

## Memorandum


*Making Conservation a  
California way of life*

**To:** DARA WHEELER  
Division Chief  
Division of Rail and Mass Transportation

**Date:** March 21, 2018

**File:** P2550-0011  
P2525-0042  
P2525-0043

BRUCE DE TERRA  
Division Chief  
Transportation Pro

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

**Subject: DIVISION OF RAIL AND MASS TRANSPORTATION- AUDIT OF PROPOSITION 1B PROJECTS**

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>
Oakley to Port Chicago Double Track (Segment 3)	0000020805	P2550-0011	\$23,148,494
Richmond Rail Connector	0012000218	P2525-0042	\$9,554,598
Tehachapi Trade Corridor Rail Improvement	0012000219	P2525-0043	\$12,270,000

The projects' implementing agency is Caltrans Division of Rail and Mass Transportation (DRMT). The projects were funded using Proposition 1B Highway - Intercity Rail Improvement funds and Trade Corridors Improvement 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-RI, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed. The audit disclosed the following findings:

- Controls over matching funds need improvement for projects 0012000218 and 0012000219.
- Final Delivery Report for project 0012000218 was not submitted timely.

DARA WHEELER  
BRUCE DE TERRA  
March 21, 2018  
Page 2 of 2

Please provide the Independent Office of Audits and Investigations a Corrective Action Resolution (CAR) on the audit findings 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  
Teri L. Anderson, Assistant Deputy Director, California Transportation Commission  
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming  
Bruce Plowman, Rail Transportation Manager I, Division of Rail and Mass Transportation  
Antonio Cano, Sr. Transportation Engineer, Division of Transportation Planning  
Elena Guerrero, Acting Audit Manager, Audits and Investigations



## California Department of Transportation

Division of Rail and Mass Transportation

Proposition 1B Bond Programs

Project Numbers 0000020805, 0012000218, and 0012000219

#### Team Members

Jennifer Whitaker, Chief  
Cheryl L. McCormick, CPA, Assistant Chief  
Rick Cervantes, CPA, Manager  
Sherry Ma, CRP, Manager  
An Truong  
Amy Dieng

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

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Transmitted via e-mail

March 14, 2018

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

Dear Ms. Lee:

**Final Report—California Department of Transportation, Division of Rail and Mass Transportation, Proposition 1B Audit**

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0000020805	P2550-0011	Oakley to Port Chicago Double Track (Segment 3)
0012000218	P2525-0042	Richmond Rail Connector
0012000219	P2525-0043	Tehachapi Trade Corridor Rail Improvement

The enclosed report is for your information and use. DRMT's response to the report findings are incorporated into this final report. DRMT agreed with our findings. 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 Sherry Ma, Manager, 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  
Ms. Dara Wheeler, Chief, Division of Rail and Mass Transportation, California Department of Transportation  
Mr. Andrew Cook, Acting Chief, Office of Rail Planning and Operations Support, Division of Rail and Mass Transportation, California Department of Transportation  
Ms. Betty Miller, Rail Transportation Manager I, Track and Signal Construction, Division of Rail and Mass Transportation, California Department of Transportation  
Mr. Gary Atwal, Rail Transportation Associate, Track and Signal Construction, Division of Rail and Mass Transportation, 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.<sup>1</sup>

CTC awarded \$23.2 million of Proposition 1B Trade Corridor Improvement Funds (TCIF) and \$25.5 million of Intercity Rail Improvement (IRI) funds to the Caltrans Division of Rail and Mass Transportation (DRMT).

The 3 bond funded projects were the Oakley to Port Chicago Double Track (Segment 3) (0000020805), Richmond Rail Connector (0012000218), and Tehachapi Trade Corridor Rail Improvement (0012000219). These projects included construction of a second main track, an at-grade connector, double tracks, siding and siding upgrades, and related infrastructure. Construction for these projects is complete.

DRMT was required to provide dollar-for-dollar match funding for projects 0012000218 and 0012000219.

## 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:

- Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines.
- Deliverables/outputs were consistent with the project scopes and schedules.
- Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Reports.

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

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

**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.

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

At the time of our site visits in November 2017, construction was complete for projects 0000020805, 0012000218, and 0012000219. However, Final Delivery Reports had not been submitted for 0012000218, and 0012000219. A Final Delivery Report had been submitted for 0000020805, but not approved by Caltrans. In addition, project 0000020805 is part of a segmented project and DRMT is not required to report actual benefits/outcomes until completion of the entire project. Accordingly, we did not evaluate whether the projects' benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

We did not assess the effectiveness of program operations.

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

## **METHODOLOGY**

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 accounting records and contractor invoices.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported.
- Evaluated whether other revenue sources were used to reimburse expenditures already reimbursed with bond funds.
- 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, and Baseline Agreements.
- Evaluated whether there is a system in place to report actual project benefits/outcomes.

### ***For Projects 0012000218 and 0012000219***

- Verified the match requirement was met by reviewing a sample of supporting documentation.

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.

Except as discussed in the following paragraph, 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.

