guide in developing such policies and procedures.
4. Provide training and ongoing guidance to staff directly responsible for administering bond funds on claim preparation and accounting procedures.
5. For future Proposition 1B projects, establish and submit an Indirect Cost Rate Plan/Indirect Cost Allocation Plan to Caltrans, and claim personnel expenditures for supervisory staff using the approved indirect cost rate or plan.

# APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Stockton: City
- Highway-Railroad Crossing Safety Account: HRCSA
- State-Local Partnership Program Account: SLPP
- Trade Corridors Improvement Fund: TCIF
- Union Pacific Railroad: UPRR

## Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures in Compliance	Deliverables/ Outputs Consistent	Project Outcomes Consistent with Benefits	Page
HRCSA 5008-001	\$ 5,280,446	C	N	Y	Y	A-1
HRCSA 5008-002	7,423,785	C	N	Y	Y	A-2
HRCSA 5008-003/ SLPPFL 10-5008(095)	11,583,506	C	N	Y	Y	A-3
TCIFL 5008-105	22,160,052	C	P	Y	Y	A-4
STPIMDL 5008-116	3,800,000	C	P	Y	Y	A-5

### Legend

C = Complete  
P = Partial  
Y = Yes  
N = No



**Project Number:** HRCSA 5008-001

**Project Name:** Eight Mile Road/UPRR East Grade Separation

**Program Name:** HRCSA

**Project Description:** The project replaces the at-grade Eight Mile Road crossing of UPRR tracks with an overpass. The roadway will have wide sidewalks on each side that will accommodate pedestrians and bicyclists and will have railing separating traffic from pedestrian/bicycle traffic. The new bridge will accommodate current UPRR standards and will provide for one additional track in the future.

**Audit Period:** May 28, 2010 through August 15, 2014<sup>1</sup>

**Project Status:** Construction is complete

#### Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed	Questioned Costs
Construction	\$4,946,003	\$4,946,003
Construction Engineering	334,443	45,662
<b>Total Proposition 1B Expenditures</b>	<b>\$5,280,446</b>	<b>\$4,991,665</b>

#### Audit Results:

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were not incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines. The City was unable to demonstrate project expenditures were allowable, project-related, and supported for construction and construction engineering (consulting) expenditures in the amount of \$4,946,003 and \$37,388, respectively. Further, ineligible construction engineering (personnel) expenditures in the amount of \$8,274 were claimed and reimbursed.

##### Project Deliverables (Outputs) and Outcomes

The construction phase of the project was completed in March 2014. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and project outcomes were consistent with benefits as described in the executed project agreements or approved amendments. However, the project was behind schedule and completed 27 months late. The City appropriately updated Caltrans and CTC of the delay.

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

**Project Number:** HRCSA 5008-002

**Project Name:** Eight Mile Road/UPRR West Grade Separation

**Program Name:** HRCSA

**Project Description:** The project replaces the at-grade Eight Mile Road crossing of UPRR tracks with an overpass. The project also includes construction of curb, gutter, and sidewalk improvements as well as landscaped raised center medians and street lighting.

**Audit Period:** May 28, 2010 through August 15, 2014<sup>2</sup>

**Project Status:** Construction is complete

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

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>	<b>Questioned Costs</b>
Construction	\$7,058,924	\$7,058,924
Construction Engineering	364,861	33,271
<b>Total Proposition 1B Expenditures</b>	<b>\$7,423,785</b>	<b>\$7,092,195</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were not incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines. The City was unable to demonstrate project expenditures were allowable, project-related, and supported for construction and construction engineering (consulting) expenditures in the amount of \$7,058,924 and \$27,038, respectively. Further, ineligible construction engineering (personnel) expenditures in the amount of \$6,233 were claimed and reimbursed.

##### Project Deliverables (Outputs) and Outcomes

The construction phase of the project was completed in March 2014. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and project outcomes were consistent with benefits as described in the executed project agreements or approved amendments. However, the project was behind schedule and completed 27 months late. The City appropriately updated Caltrans and CTC of the delay.

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<sup>2</sup> Ibid.

**Project Number:** HRCSA 5008-003/SLPPFL 10-5008(095)

**Project Name:** Lower Sacramento Road/UPRR Grade Separation

**Program Name:** HRCSA and SLPP

**Project Description:** The project replaces the at-grade Lower Sacramento Road crossing of UPRR tracks with an overpass. The project also includes construction of curb, gutter, and sidewalk improvements as well as landscaped raised center medians and street lighting.

