

## Memorandum

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

**Date:** May 22, 2019

**File:** P2510-0013

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

**Subject:** PROPOSITION 1B AUDIT - CITY OF MODESTO

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 Modesto's (City) Proposition 1B funded project 1000000440 of the Pelandale Avenue Interchange Reconstruction project. The project was funded using Route 99 Corridor Account funds. The complete audit report is attached.

Based on the audit, Finance determined that the City billed \$13,167 of professional engineering expenditures within the construction support expenditure category that were outside the contract period.

Please provide our office with a corrective action plan, including time lines, by July 22, 2019.

If you have any questions, contact Luisa Ruvalcaba, Audit Manager, by email at [luisa.ruvalcaba@dot.ca.gov](mailto:luisa.ruvalcaba@dot.ca.gov)

### Attachment

cc: Robert Nelson, Deputy Director, California Transportation Commission  
Dennis T Agar, District Director, District 10, Caltrans  
Ken Baxter, Deputy District Director, Planning and Local Assistance and Environment, District 10, Caltrans  
Bruce De Terra, Division Chief, Transportation Programming, Caltrans  
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming, Caltrans  
Vasan Rudrapakiam, Prop 1B Coordinator, SR99, Division of Project Management, 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 Modesto

Proposition 1B Bond Program

Program Number 1000000440

Report No. 19-2660-045  
May 2019

### **Team Members**

Cheryl L. McCormick, CPA, Chief  
Sherry Ma, CRP, Manager  
Wendy Griffe, Supervisor  
Veronica Zalvidea, Lead  
Todd Vermillion

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

---



DEPARTMENT OF  
**FINANCE**

**SAVIN NEWSOM - GOVERNOR**

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ [WWW.DOF.CA.GOV](http://WWW.DOF.CA.GOV)

Transmitted via e-mail

May 15, 2019

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

Dear Ms. Morrill:

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

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
1000000440	P2510-0013	Pelandale Avenue Interchange Reconstruction

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.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Sherry Ma, Manager, at (916) 322-2985.

Sincerely,

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

cc: Mr. Dan McElhinney, Acting District 10 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. Bill Sandhu, Public Works Director, City of Modesto  
Ms. DeAnna Christensen, Finance Director, City of Modesto  
Mr. Scott Collins, Project Manager, City of Modesto



# 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>

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

**SR 99:** \$1 billion of bond proceeds made available to the SR 99 to finance safety, operational enhancements, rehabilitation, and capacity improvements necessary to improve SR 99 in the San Joaquin and Sacramento Valleys.

CTC awarded the City of Modesto (City) \$41.6 million in Proposition 1B State Route 99 (SR 99) Corridor Account funds for the Pelandale Avenue Interchange Reconstruction project (1000000440). The purpose of the project is to reconstruct the SR 99/Pelandale Avenue interchange and construct auxiliary lanes to alleviate congestion and improve operations of SR 99 and Pelandale Avenue. Construction for this project is complete and the project is operational.

## 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 period 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.

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.

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

## 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 and amendments, 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 and benefits/outcomes. 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.

We determined a reliability assessment of the data from the City's accounting system, Oracle, was not necessary because other sufficient evidence was available to complete the audit objectives.

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.

**Table of Methodologies**

Audit Objective	Methods
<b>Objective 1:</b> To determine whether the City's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations cited in the executed agreements.	<ul style="list-style-type: none"><li>• 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.</li><li>• Selected a non-generalizable sample from the significant and high risk expenditure categories to verify compliance with selected project requirements. Specifically, we selected expenditures from the following expenditure categories:<ul style="list-style-type: none"><li>○ Construction Capital: We selected five quantitatively significant reimbursement claims submitted. Within each claim selected, we selected one contractor progress payment based upon quantitative significance. Within each invoice, we selected two line items based on quantitative significance.  For contractor change orders, we selected three quantitatively significant contractor change orders submitted, ensuring the change orders included items that are already included in the construction contract.</li><li>○ Construction Support: We selected five quantitatively significant reimbursement claims submitted, with one selected for timing of project. Within each claim selected, one invoice for each of the two consultants was selected based on quantitative significance. Within each invoice, quantitative significant line items were selected.</li></ul></li></ul>



Audit Objective	Methods
	<ul style="list-style-type: none"> <li>• Determined if selected expenditures were allowable, project-related, incurred within the allowable time frame, authorized, supported, and properly recorded, by reviewing the City's procurement records, accounting records, progress payments, consultant invoices, and cancelled checks, and comparing to relevant criteria. For contract change orders, we verified the work adjustment was project-related, within the allowable time frame, supported, and not a standard bid item, by reviewing the change order and comparing to progress payments and quantity calculation reports.</li> <li>• 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, and the City chart of accounts, and performing analytical procedures to identify possible duplicate transactions.</li> </ul>
<b>Objective 2:</b> To determine whether deliverables/outputs were consistent with the project scope and schedule.	<ul style="list-style-type: none"> <li>• Determined whether the project's deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request, supporting documentation, and conducting a site visit to verify existence of the interchange and auxiliary lanes.</li> <li>• Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing the Final Delivery Report.</li> </ul>
<b>Objective 3:</b> To determine whether benefits/outcomes, as described in the executed project agreements and approved amendments, were achieved and adequately reported in the Final Delivery Report.	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Evaluated whether the project benefits/outcomes of reduced daily travel times and peak period time savings were adequately reported in the Final Delivery Report by reviewing studies and tracing daily counts to the reported data.</li> </ul>

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, except as noted in Finding 1, 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 and schedule. Although the project was behind schedule, the City appropriately informed Caltrans and CTC of the delay.