The California Department of Finance (Finance) and Caltrans are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.



Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines. In addition, except as noted in Finding 2, the project deliverables/outputs were consistent with the project scopes and schedules. Although project 0012000218 was behind schedule, DRMT appropriately informed Caltrans and CTC of the delay.

For projects 0000020805, 0012000218, and 0012000219, there is a system in place to determine and report actual benefits/outcomes. The *Summary of Projects Reviewed* is presented in Appendix A.

## **Finding 1: Controls Over Matching Funds Need Improvement**

DRMT does not have controls in place to ensure match expenditures required by Burlington North Santa Fe Railway (BNSF) are eligible and supported. For projects 0012000218 and 0012000219, BNSF was required to provide match totaling \$5,440,000 and \$12,270,000, respectively. BNSF's match was required to meet the TCIF dollar-for-dollar match funding requirement. DRMT relied on BNSF to account for and document match expenditures and did not verify that BNSF met the match requirements or the eligibility of matching expenditures. During our fieldwork, DRMT subsequently requested documentation from BNSF to support the required match.

TCIF Guidelines section 4 requires dollar-for-dollar match from local, federal, or private funding sources in order for the agency to be eligible for TCIF funding. Additionally, contract 75A0399 section 3.2.2 requires BNSF to provide match totaling \$5,440,000 for project 0012000218 and contract 75A0411 section 2.1 requires BNSF to provide match totaling \$12,270,000. Further, Government Code section 13403(b)(3) states the elements of a satisfactory system of internal control shall include a system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.

Lack of controls may result in ineligible and unsupported claimed match expenditures. If an agency is unable to demonstrate and support the dollar-for-dollar match requirement is met, the agency is not eligible to spend TCIF money and must use other funding sources to pay for project expenditures.

## **Recommendations:**

- A. Ensure staff are aware of specific match program requirements, including maintaining records and supporting documentation for expenditures.
- B. Develop and implement review and approval processes to ensure all match expenditures reported to DRMT are eligible, incurred, supported, and accurate.

## **Finding 2: Final Delivery Report Not Submitted Timely**

The Final Delivery Report for project 0012000218 was due April 2017 but has not been submitted as of November 2017. DRMT stated the Final Delivery Report is pending the results of a public benefits study to report the achieved project benefits/outcomes.

TCIF Guidelines, section 17 require a Final Delivery Report be submitted within six months of the project becoming operable. The Proposition 1B Project Close-out Process Update 2016 further states that if benefits are not available, it should be noted in the Final Delivery Report and must be reported in the Supplemental Final Delivery Report. A project becomes operable when the construction contract is accepted. However, DRMT was not required to submit a contract acceptance for this project. Although not documented in the TCIF Guidelines, Caltrans stated the contract termination date is used in place of the contract acceptance date for rail projects. For this rail project, the contract termination date of October 2016 was used to determine the Final Delivery Report due date of April 2017.

Late submission of the Final Delivery Report decreases transparency of the status of a project and prevents Caltrans/CTC's timely review of the completed project's scope, final costs, duration, and performance outcomes.

### **Recommendations:**

- A. Read and review program guidelines to ensure a clear understanding of the requirements.
- B. Submit Final Delivery Reports for state funded projects as required.

# APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Division of Rail and Mass Transportation: DRMT
- Intercity Rail Improvement: IRI
- Trade Corridor Improvement Fund: TCIF
- Burlington North Santa Fe Railway: BNSF
- Union Pacific Railroad: UP

## Summary of Projects Reviewed

Project Number	Expenditures Incurred	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0000020805	\$23,148,494	C	Y	Y	N/A <sup>1</sup>	N/A <sup>1</sup>	A-1
0012000218	\$9,554,598	C	Y	Y	N/A <sup>2</sup>	N/A <sup>2</sup>	A-2
0012000219	\$12,270,000	C	Y	Y	N/A <sup>2</sup>	N/A <sup>2</sup>	A-3

### **Legend**

C = Complete

Y = Yes

N/A<sup>1</sup> = Not applicable; Final Delivery Report has been submitted, but not approved by Caltrans.

N/A<sup>2</sup> = Not applicable; Final Delivery Reports have not been submitted.

**Project Number:** 0000020805

**Project Name:** Oakley to Port Chicago Double Track (Segment 3)

**Program Name:** IRI

**Project Description:** Construction of a second main track, siding upgrades, a bridge, and all related track, signal, and grade crossing improvements.

**Audit Period:** September 1, 2012 through May 23, 2017<sup>1</sup>

**Project Status:** Construction is complete.

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

<b>Proposition 1B Expenditures</b>	<b>Incurred</b>
Construction	\$ 23,148,494
<b>Total Proposition 1B Expenditures</b>	<b>\$ 23,148,494</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines.

##### Deliverables/Outputs

The construction phase of the project was completed in February 2017. At the time of our site visit in November 2017, project deliverables/outputs were consistent with the project scope and schedule. Additionally, the Final Delivery Report has been submitted, but not approved by Caltrans.