**Audit Period:** May 28, 2010 through August 15, 2014<sup>3</sup>

**Project Status:** Construction is complete

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

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>	<b>Questioned Costs</b>
Construction – HRCSA	\$6,056,809	\$6,056,809
Construction – SLPP	4,465,707	4,465,707
Construction Engineering – HRCSA	426,697	89,491
Construction Engineering – SLPP	634,293	382,093
<b>Total Proposition 1B Expenditures</b>	<b>\$11,583,506</b>	<b>\$10,994,100</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were not incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines. The City was unable to demonstrate project expenditures were allowable, project-related, and supported for construction and construction engineering (consulting) expenditures in the amount of \$10,522,516 and \$463,536, respectively. Further, ineligible construction engineering (personnel) expenditures in the amount of \$8,048 were claimed and reimbursed. The match requirement was met.

##### Project Deliverables (Outputs) and Outcomes

The construction phase of the project was completed in March 2014. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and project outcomes were consistent with benefits as described in the executed project agreements or approved amendments. However, the project was behind schedule and completed 27 months late. The City appropriately updated Caltrans and CTC of the delay.

<sup>3</sup> Ibid.



**Project Number:** TCIFL 5008-105

**Project Name:** Sperry Road Extension

**Program Name:** TCIF

**Project Description:** The project involves the extension of Sperry Road as a four lane arterial from the French Camp Road/I-5 interchange to the intersection of Sperry Road at Performance Drive, which will provide an arterial between Highway 99 and I-5.

**Audit Period:** March 11, 2009 through October 31, 2015<sup>4</sup>

**Project Status:** Construction is complete

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

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>	<b>Questioned Costs</b>
Construction	\$18,979,483	\$ 0
Construction Engineering	3,180,569	4,358
<b>Total Proposition 1B Expenditures</b>	<b>\$22,160,052</b>	<b>\$4,358</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines, except for \$4,358 in ineligible construction engineering (personnel) expenditures. The match requirement was met.

##### Project Deliverables (Outputs) and Outcomes

The construction phase of the project was completed in February 2015. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and project outcomes were consistent with benefits as described in the executed project agreements or approved amendments. However, the project was behind schedule and completed 21 months late. The City appropriately updated Caltrans and CTC of the delay.

<sup>4</sup> Ibid.

**Project Number:** STPIMDL 5008-116

**Project Name:** French Camp Road/I-5 Interchange

**Program Name:** SLPP

**Project Description:** This project will reconstruct the French Camp Road/I-5 interchange by relocating/widening the northbound and southbound on/off ramps, modifying traffic signals, constructing northbound and southbound loop on-ramps and constructing auxiliary lanes.

**Audit Period:** March 26, 2012 through June 30, 2014<sup>5</sup>

**Project Status:** Construction is complete

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

<b>Proposition 1B Expenditures</b>	<b>Reimbursed</b>	<b>Questioned Costs</b>
Construction	\$3,595,974	\$ 0
Construction Engineering	204,026	3,753
<b>Total Proposition 1B Expenditures</b>	<b>\$3,800,000</b>	<b>\$3,753</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines, except for \$3,753 in ineligible construction engineering (personnel) expenditures. The match requirement was met.

##### Project Deliverables (Outputs) and Outcomes

The construction phase of the project was partially completed October 2014, except for punch list and other extra work, which was completed in April 2016. At the time of our site visit in March 2016, project deliverables (outputs) were consistent with the project scope and project outcomes were consistent with benefits as described in the executed project agreements or approved amendments. However, the project was behind schedule and completed 24 months late. The City appropriately updated Caltrans and CTC of the delay.

<sup>5</sup> Ibid.

## RESPONSE

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## CITY OF STOCKTON

### ADMINISTRATIVE SERVICES

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September 12, 2017

Jennifer Whitaker, Chief  
California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6th Floor  
Sacramento, CA 95814

Dear Ms. Whitaker,

The City of Stockton has reviewed the Department of Finance draft report of the City's Proposition 1B Bond Program. The City appreciates feedback from the State on these projects and our internal processes, and appreciates the opportunity to provide comments on the report.

