



INSPECTOR GENERAL

California Department of Transportation

City of Turlock

Project Audit



Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Diana Antony, Chief Deputy

February 2023
22A.INCA04



For questions concerning the contents of this report, please contact (916) 323-7111 or email ioai.reports@dot.ca.gov.



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

February 17, 2023

Tony Tavares, Director
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Final Report – City of Turlock, Project Audit

Dear Director Tavares:

The Independent Office of Audits and Investigations has completed its audit of the City of Turlock (City). We audited the costs that the City incurred related to two projects totaling \$6,649,714, which were reimbursed by the California Department of Transportation.

Enclosed is the final report, which includes the City's response to the draft report. The final report is a matter of public record and will be posted on IOAI's website.

A Corrective Action Plan (CAP) addressing the recommendations is due from Caltrans 60 days from receipt of this letter. Updated CAPs will be due every six months until all recommendations have been implemented. The CAP should be sent to ioai.reports@dot.ca.gov.

If you have any questions regarding this report, please contact David Wong, Audit Chief, at (916) 323-7111.

Sincerely,

Bryan Beyer, CIG
Inspector General

Gavin Newsom, Governor

Independent Office of Audits and Investigations
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Tony Tavares
February 17, 2023
Page 2

cc: Michael Keever, Chief Deputy Director, California Department of Transportation
Dennis T. Agar, District Director, District 10, California Department of Transportation
Parminder Singh, District Local Assistance Engineer, District 10, California Department
of Transportation
Ben Shelton, Audit Chief, Internal Audits Office, California Department of Transportation
Erik Schulze, Public Works Director, City of Turlock
Stephen Fremming, Principal Civil Engineer, City of Turlock

22A.INCA04

CONTENTS

Terms Used in Report	vi
Summary	1
Introduction.....	2
Background	2
Figure 1. Photo of the Completed Project 10-OT910	3
Figure 2. Photo of the Sidewalk Improvement for ATPSB1L-5165(090).....	3
Table 1. Project Details.....	4
Scope and Methodology	5
Audit Results	6
Table 2. Summary of Audit Results	6
Finding 1. Unsupported Construction Costs	6
Recommendations	7
Appendix A. Table Of Methodologies	8
Appendix B. Project Details	10
Table 3. Schedule of Reimbursed and Questioned Costs	10
Table 4. Schedule of Reimbursed and Questioned Costs	12
Auditee's Response	14
Comments Concerning the Response Received From the City of Turlock.....	16

Terms Used in Report

Term/Acronym	Definition
ADA	Americans with Disabilities Act
ATP	Active Transportation Program
Caltrans	California Department of Transportation
CCO	Contract Change Order
City	City of Turlock
LPP	Local Partnership Program
Procedures Manual	Local Assistance Procedures Manual

SUMMARY

The purpose of this audit was to determine whether claimed and reimbursed costs for project numbers 10-0T910 and ATPSB1L-5165(090) were allowable and adequately supported in accordance with the California Department of Transportation (Caltrans) agreement provisions and state regulations. In addition, we determined whether project deliverables/outputs were consistent with the project scope. This audit did not evaluate the project benefits/outcomes since the final delivery reports for both projects were not due at the time of our fieldwork.

We obtained reasonable assurance that the costs claimed by the City of Turlock (City) and reimbursed by Caltrans for the two projects were allowable and adequately supported in accordance with Caltrans' agreement provisions and state regulations, except for \$744,870 in questioned costs for project number ATPSB1L-5165(090).

For project number 10-0T910, the project deliverables/outputs were consistent with the project scope as described in the executed agreement. For project number ATPSB1L-5165(090), the project is still in progress.

INTRODUCTION

Background

Caltrans administers various programs that provide federal and state funds to local agencies. The Local Partnership Program (LPP) and the Active Transportation Program (ATP) are included among these programs.

