

Memorandum

To: RIHUI ZHANG
Chief
Division of Local Assistance

Date: May 17, 2019

File: P2505-0110

MICHAEL BEAUCHAMP
District Director
District 8

From: MARSUE MORRILL, CPA
Chief
Planning and Modal Office
Independent Office of Audits and Investigations

Subject: PROPOSITION 1B AUDIT - CITY OF FONTANA

At the request of the Independent Office of Audits and Investigations, the California Department of Finance, Office of Audits and Evaluations (Finance) completed an audit of the City of Fontana's (City) Proposition 1B funded project 0800000237 of the 1-15/Duncan Canyon Road Interchange. The project was funded using Corridor Mobility Improvement Account and State-Local Partnership Program funds. The complete audit report is attached.

Base on the audit, Finance determined that the City did not adequately support and report on project benefits/outcomes.

Please provide our office with a corrective action plan, including time lines, by July 18, 2019.

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

Attachment

cc: Robert Nelson, Deputy Director, California Transportation Commission
Ray Desselle, Deputy District Director, Planning and Local Assistance, District 8, Caltrans
Bruce De Terra, Division Chief, Transportation Programming, Caltrans
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming, Caltrans
Vasan Rudrapakiam, Senior Transportation Engineer, CMIA, Division of Project Management, Caltrans
Sharon Bertozzi, Senior Transportation Engineer, SLPP, Division of Local Assistance, Caltrans
Luisa Ruvalcaba, Audit Manager, Independent Office of Audits and Investigations
Daniel Burke, Audits Liaison, Division of Local Assistance, Caltrans
Paula Bersola, Audits Analyst, Division of Local Assistance, Caltrans

***"Provide a safe, sustainable, integrated and efficient transportation system
to enhance California's economy and livability"***



City of Fontana

Proposition 1B Bond Program

Project Number 0800000237

Team Members

Cheryl L. McCormick, CPA, Chief
Rick Cervantes, CPA, Manager
Angie Williams, Supervisor
Stephen Franz, Lead
Sierra Madden

Final reports are available on our website at <http://www.dof.ca.gov>.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



Transmitted via e-mail

April 22, 2019

Ms. MarSue Morrill, Chief
Planning and Modal Office, Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Ms. Morrill:

Final Report—City of Fontana, Proposition 1B Audit

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0800000237	P2505-0110	I-15/Duncan Canyon Road Interchange

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

Sincerely,

Original signed by:

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

cc: Mr. Michael D. Beauchamp, District 8 Director, California Department of Transportation
Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Mr. Ricardo Sandoval, Director of Engineering, City of Fontana
Mr. Kevin Ryan, Strategic Transportation Engineering Manager, City of Fontana
Ms. Lynn Rogers, Budget Resources Officer, City of Fontana

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

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

CTC awarded the City of Fontana (City) \$1.972 million in Proposition 1B State-Local Partnership Program Account (SLPP) funds and \$12 million in Proposition 1B Corridor Mobility Improvement Account (CMIA) funds for the I- 5/Duncan Canyon Road Interchange project (0800000237). The project includes the construction of a new interchange on Interstate 15 at the Duncan Canyon Road.

PROGRAM DESCRIPTION¹

CMIA: \$4.5 billion of bond proceeds made available to the CMIA to finance a variety of eligible transportation projects. CTC's general expectation is that each CMIA project will have a full funding commitment through construction, either from the CMIA alone or from a combination of CMIA and other state, local, or federal funds.

SLPP: \$1 billion of bond proceeds made available to the SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds.

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

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the project described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit periods and the reimbursed expenditures, is presented in Appendix A.

The audit objectives were to determine whether:

1. Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.
2. Deliverables/outputs were consistent with the project scope and schedule.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

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

The City listed a construction completion date of March 2017 in its Final Delivery Report submitted to Caltrans in July 2017. Although the project was operational, it is considered interim because the City had not submitted a Notice of Completion as of September 2018, the end of our audit fieldwork.