Further, project benefits/outcomes were adequately reported in the Final Delivery Report, and the City achieved the expected project benefits/outcomes as described in the project agreements.

## FINDING AND RECOMMENDATIONS

### Finding 1: Consultant Expenditures Incurred Outside Contract Period

The City claimed \$13,167 of professional engineering expenditures within the construction support expenditure category that were outside the contract period. The contract between the City and Dokken Engineering was effective November 6, 2013. However, salaries, benefits, and general administrative expenditures were incurred from October 2, 2013 through November 1, 2013. Because the City wanted to ensure bid timeframes were met, it authorized the engineering firm to provide bid support work prior to contract execution.

According to the January 2018 Caltrans LAPM, Chapter 10.3, costs shall be allowable only if the cost is incurred and allowable in accordance with contract provisions. Expenditures incurred outside a contract period may not be enforceable, leading to ineligible project expenditures.

### Recommendations:

- A. Remit \$13,167 to Caltrans.
- B. Ensure all contract term of agreement dates are adhered or contract amendments are obtained, if applicable.



# APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- The City of Modesto: City
- State Route 99: SR 99

## Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
1000000440	\$39,403,404	C	P	Y	Y	Y	A-1

### Legend

C = Complete

Y = Yes

P = Partial

**Project Number:** 1000000440

**Project Name:** Pelandale Avenue Interchange Reconstruction

**Program Name:** SR 99

**Project Description:** Reconstruct the SR 99 at Pelandale Avenue interchange and construct auxiliary lanes to alleviate congestion and improve operations.

**Audit Period:** October 8, 2013 through July 31, 2018<sup>1</sup>

**Project Status:** Construction is complete and the project is operational.

#### Schedule of Proposition 1B Expenditures

Category	Reimbursed	Questioned Expenditures
Construction Capital	\$ 34,101,294	\$ 0
Construction Support	5,302,110	13,167
<b>Total Proposition 1B Expenditures</b>	<b>\$ 39,403,404</b>	<b>\$ 13,167</b>

#### Results:

##### Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements except for \$13,167 in ineligible professional engineering expenditures.

##### Deliverables/Outputs

The construction phase of the project was completed in June 2017. At the time of our site visit in December 2018, project deliverables/outputs were consistent with the project scope. The Final Delivery Report was submitted in October 2017. However, the project was behind schedule and completed seven months late. The City appropriately updated Caltrans and CTC of the delay.

##### Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the Final Delivery Report. Additionally, the City achieved the expected project benefits/outcomes as described in the executed project agreements and approved amendments.

Expected Benefits/Outcomes	Actual Benefits/Outcomes	Benefits/Outcomes Achieved
6,595 daily travel time savings (hours)	6,640 daily travel time savings (hours)	Yes
79,140 peak period time savings (minutes)	79,680 peak period time savings (minutes)	Yes

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

## RESPONSE

---





**City of Modesto**  
**Public Works Department**  
*1010 Tenth Street, Suite 4600*  
*Modesto, CA 95354*

---

Date: April 25, 2019

Cheryl L. McCormick, CPA  
California Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6th Floor  
Sacramento, CA 95814

RE: Confidential Draft Report – City of Modesto, Proposition 1B

Ms. McCormick,

The City has reviewed the "Confidential Draft Report – City of Modesto, Proposition 1B" dated April 15, 2019. The report finds that \$13,167 of Dokken expenses should be remitted back to the State as funds were expended prior to contract execution.

Please be advised, these costs were within the scope of work of the contract and authorized by the City in an exigency to keep the project on the critical path and within the project delivery schedule to avoid potentially dire consequences. The City requests that the State consider these mitigating factors in preparing its final response.

We appreciate your office's due diligence in its evaluation of the State Route 99/Pelandale Avenue Interchange Reconstruction Project and should you need anything else, please contact me at (209) 341-2906.

Sincerely,

Bill Sandhu, PE, PMP  
Director of Public Works  
City of Modesto

## EVALUATION OF RESPONSE

---

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

### **Finding 1: Consultant Expenditures Incurred Outside Contract Period**

The City asserts the expenditures were within the scope of the contract, approved by the City, and necessary for project schedule continuity. However, the expenditures were incurred outside of the authorized contract period. Because the City did not provide additional supporting documentation to the contrary, the finding and recommendations will remain unchanged.