The LPP supports local communities by providing matching funds for voter-approved transportation tax measures. LPP funds are distributed through a 40 percent statewide competitive component and a 60 percent formulaic component.¹ The ATP consolidates existing federal and state transportation programs into a single program with a focus to make California a national leader in active transportation. Its purpose is to encourage an increased use of active modes of transportation, such as biking and walking, by achieving goals such as increase the proportion of trips accomplished by walking and biking, increase the safety and mobility of non-motorized users, advance efforts of regional agencies to achieve greenhouse gas reduction goals, enhance public health, and providing a broad spectrum of projects to benefit many types of users including disadvantaged communities.²

For this audit, we selected the following two projects that Caltrans awarded to the City:

- **LPP Project Number 10-0T910** – \$5,551,000 to make improvements on State Route 99/Fulkerth Road by constructing interchange improvements, improving east-west circulation and local access, and accommodating planned future growth by providing additional roadway capacity through modifications to the interchange. This project's funding sources consist of LPP funds from the competitive and formulaic components.

¹ Excerpt obtained from [Local Partnership Program - California Transportation Commission](#).

² Excerpt obtained from [Active Transportation Program - Caltrans](#).

Figure 1. Photo of the Completed Project 10-OT910



Source: City of Turlock.

- **ATP Project Number ATPSB1L-5165(090)** – \$1,098,714 to construct Americans with Disabilities Act (ADA) pedestrian improvements and to install curb, gutter, sidewalk, curb ramps, and striping related improvements at various locations along K-8 school routes in the City.

Figure 2. Photo of the Sidewalk Improvement for ATPS-B1L-5165(090)



Source: City of Turlock.

Caltrans reimbursed the City \$6,649,714 for the two projects. Table 1 provides additional project details.

Table 1. Project Details

Program	Project Number	Funding Source	Project Status ³	Reimbursed Amount
LPP	10-0T910	State Funds Only	Complete and operational	\$5,551,000
ATP	ATPSB1L-5165(090)	State Funds Only	In progress	\$1,098,714
Total				\$6,649,714

Source: Analysis by the Independent Office of Audits and Investigations.

³ Project status definitions obtained from the [SB1 Accountability and Transparency Guidelines](#).

SCOPE AND METHODOLOGY

For this audit, we determined whether the project costs claimed by the City and reimbursed by Caltrans were allowable and adequately supported in accordance with Caltrans agreement provisions and state regulations. For project number 10-OT910, we determined whether deliverables/outputs were consistent with the project scope. Project number ATPSB1L-5165(090) is still in progress; therefore, we did not review deliverables/outputs. Additionally, we did not evaluate project benefits/outcomes for both projects because the final delivery reports were not due at the time of our audit fieldwork.

We gained an understanding of the projects and relevant criteria by reviewing the executed project agreements, California Transportation Commission and Caltrans' guidelines, applicable state regulations, City policies and procedures, and by interviewing City personnel.

We performed a risk assessment, including identifying and evaluating whether internal controls significant to our audit objectives were properly designed and implemented. Our evaluation of internal controls focused on the City's review and approval processes of costs and contract procurement. Our methodology included interviewing key personnel, analyzing relevant documentation, and testing transactions related to costs claimed and reimbursed. We did not identify deficiencies in internal controls significant within the context of our audit objectives.

In addition, we assessed the sufficiency and appropriateness of computer-processed information that we used to support our findings, conclusions, and recommendations. We assessed the reliability of data obtained from the City's financial management system used to identify and track project costs. Our assessment included reviewing information process flows, testing transactions for completeness and accuracy, and determining if selected costs were supported by source documentation. We determined that the data were sufficiently reliable to meet our audit objectives.

Based on our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Appendix A details our methods.

We conducted this audit according to 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 findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

AUDIT RESULTS

Based on the procedures performed, we obtained reasonable assurance that the costs claimed by the City and reimbursed by Caltrans for the two projects were in compliance with the executed project agreements, and state regulations, except for project number ATPSB1L-5165(090) as noted in Finding 1.

