



Memorandum

To: BRUCE DE TERRA
CHIEF
DIVISION OF TRANSPORTATION PROGRAMMING

RIHUI ZHANG
CHIEF
DIVISION OF LOCAL ASSISTANCE

Date: September 16, 2019

File: P2525-0047
P2540-0067

From: MARSUE MORRILL, CPA *Marsue*
CHIEF
INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS
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Subject: FINAL REPORT - CITY OF OAKLAND, PROPOSITION 1B AUDIT

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 Oakland's (City) Proposition 1B funded projects listed below. The complete audit report is attached.

<u>Project Name</u>	<u>Project number</u>	<u>P Number</u>	<u>Fund</u>
Outer Harbor Intermodal Terminals — Segment 3	0013000184	P2525-0047	TCIF
Embarcadero Street and Lake Merritt Canal	0400001921	P2540-0067	LBSRA

Based on the audit, Finance determined that for project 0013000184, the City does not have a system in place to ensure the project benefits/outcomes will be reported on the Final Delivery Report. Please provide our office with a corrective action plan, including time lines, by November 18, 2019.

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

Attachment

c: Dawn Cheser, Deputy Director, California Transportation Commission
Tony Tavares, District Director, District 4, California Department of Transportation
Jean Finney, Deputy District Director, Transportation Planning and Local Assistance,
District 4, California Department of Transportation
Rambabu Bavirisetty, Chief, Office of Capital Improvement Programming,
California Department of Transportation
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming, California Department
of Transportation
Daniel Burke, Audits Liaison, Division of Local Assistance, California Department of
Transportation
Paula Bersola, Audits Analyst, Division of Local Assistance, California Department of
Transportation
Luisa Ruvalcaba, Audit Manager, Independent Office of Audits and Investigations

P2525-0047
P2525-0067



City of Oakland

Proposition 1B Bond Programs

Project Numbers 0013000184 and 0400001921

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Humberto E. Cervantes, CPA, Manager
Angie Williams, Supervisor
Brian Dunham, Lead
Alan Garrett

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



DEPARTMENT OF
FINANCE

GAVIN NEWSOM - GOVERNOR

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

Transmitted via e-mail

September 6, 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 Oakland, Proposition 1B Audit

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0013000184	P2525-0047	Outer Harbor Intermodal Terminals - Segment 3
0400001921	P2540-0067	Embarcadero Street and Lake Merritt Canal

The enclosed report is for your information and use. The City's response to the report finding is incorporated into this final report. In the interest of brevity, the attachment to the response was omitted. The City agreed with our finding. 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, at (916) 322-2985.

Sincerely,

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

cc: Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, 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.¹

CTC awarded \$178 million of Proposition 1B funds to the City of Oakland (City) to support two transportation construction projects:

PROGRAM DESCRIPTION¹

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.

LBSRA: \$125 million of bond proceeds made available to the LBSRA to provide the 11.5 percent required match for federal Highway Bridge Program funds for seismic work on local bridges, ramps, and overpasses.

- The Outer Harbor Intermodal Terminals Segment 3 project (0013000184) was awarded \$176.3 million of Trade Corridors Improvement Fund (TCIF) for roadwork and backbone utility improvements needed to serve the new trade and logistics facilities, as well as site work and wharf repairs to serve the logistics facilities and the marine terminal. Building demolition, earthwork and soil stabilization, replacement of utilities, grading and drainage, and roadway, landscaping, and wharf improvements are included in the scope of work. There are six segments for this project. The City and the Port of Oakland (Port) are the implementing agencies for Segment 1. The City is the implementing agency for Segment 3, 4, and 5. The Port is the implementing agency for Segment 2 and 6.
- The Embarcadero Street and Lake Merritt Canal project (0400001921) was awarded \$1.7 million of Local Bridge Seismic Retrofit Account (LBSRA) funds for the replacement of the existing roadway bridge in order to meet Caltrans' seismic standards. The work scope also includes replacement of the existing restroom and retaining walls on the southwest and southeast corners.

Both projects are under construction.

The City is required to provide dollar-for-dollar match funding for project 0013000184 upon completion of all six segments.

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 *Summary of Projects Reviewed*, including the audit periods and the reimbursed expenditures, is presented in Appendix A.

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

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 scopes and schedules.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Reports.

At the time of our site visits in August 2018 for project 0400001921 and November 2018 for project 0013000184, construction was not complete. Since the City had not submitted the Final Delivery Reports, we did not evaluate whether project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

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 programs.

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 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 reviews and approvals processes were properly designed, implemented, and operating effectively. Our assessment included conducting interviews with City personnel, observing processes, and testing transactions relating to construction and construction engineering expenditures, contract procurement, project deliverables/outputs, and project benefits/outcomes. 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.

Additionally, we assessed the reliability of data from the City's timekeeping system, Oracle Mass Time, for personnel labor hours. To assess the reliability of data generated by this system, we interviewed City staff, reviewed information process flows, examined existing reports and documents, and reviewed system controls. We determined the data was sufficiently reliable to address the audit objectives.