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

METHODOLOGY

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

We conducted a risk assessment, including evaluating whether the City's key internal controls relevant to our audit objectives, such as procurement, progress payment preparation, reimbursement request preparation, and review and approval processes were properly designed, implemented, and operating effectively. Our assessment included conducting interviews with key City personnel, observing processes, and testing transactions relating to construction expenditures, contract procurement, and project deliverables/outputs. During our audit, we did not identify deficiencies in internal controls within the context of our audit objectives or that warranted the attention of those charged with governance.

Additionally, we assessed the reliability of data from the City's procurement system, Planetbids. To assess the reliability of data generated by this system, we interviewed key City staff, reviewed information process flows, examined existing reports and documents, and reviewed system controls. We determined the data were sufficiently reliable for the purpose of our audit.

We determined verification of the reliability of data from the City's financial system, Pentmation, was not necessary because there was sufficient physical documentary evidence for the purpose of this audit.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies on the following page.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the City's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.</p>	<ul style="list-style-type: none"> • Reviewed procurement records to verify compliance with the City's municipal code and Local Assistance Procedures Manual (LAPM) requirements to ensure the project was appropriately advertised and awarded to the lowest, responsible bidder by reviewing bidding documents, contracts, and project advertisements. • Selected a non-generalizable sample of the significant and high risk expenditure category to verify compliance with selected project requirements. Specifically, we selected expenditures from the construction category. <p>We selected the most quantitatively significant reimbursement invoice, and selected two construction progress payments from this invoice.</p> <ul style="list-style-type: none"> ○ Determined if selected reimbursed construction expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported by reviewing accounting records, progress payments, and cancelled checks and comparing to relevant criteria. ○ Determined if selected match expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported by reviewing accounting records, progress payments, and cancelled checks and comparing to relevant criteria. <ul style="list-style-type: none"> • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreements by reviewing a list of other funding sources, project accounting records, a vendor activity report, and the City chart of accounts and performing analytical procedures to identify possible duplicate payments.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> • Determined whether the project's deliverable/output was consistent with the project scope by reviewing the Project Programming Request, supporting documentation, and conducting a site visit to verify project existence. • Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing Caltrans quarterly progress reports.
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.</p>	<ul style="list-style-type: none"> • Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the Final Delivery Report with the expected project benefits/outcomes described in the executed project agreements or approved amendments. • Evaluated whether project benefits/outcomes were adequately reported in the Final Delivery Report by reviewing studies that support reduced air emissions and reduced travel times.

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

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements. We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scope. Although the project was behind schedule, the City appropriately informed Caltrans and CTC of the delay.

However, the project benefits/outcomes were not adequately reported in the Final Delivery Report and the City did not achieve the expected project benefits/outcomes as described in the project agreements or approved amendments as noted in Finding 1.

FINDING AND RECOMMENDATIONS

Finding 1: Improvements Needed in Reporting Project Benefits/Outcomes

Project benefits/outcomes approved by Caltrans/CTC were not adequately reported and not supported with documentation. Specifically, the City did not track or maintain documentation to support reported project benefits/outcomes. Additionally, the City was not able to demonstrate the project benefits/outcomes were achieved, since the benefits/outcomes reported in the Final Delivery Report were copied from the Project Programming Request. The City was unaware of the requirement to maintain documentation to support the reported benefits because they thought the San Bernardino County Transportation Authority (formerly San Bernardino Associated Governments), who filed the Project Programming Request on behalf of the City, was responsible for reporting project benefits/outcomes. However, the City is the implementing agency and is responsible for ensuring accurate project benefits/outcomes are reported in the Final Delivery Report and maintaining supporting documentation.

CMIA and SR 99 Accountability Implementation Plan, section IV C.1 and SLPP Guidelines, section 14, states that within six months of the project becoming operable, the implementing agency will provide a Final Delivery Report to CTC on the scope of the completed project, including performance outcomes derived from the project as compared to those described in the project agreements. Inaccurate information in the Final Delivery Report decreases the transparency of the project outcomes and prevents CTC from reviewing the success of the project based on the agreed upon projected benefits/outcomes.