##### Benefits/Outcomes

This project is part of a multi-segmented project and DRMT is not required to report the actual benefits/outcomes until completion of the entire project. However, there is a system in place to report actual project benefits/outcomes.

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<sup>1</sup> The audit period end date is the last date project costs were posted to Caltrans' general ledger.

**Project Number:** 0012000218

**Project Name:** Richmond Rail Connector

**Program Name:** TCIF

**Project Description:** Construct an at-grade connector that allows BNSF trains access to UP's Martinez Subdivision.

**Audit Period:** May 12, 2011 through December 13, 2016<sup>2</sup>

**Project Status:** Construction is complete.

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

<b>Proposition 1B Expenditures</b>	<b>Incurred</b>
Construction	\$ 9,554,598
<b>Total Proposition 1B Expenditures</b>	<b>\$ 9,554,598</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines. In addition, the match requirement was met. However controls over matching funds need improvement (Finding 1).

##### Deliverables/Outputs

The construction phase of the project was completed in September 2015. At the time of our site visit in November 2017, project deliverables/outputs were consistent with the project scope. However the project was behind schedule and completed 12 months late. DRMT appropriately informed Caltrans and CTC of the delay. The project Final Delivery Report was due in April 2017 and had not been submitted to Caltrans as of November 2017.

##### Benefits/Outcomes

Actual project benefits/outcomes could not be confirmed since the Final Delivery Report had not been submitted to Caltrans as of November 2017. However, there is a system in place to report actual project benefits/outcomes.

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<sup>2</sup> Ibid.

**Project Number:** 0012000219

**Project Name:** Tehachapi Trade Corridor Rail Improvement

**Program Name:** TCIF

**Project Description:** Connect Walong and Marcel sidings to create a segment of approximately 2.8 miles of double track and extend Cliff siding by constructing approximately 900 feet of siding extending to portal of Tunnel Number 7.

**Audit Period:** September 24, 2008 through December 13, 2016<sup>3</sup>

**Project Status:** Construction is complete.

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

<b>Proposition 1B Expenditures</b>	<b>Incurred</b>
Construction	\$ 12,270,000
<b>Total Proposition 1B Expenditures</b>	<b>\$ 12,270,000</b>

#### **Audit Results:**

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements and Caltrans/CTC's program guidelines. In addition, the match requirement was met. However controls over matching funds need improvement (Finding 1).

##### Deliverables/Outputs

The construction phase of the project was completed in November 2016. At the time of our site visit in November 2017, project deliverables/outputs were consistent with the project scope and schedule.

##### Benefits/Outcomes

Actual project benefits/outcomes could not be confirmed since the Final Delivery Report had not been submitted to Caltrans as of November 2017. The Final Delivery Report was due in November 2017. However, there is a system in place to report actual project benefits/outcomes.

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<sup>3</sup> Ibid.



**DEPARTMENT OF TRANSPORTATION**  
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*Making Conservation  
a California Way of Life.*

March 6, 2018

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

Dear Ms. Whitaker:

Thank you for the opportunity to respond to the draft audit report of the Division of Rail and Mass Transportation's (DRMT) 1B-funded projects: Oakley to Port Chicago Double Track (Segment 3); Richmond Rail Connector; and Tehachapi Trade Corridor Rail Improvement.

The DRMT concurs with the findings presented by the Department of Finance (DOF), that controls over matching funds need improvement, and that the final delivery report was not submitted timely. The DRMT accepts DOF's recommendation to ensure staff are aware of specific match program requirements; ensure all match expenditures are eligible, incurred, supported, and accurate; ensure the 1B Bond Programs' guidelines are understood; and that reporting requirements are met.

In response to the audit recommendations, the DRMT has drafted a Desk Manual task procedure for the match program that will emphasize general and specific requirements for communication and coordination among all project/contractual parties during all stages of project development and completion, which will correct the deficiencies identified in the audit for future projects. Further, emphasis will be placed on the need to follow program guidelines for timely submission of final delivery reports.

Approval of the task procedure is anticipated no later than March 30, 2018. The new procedure will be communicated to staff during the first staff meeting following approval. Monitoring will take place during subsequent staff meetings, as well as specific project intervals, to ensure the procedure is being followed.



Ms. Jennifer Whitaker  
March 6, 2018  
Page 2

The DRMT wishes to thank the DOF audit staff for its help and cooperation throughout the audit. If you have any further questions, please contact me, at (916) 654-6542 or via email sent to [dara.wheeler@dot.ca.gov](mailto:dara.wheeler@dot.ca.gov).

Sincerely,



DARA WHEELER, Chief  
Division of Rail and Mass Transportation

cc: Ms. Alice M. Lee, Chief, External Audits-Contracts, Audits and Investigations,  
California Department of Transportation  
Ms. Elena Guerrero, Acting Audit Manager, External Audits-Contracts, Audits  
and Investigations, California Department of Transportation  
Mr. Andrew Cook, Acting Chief, Office of Rail Planning and Operations Support,  
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Division of Rail and Mass Transportation, California Department of  
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