We also determined that the deliverables/outputs for project number 10-OT910 were consistent with the project scope as described in the executed agreement. Project number ATPSB1L-5165(090) is still in progress; therefore, we did not review deliverables/outputs.

Table 2. Summary of Audit Results

Project Number	Reimbursed Costs	Costs In Compliance	Deliverables/ Outputs
10-OT910	\$5,551,000	Yes	Yes
ATPSB1L-5165(090)	\$1,098,714	Partially	Not applicable

Source: Analysis by the Independent Office of Audits and Investigations.

Refer to Appendix B for detailed information about each project, including project details and audit results.

Finding 1. Unsupported Construction Costs

The City was unable to provide documentation to support \$744,870 in reimbursed construction costs for project number ATPSB1L-5165(090). Specifically, the City did not prepare source documents, such as Contract Item Quantity Calculation Sheets (Q Sheets) and detailed daily reports to support actual item payments made to the contractor.

Section 5.8 of Caltrans' 2019 Local Assistance Procedures Manual (procedures manual) requires local agencies to maintain written source document records that account for agency costs and payments made to consultants, vendors, and contractors. Section 16.13 of the procedures manual also defines source documents as the original documents, data, and records containing the details to substantiate a transaction entered in an accounting system. Source documents are the permanent record sheets that create a clear accounting trail from the total pay quantities in the proposed final estimate, back to the first measurement or calculation for each contract item. The most common source documents are:

- **Q Sheets.** A Q sheet supports and documents item payments made to the contractor each month. A separate Q sheet must be prepared for each contract item being paid for each progress payment.

- **Daily Reports.** These reports are required to support Q sheets. Section 16.8 of the procedures manual further states that local agencies are required to maintain daily reports to document the work in progress and must document what work was performed, where and how it was performed, and who performed it. The daily reports should record the hours worked, broken down by contract item and/or contract change work and quantify contract items (i.e., measurements, tonnage, waste).

According to the City, it did not prepare required source documents to support contract bid item payments made to the contractor because they were not aware of the documentation requirements. Noncompliance with documentation requirements hinders the City's ability to demonstrate that project costs were allowable and to document the project's progress.

Recommendations

1. Caltrans should coordinate with the City to develop a corrective action plan to resolve and close the finding identified in this audit. We also recommend that Caltrans determine the allowability of the questioned costs and recover \$744,870, or any amount it determines to be not supported.
2. The City should maintain a clear audit trail to support project costs and to facilitate the tracing of incurred costs to source documents. An audit trail would also support the quantities and measurements of materials used and document the progress of construction projects.
3. The City should provide training to staff on all applicable construction record completion and retention requirements.

APPENDIX A. TABLE OF METHODOLOGIES

Audit Objectives	Methods
<p>Objective 1</p> <p>To determine whether project costs were claimed and reimbursed in compliance with the executed project agreements, Caltrans program guidelines, and applicable state regulations cited in the executed project agreements.</p>	<p>Selected significant and high-risk areas to verify compliance with the procedures manual requirements, and the ATP and LPP guidelines. Those areas were:</p> <ul style="list-style-type: none"> • Project costs, including match • Procurement • Contract change orders <p>Project Costs</p> <p>Selected five [two for project number 10-OT910 and three for project number ATPSB1L-5165(090)] of the largest dollar amount reimbursement claims from the construction contractor and construction engineering consultant. Reviewed four construction progress payments and two consultant invoices. Determined if selected reimbursed construction and consultant costs, and match were allowable, authorized, project-related, incurred within the allowable time frame, and supported by reviewing accounting records, progress payments, quantity calculation sheets, daily reports, copies of checks, and relevant criteria.</p> <p>For the project number 10-OT910, we did not test labor costs or indirect costs since those costs were not charged to the project.</p> <p>For the project number ATPSB1L-5165(090), tested labor costs by comparing labor rates and hours to personnel records and timesheets. Compared the indirect cost rates used in the invoice for indirect cost billing with the approved rates to determine if the correct rates were applied.</p> <p>Procurement</p> <p>For the project number 10-OT910, selected the construction contract billed to the project. For the project number ATPSB1L-5165(090), selected the consultant and construction contracts billed to the project. Determined whether the request for proposal and invitations for bids were appropriately advertised, evaluated, and awarded by reviewing construction engineering and construction contractor procurement records, such as project advertisements, consultant proposals, scoring sheets, bidding documents, contract agreements, and applicable policies and procedures.</p> <p>Contract Change Orders</p> <p>For the project number 10-OT910, selected two of the largest dollar amount contract change orders (CCO). Determined if selected CCOs were within the scope of work, not a contract duplication, completed, and supported by reviewing the CCOs, daily extra work reports, progress payments, and accounting records.</p>