We determined verification of the reliability of data from the City's accounting system, Oracle Accounting System, was not necessary because other sufficient evidence was available to address 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 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"> • For project 0400001921, reviewed procurement records to verify compliance with the City's municipal code and Caltrans Local Assistance Procedures Manual requirements to ensure the project was appropriately advertised and awarded to the lowest, responsible bidder by reviewing bidding documents, contracts, and project advertisements. • For project 001300184, reviewed procurement records to verify the design-build project was awarded in compliance with the City's municipal code and verified CTC was informed the project would be procured via the design-build method. • Selected significant and high risk cost category expenditures to verify compliance with selected project requirements. Specifically, we selected expenditures from the construction and construction engineering categories. <ul style="list-style-type: none"> ○ For both projects, determined if reimbursed construction expenditures were allowable, authorized, project-related, incurred within the allowed time frame, and supported, by reviewing accounting records, progress payments, and cancelled checks, and comparing to relevant criteria. ○ For project 0400001921, determined if reimbursed construction engineering expenditures were project related, properly authorized, completed within the allowable time frame, and supported, by reviewing timesheets, accounting records, and approved indirect cost rates. ○ For both projects, determined if contract change orders (CCO) were within the scope of the projects, properly approved, and supported by reviewing CCO logs, CCO memorandums, estimates, and record of negotiations, and comparing to relevant criteria. ○ For project 001300184, determined whether there was a system in place to report the dollar-for-dollar match funding requirement upon completion of all six segments by reviewing the City's match tracking spreadsheet. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreements by reviewing a sample of project progress payments and accounting records to verify program funds were not used to make duplicate payments.
<p>Objective 2: To determine whether project deliverables/outputs were consistent with the project scopes and schedules.</p>	<ul style="list-style-type: none"> • Determined whether there is a system in place to report actual project deliverables/outputs for the interim projects by reviewing supporting documentation and conducting site visits to confirm consistency with the projects' scopes. • Determined whether project deliverables/outputs were on schedule by reviewing project files, project agreements or approved amendments, and quarterly reports.

Audit Objective	Methods
Objective 3: To determine whether project benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Reports.	<ul style="list-style-type: none"> • Determined whether there is a system in place to report actual project benefits/outcomes by interviewing City personnel and comparing the project agreement Project Programming Request to the Project Plans and Resident Engineer's Daily Report Logs.

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 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 for project 0400001921. Additionally, except for the wharf improvements, we obtained reasonable assurance the deliverables/outputs were consistent with the project scope for project 0013000184. The privately funded wharf improvements were to be performed pursuant to the Baseline Agreement, but due to litigation, the City states the improvements will not be completed on time. In a letter dated January 10, 2019, the City requested Caltrans/CTC to amend the Baseline Agreement to shift the scope and budget for the wharf improvements using private investment totaling \$25,900,000 from Segment 3 to Segment 5. This would allow the City to close out project 0013000184. At the time of our audit, Caltrans/CTC has not approved the amendment.² However, Caltrans/CTC and the City are working to resolve the issue. Although both projects were behind schedule, the City appropriately informed Caltrans and CTC of the delays.

The City has a system in place to report project benefits/outcomes for project 0400001921. However, the City does not have a system in place to report actual project benefits/outcomes for project 0013000184, as noted in Finding 1.

FINDING AND RECOMMENDATIONS

Finding 1: Improvements Needed in Project Benefits/Outcomes Close-Out Process

The City does not have a system in place to ensure the project benefits/outcomes will be reported on the Final Delivery Report for project 0013000184. Project Agreement 75A0389 Exhibit D lists benefits/outcomes expected to be met upon completion of the project. The City was aware of the project benefits/outcomes reporting requirements for the Final Delivery Report. However, the City did not have an established plan or methodology to capture post metrics for benefits/outcomes for throughput, velocity, congestion reductions, and emissions reduction. Without a system in place to measure actual project benefits/outcomes, the City cannot ensure it will meet the reporting requirements for the Final Delivery Report. Further, incomplete or inaccurate information in the Final Delivery Report decreases transparency of the project outcomes and prevents CTC from reviewing the success of the project based on the agreed upon project benefits/outcomes.

TCIF Guidelines, section 17, 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 Agreement.

² Audit fieldwork for project 0013000184 was completed in November 2018.

Recommendations:

- A. Review the project agreements and program guidelines to ensure a clear understanding of the project close-out reporting requirements.
- B. Develop a system to measure achievement of actual project benefits/outcomes.
- C. Ensure the Final Delivery Report addresses the performance outcomes listed in the Project Agreement 75A0389 Exhibit D and maintain documentation supporting project benefits/outcomes reported.

APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Oakland: City
- Trade Corridors Improvement Fund: TCIF
- Local Bridge Seismic Retrofit Account: LBSRA

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0013000184	\$173,634,270	I	Y	P	N/A	N/A	A-1
0400001921	\$1,458,231	I	Y	Y	N/A	N/A	A-2

Legend

I = Construction is not complete

Y = Yes

P = Partial

N/A = Not applicable, the project is interim.