The City takes no exceptions to the project accounting recommendations made in the report. Since the projects were constructed in 2010 through 2014, the City changed the way it tracks project expenditures. The City does not contest the findings totaling \$8,111 regarding the Sperry Road Extension or the French Camp Road / Interstate 5 Interchange projects. However, the City strongly disagrees with the findings that expenditures related to the Eight Mile Road/UPRR East Grade Separation, Eight Mile Road/UPRR West Grade Separation, and Lower Sacramento road/UPRR Grade Separation projects were not allowable, project-related, and supported, and that the City should remit approximately \$23 million to Caltrans as a result.

As the report observes, all the improvements are completed and providing the outcomes and benefits described in the executed project agreements. All three projects were delivered under budget, and the City did not bill the State for the maximum amount allowable. The City achieved cost savings by delivering the three projects under one comprehensive contract. In fact, the California Transportation Commission approved this single project approach in 2009. The use of a single contract for construction and for construction engineering for the three projects provided an economy of scale that resulted in combined savings of \$9,451,000. Furthermore, of the \$29,013,477 in State Proposition 1B funds available for the three projects only \$24,287,737 was claimed, a savings of \$4,725,740.

Despite the notable savings, the City acknowledges the use of a single contract complicated the audit. The Department of Finance audit staff was unable to specifically and separately tie expenditures back to projects in the accounting system. However, Finance staff generally did not find specific ineligible Proposition 1B costs for the three grade separation projects. Prior to 2012, the City traced expenditures by projects and separated funding sources for those projects in its revenue accounts. This was common practice before the City's financial system allowed for full project accounting that tracks revenues and

expenditures by funding sources. The City allocated project expenditure budgets based on percentages for each project with invoices split by project depending on the actual work done. City staff pulled every invoice and reconciled the total costs per project with the claims per funding source. The City provided spreadsheets of these reconciliations to Finance for review. All adjustments were noted on the invoice backup submitted with the progress claims. In addition, spreadsheets of each project with expenditures and revenues by funding sources are completed that reconcile the General Ledger to the program financial records and the claims.

In summary, for the three grade separation projects collectively there is no evidence that the claimed expenditures, other than \$22,555 in direct staff costs that are not in dispute, are not allowable, project-related and supported. The City should not be penalized for constructing the projects under a single contract, an action approved in advance that resulted in total savings of nearly \$9.5 million and savings of \$4.7 million specifically in Proposition 1B funds.

The report notes that the City initiated new accounting policies and procedures in July 2012, that track projects in the more current process as described earlier. The City implemented a systematic project module that enables tracking of each funding source revenue and expenses of a project. As noted above the City does not contest \$30,666 in direct staff costs found to be ineligible, and welcomes Finance, Caltrans or both to continue discussions on the remainder of the projects in question. The City has already implemented the recommended fiscal controls outlined in the report with the exception of an Indirect Cost Plan, which is in development and should be completed by the end of the year.

If you require additional information or have any questions, please contact me at (209) 937-8460.



MATT PAULIN  
CHIEF FINANCIAL OFFICER

MP:jl

Cc: Scott R. Carney, Deputy City Manager  
Gordon MacKay, Public Works Director

## EVALUATION OF RESPONSE

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The City's response to the draft report has been reviewed and incorporated into the final report. In evaluating the City's response, we provide the following comments:

### **Finding 1: Inadequate Fiscal Controls and Questioned Expenditures**

The City disagrees that expenditures related to projects HRCSA 5008-001, HRCSA 5008-002, and HRCSA 5008-003/SLPPFL 10-5008(095) are not allowable, project-related and supported. The City stated it provided every invoice and reconciled the total costs per project with the claims per funding source, and provided spreadsheets of these reconciliations to Finance for review. In addition, the City stated the spreadsheets, which included project expenditures and revenues by funding sources, reconcile the general ledger to the program financial records and claims. We reviewed the City's accounting records and spreadsheets during our audit. The spreadsheets contained total project costs by funding source and agreed to the City's accounting records *in total*. However, information on the spreadsheets and postings in the general ledger did not trace and agree to specific job invoices, which prevented the City from demonstrating the costs were project-related. Additionally, the City could not reconcile and trace reimbursement claims to specific job invoices. Therefore, our finding and recommendations remain unchanged.