Audit Objectives	Methods
<p>Objective 2</p> <p>To determine whether project deliverables/outputs were consistent with the project scope.</p>	<p>For Project Number 10-0T910</p> <p>Determined whether selected project deliverables/outputs were consistent with the project scope by reviewing the project application, executed agreement, completion report, and project photographs to verify the completion of project deliverables.</p> <p>For Project Number ATPSB1L-5165(090)</p> <p>We did not evaluate deliverables/outputs because this project was in progress at the time of our audit fieldwork.</p>
<p>Objective 3</p> <p>To determine whether project benefits/outcomes were consistent with the project scope.</p>	<p>We did not evaluate benefits/outcomes because final delivery reports were not due at the time of our audit fieldwork.</p>

APPENDIX B. PROJECT DETAILS

Project Number 10-0T910

Project Name

Route 99/Fulkerth Road Interchange Improvements

Program

Local Partnership Program (Administered by Caltrans Division of Construction)

Funding Sources

State funds (including Senate Bill 1⁴)

Project Description

Improvements on State Route 99/Fulkerth Road by constructing interchange improvements, improving east-west circulation and local access, and accommodating planned future growth by providing additional roadway capacity through modifications to the interchange.

Audit Period

March 1, 2019 through August 14, 2020 for objective 1⁵

March 1, 2019 through June 7, 2021 for objective 2⁶

Project Status

Construction is complete and operational.

Table 3. Schedule of Reimbursed and Questioned Costs

Category	Reimbursed Costs	Questioned Costs
Construction – LPP Competitive	\$3,009,000	\$0
Construction – LPP Formulaic	\$2,501,000	\$0
Total Costs	\$5,510,000	\$0

Source: Analysis by the Independent Office of Audits and Investigations.

⁴ Senate Bill 1 (Beall, Chapter 5, Statutes of 2017)

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 Completion Report submission date.

Audit Results

Project Costs

Project costs were incurred and reimbursed in compliance with the executed project agreements, Caltrans program guidelines, and applicable state regulations cited in the executed project agreements.

Deliverables/Outputs

The construction phase of the project was completed in June 2021. Project deliverables/outputs were consistent with the project scope and schedule.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the final delivery reports were not due at the time of our audit fieldwork.

Project Number ATPL-5165(090)

Project Name

Safe Routes to School ADA Pedestrian Improvements (various locations)

Program

Active Transportation Program (administered by Caltrans Division of Local Assistance)

Funding Sources

State funds (including Senate Bill 1)

Project Description

Construction of ADA pedestrian improvements, and installation of curb, gutter, sidewalk, curb ramps, and striping related improvements at various locations along K-8 school routes in the City.

Audit Period

February 1, 2018 through August 19, 2021 for objective 1⁷

Project Status

Project is in progress.

Table 4. Schedule of Reimbursed and Questioned Costs

Category	Reimbursed Costs	Questioned Costs
Project Approval/Environmental Document	\$3,224	\$0
Plans, Specifications and Estimate	\$124,000	\$0
Construction Engineering	\$95,102	\$0
Construction	\$876,388	\$744,870
Total Costs	\$1,098,714	\$744,870

Source: Analysis by the Independent Office of Audits and Investigations.