Recommendations:

- A. Review the project agreements and program guidelines to ensure a clear understanding of the requirements.
- B. Obtain required benefits/outcomes information from the San Bernardino County Transportation Authority and submit a Supplemental Final Delivery Report listing the pre and post comparable benefits/outcomes.
- C. Maintain documentation to support project benefits/outcomes reported in the Final Delivery Reports.

APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Fontana: City
- State-Local Partnership Program: SLPP
- Corridor Mobility Improvement Account: CMIA

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0800000237	\$13,972,000	I	Y	Y	N	N	A-1

Legend

I = The City had not submitted a Notice of Completion as of September 2018.

Y = Yes

N = No

Project Number: 0800000237

Project Name: I-15/Duncan Canyon Road Interchange

Program Name: CMIA and SLPP

Project Description: Construction of a new interchange on I-15 at Duncan Canyon Road.

Audit Period: May 3, 2012 through May 31, 2016 for audit objective 1.¹
May 3, 2012 through July 27, 2017 for audit objectives 2 and 3.²

Project Status: Construction is not complete.³

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed
Construction - CMIA	\$12,000,551
Construction - SLPP	1,971,449
Total Proposition 1B Expenditures	\$13,972,000

Results:

Compliance–Proposition 1B Expenditure

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements. Additionally, the match requirement was met.

Deliverables/Outputs

The City listed a construction completion date of March 2017 in their Final Delivery Report dated July 2017. At the time of our site visit in September 2018, project deliverables/outputs were consistent with the project scope. However, the project was behind schedule and completed 35 months late. The City appropriately informed Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were not adequately reported in the Final Delivery Report. As noted in Finding 1, the City stated it did not calculate the actual project benefits/outcomes reported in the Final Delivery Report and the City could not provide documentation supporting the reported project benefits/outcomes.

Expected Benefits/Outcomes	Actual Benefits/Outcomes	Benefits/Outcomes Achieved
Operational Cost Savings	Not Adequately Reported	No
Reduced Travel Times	Not Adequately Reported	No
Reduced Air Emissions	Not Adequately Reported	No
1,322 Daily Vehicle Hours of Delay Saved	Not Adequately Reported	No
24,610 Daily Peak Hour Person Minutes Saved	Not Adequately Reported	No

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

² The audit period end date reflects the Final Delivery Report submission date.

³ The project is considered interim because the City had not submitted a Notice of Completion as of September 2018, the end of our audit fieldwork.



City Council

Acquanetta Warren
Mayor

Jesse Armendarez
Mayor Pro Tem

John B. Roberts
Council Member

Jesus "Jesse" Sandoval
Council Member

Phillip W. Cothran
Council Member

April 4, 2019

Ms. Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Subject: Prop 1B Audit- City Response

Project No. 0800000237 - I-15/Duncan Canyon Road Interchange

Dear Ms. McCormick:

The City of Fontana has received the Department of Finance's Draft Report dated March 15, 2019, regarding the Proposition 1B audit performed for the I-15/Duncan Canyon Interchange Project. The City appreciates the time extension to April 16, 2019 for the submittal of our response letter.

The City of Fontana has reviewed the Department of Finance's recommendations and has the following responses:

1. The City of Fontana has reviewed the project agreements and program guidelines and has a clear understanding of the requirements.
2. The City of Fontana will work with the California Department of Transportation, District 8, and submit a Supplemental Final Delivery Report listing the pre and post comparable benefits/outcomes.
3. The City of Fontana will also maintain documentation to support the project benefits/outcomes reported in the Final Delivery Reports.

Thank you for your audit and feedback. If you have any questions, please feel free to contact Kevin Ryan, Strategic Transportation Engineering Manager at (909) 350-6655.

Sincerely,
Department of Engineering

Original signed by:

Ricardo Sandoval
Director of Engineering/City Engineer

Cc: Kenneth R. Hunt, City Manager
Debbie Brazill, Deputy City Manager
Dawn Brooks, Accounting Manager
Rafih Achy, PE, Project Manager, Caltrans District 8