Project Number: 0013000184

Project Name: Outer Harbor Intermodals Terminal - Segment 3

Program Name: TCIF

Project Description: The work scope includes building demolition, earthwork and soil stabilization, replacement of utilities, grading and drainage, circulation, roadway improvements, landscaping, and wharf improvements to facilitate the development of new trade and logistics facilities.

Audit Period: August 22, 2012 through April 28, 2017 for audit Objective 1.³
August 22, 2012 through November 21, 2018 for audit Objectives 2 and 3.⁴

Project Status: Construction is not complete.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$ 171,595,454
Construction Engineering	2,038,816
Total Proposition 1B Expenditures	\$ 173,634,270

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. The City has a system in place to ensure the match requirement will be met.

Deliverables/Outputs

Target completion for the construction phase of this project was October 2018. At the time of our site visit in November 2018, project deliverables/outputs were partially consistent with the project scope. Due to delays related to litigation, wharf improvements may not be completed in this segment. The City requested Caltrans/CTC to amend the Baseline Agreement to shift the scope and budget for the wharf improvements from Segment 3 to Segment 5. At the time of our audit, Caltrans/CTC had not approved the amendment; however, Caltrans/CTC and the City are working to resolve the issue. The City appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed. Additionally, the City does not have a system in place to report actual project benefits/outcomes as noted in Finding 1.

³ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁴ The audit period end date reflects the end of audit fieldwork.

Project Number: 0400001921

Project Name: Embarcadero Street and Lake Merritt Canal

Program Name: LBSRA

Project Description: Replacement of the existing roadway bridge in order to meet Caltrans' seismic standards. The work scope also includes replacement of the existing restroom and retaining walls on the southwest and southeast corners.

Audit Period: October 28, 2008 through November 30, 2017 for audit Objective 1.⁵
October 28, 2008 through September 6, 2018 for audit Objectives 2 and 3.⁶

Project Status: Construction is not complete.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$1,256,581
Construction Engineering	201,650
Total Proposition 1B Expenditures	\$1,458,231

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.

Deliverables/Outputs

Target completion for the construction phase of this project was December 2012. At the time of our site visit in August 2018, project deliverables/outputs were consistent with the project scope. However, the project is behind schedule and has not been completed. The City appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed. However, a system is in place to measure achievements of actual project benefits/outcomes.

⁵ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

⁶ The audit period end date reflects the end of audit fieldwork.

CITY OF OAKLAND



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OFFICE OF THE CITY ADMINISTRATOR

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July 11, 2019

Sent via email: OSAEReports@dof.ca.gov

Cheryl L. McCormick, Chief
Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Re: City of Oakland – Proposition 1B Audit

Dear Ms. McCormick:

The City of Oakland is in receipt of your June 28, 2019 confidential draft audit report for Project Numbers 0013000184 (Outer Harbor Intermodal Terminal Segment 3) and 040001921 (Embarcadero Street and Lake Merritt Canal).

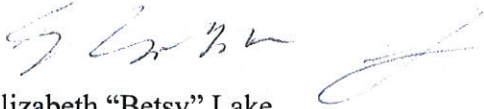
We are pleased to receive your findings for both projects that you obtained reasonable assurance that Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations.

With respect to the proposed finding that improvements are needed in the project benefits/outcomes close-out process for the Outer Harbor Intermodal Terminal (OHIT) project, we are pleased to report that we continue to work closely with Caltrans in implementing the project and closing out both the funded segment and matching segments of the project. As you know, the OHIT project consists of six segments: two led by the Port of Oakland and four led by the City of Oakland; the Port of Oakland has closed out Segment 2 and 6, and since the audit fieldwork, the City of Oakland has closed out Segment 1 (see attached). The project benefits and outcomes relating to throughput, velocity, congestion reductions and emission reduction apply to the OHIT project as a whole and are attached to both the Port of Oakland and City of Oakland OHIT funding agreements. As noted in your agency's audit of the OHIT Segment 2 (Project Number 0013000057, Report No, 17-2660-124, May 2018), the Port of Oakland has a tracking system in place. The City of Oakland is coordinating closely with the Port of Oakland and

Caltrans to track, measure, document and report the project deliverables/outcomes, which will be required in the Final Delivery Report to comply with project agreements.

If you need additional assistance, please do not hesitate to contact me. Thank you.

Sincerely,



Elizabeth "Betsy" Lake
Deputy City Administrator

Attachment: OHIT Segment 1 report

cc: Mr. Tony Tavares, District 4 Director, Caltrans
Ms. MarSue Morrill, Chief, Planning and Modal office, Caltrans
Ms. Luisa Ruvalcaba, Audit Manager, Caltrans
Mr. Ryan Russo, Director of Transportation, City of Oakland
Mr. Nader Rabahat, Project Manager, City of Oakland
John Monetta, Project Manager, City of Oakland