⁷The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

Audit Results

Project Costs

Project costs were incurred and reimbursed in compliance with the executed project agreements, Caltrans program guidelines, and applicable state regulations cited in the executed project agreements, except for \$744,870 in questioned construction costs, as noted in Finding 1.

Deliverables/Outputs

We did not review deliverables/outputs because this project was in progress at the time of our audit fieldwork.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the final delivery reports were not due at the time of our fieldwork.

AUDITEE'S RESPONSE



**OFFICE OF THE CITY ENGINEER
PUBLIC WORKS DEPARTMENT
ENGINEERING DIVISION**

156 S. BROADWAY, SUITE 150 | TURLOCK, CALIFORNIA 95380 | PHONE 209-668-5520 | FAX 209-668-5563 | TDD 800-735-2929

January 25, 2023

Caltrans Audit Review

RE: Caltrans Audit Review for ATPL-5165 (090)

The City of Turlock and Caltrans Audit Review had an exit conference on January 11, 2023 to discuss project ATPL-5165 (090). During the meeting, Caltrans Audit Review presented the following recommendations to the City.

1. Caltrans should coordinate with the City to develop a corrective action plan to resolve and close the finding identified in this audit. We also recommend that Caltrans determine the allowability of the questioned costs and recover \$744,870, or any amount they determine to be not supported.

City Response: The City acknowledges that the quantity calculation methods used as a basis for progress payments no. 1-6 on this project were not in strict compliance with LAPM standards. The method should have been more detailed and in compliance with the LAPM. In light of this deficiency, City staff has since re-calculated all quantities through detailed measurement of the built environment and has prepared over four hundred (400) pages of new quantity calculation sheets. These newly created calculation sheets are in accordance with LAPM and are a full and complete record of construction quantities eligible for reimbursement. Progress payment No. 7 (Final) and final change order shall include the necessary adjustment to final quantities in accordance with the total quantities placed for the project such that no under/over payment is made to the contractor. City staff will work with Caltrans District 10 staff to provide all necessary information to justify reimbursable costs.

①

2. The City should maintain a clear audit trail to support project costs and to facilitate the tracing of incurred costs to source documents. An audit trail would also support the quantities and measurements of materials used and document the progress of construction projects.

City Response: The City will improve its processes to assure proper documentation. The City's project manager retired in the middle of this project and the new project manager was unable to find certain documents that the audit team was requesting due to the transition of project managers. The City agrees that document management can be improved to ensure a clear audit trail is achieved. City's project managers will continue to work with inspection staff to assure that the daily logs for the project reflect the bid items and quantities placed in a given time period and that those measurements and records are transferred to the quantity calculation sheets.

3. The City should provide training to staff on all applicable construction record completion and retention requirements.

City Response: The City is continuously seeking training courses and webinars to ensure staff is up to date on current requirements. The City recently upgraded its online project management software which now includes a folder structure specific to federal projects that will provide greater clarity and consistency with how Caltrans expects records to be filed. These records are electronically filed in the cloud and will meet and exceed Caltrans' retention policy requirements.

Sincerely,

A handwritten signature in black ink, appearing to read 'Erik Schulze', with a stylized, cursive script.

Erik Schulze
Public Works Director

COMMENTS CONCERNING THE RESPONSE RECEIVED FROM THE CITY OF TURLOCK

To provide clarity and perspective, we are commenting on the City's response to our report.

1. In its response to the draft report, the City stated that it has re-calculated all quantities through detailed measurement of the built environment and has prepared over 400 pages of new quantity calculation sheets. As part of the corrective action process, we will review the City's corrective actions, including these new calculation sheets and Caltrans' evaluation/inspection of the documents provided by the City. However, until we have reviewed the additional documentation, our audit finding remains unchanged.



Independent Office of Audits and Investigations

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