



INSPECTOR GENERAL

California Department of Transportation

Peninsula Corridor Joint Powers Board

Project Audit



Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Diana Antony, Chief Deputy

March 2024
24A.PJCT01



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Diana Antony, Chief Deputy

March 25, 2024

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

Final Report — Peninsula Corridor Joint Powers Board, Project Audit

Dear Director Tavares:

On behalf of the Independent Office of Audits and Investigations (IOAI), the California Department of Finance, Office of State Audits and Evaluations (Finance) completed its audit of the Peninsula Corridor Joint Powers Board (JPB). Finance audited the costs that JPB incurred related to three projects, of which the California Department of Transportation reimbursed JPB a total of \$105,924,553.

Because there were no audit findings requiring a response, we are issuing the report as final. The final report is a matter of public record and will be posted on IOAI's website.

If you have any questions regarding this report, please contact our office at (916) 323-7111.

Sincerely,

Bryan Beyer, CIG
Inspector General

Gavin Newsom, Governor

Independent Office of Audits and Investigations
P.O. Box 942874, MS-2 (916) 323-7111
Sacramento, CA 94274-0001 <https://oig.dot.ca.gov>

Tony Tavares
March 25, 2024
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cc: Michael Keever, Chief Deputy Director, California Department of Transportation
Dina El-Tawansy, District Director, District 4, California Department of Transportation
Ephrem Meharena, District Local Assistance Engineer, District 4, California Department of Transportation
Ben Shelton, Audit Chief, Internal Audits Office, California Department of Transportation
Jeff Gee, Chair, Peninsula Corridor Joint Powers Board
Michelle Bouchard, Executive Director, Caltrain
Kate Jordan Steiner, Chief Financial Officer, Caltrain

24A.PJCT01



Peninsula Corridor Joint Powers Board

Project Numbers 0017000183, 0020000280, and 0413000353

Report No. 24-2660-044
March 2024

Team Members

Cheryl L. McCormick, CPA, Chief
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Final reports are available on our website at <https://esd.dof.ca.gov/reports/report.html>.

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



March 20, 2024

Bryan Beyer, Inspector General
Independent Office of Audits and Investigations
California Department of Transportation
1120 N Street
Sacramento, CA 95814

Final Report—Peninsula Corridor Joint Powers Board, California Department of Transportation Project Audits

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Peninsula Corridor Joint Powers Board (JPB) projects listed below, California Department of Transportation Audit Number 24A.PJCT01:

<u>Project Number</u>	<u>Project Name</u>
0017000183	Peninsula Corridor Electrification Project
0020000280	Peninsula Corridor Electrification Expansion Project
0413000353	Caltrain Advanced Signal System

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website.

If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Joshua Mortimer, Supervisor, at (916) 322-2985.

Sincerely,

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

cc: Diana Antony, Chief Deputy Inspector General, Independent Office of Audits and Investigations

BACKGROUND, SCOPE, METHODOLOGY, AND RESULTS

BACKGROUND

The California Transportation Commission (CTC), upon appropriation by the Legislature, allocates state funds to the California Department of Transportation (Caltrans) to implement various programs.

Caltrans's Local Assistance Program oversees more than \$1 billion of state and federal funds made available annually to over 600 cities, counties, and regional agencies for the purpose of improving their transportation infrastructure or providing transportation services. This funding comes from various federal and state programs specifically designed to assist the transportation needs of local agencies.³

Caltrans awarded \$144.8 million to the Peninsula Corridor Joint Powers Board (JPB) for three projects. The JPB, which owns and operates Caltrain, consists of representatives from San Francisco, San Mateo, and Santa Clara Counties.⁴ The programs for the projects are described in the text box. The three projects are as follows:

- **0017000183 Peninsula Corridor Electrification Project:** \$20 million in TIRCP funds for purchasing Electric Multiple Unit (EMU) trainsets necessary for operating the new service in the Caltrain corridor between San Jose and San Francisco.
- **0020000280 Peninsula Corridor Electrification Expansion Project:** \$59.2 million in TIRCP funds to procure 37 new EMUs to increase capacity in the Caltrain corridor.
- **0413000353 Caltrain Advanced Signal System:** \$65.6 million in Prop 1A funds to implement Positive Train Control—an integrated command, communication, and information system to control train movements along the Caltrain corridor—and grade crossing optimization to reduce crossing gate downtime in various Bay Area counties.

PROGRAM DESCRIPTION

Prop 1A: The Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century, approved by the voters as Proposition 1A (Prop 1A), authorized the CTC upon appropriation by the Legislature to allocate funds for capital improvements to intercity rail lines, commuter rail lines, and urban rail systems that provide direct connectivity to the high-speed train system and its facilities, or that are part of the construction of the high-speed train system.¹

TIRCP: The Transit and Intercity Rail Capital Program (TIRCP) was created by Senate Bill (SB) 862 and modified by SB 9 to provide grants from the Greenhouse Gas Reduction Fund to fund transformative capital improvements that will modernize California's intercity, commuter, and urban rail systems, and bus and ferry transit systems, to significantly reduce emissions of greenhouse gases, vehicle miles traveled, and congestion.²

¹ Excerpt obtained from CTC website <https://catc.ca.gov/programs/proposition-1a-high-speed-passenger-train-bond-program>.

² Excerpt obtained from California State Transportation Agency's website <https://calsta.ca.gov/subject-areas/transit-intercity-rail-capital-prog>.

³ Excerpt obtained from Caltrans's Division of Local Assistance website <http://www.dot.ca.gov/localassistance/index.html>.

⁴ Excerpt obtained from JPB's website <https://www.caltrain.com/about-caltrain/board-directors/meetings/board-directors>.

SCOPE

As requested by Caltrans's Independent Office of Audits and Investigations, 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 period and the reimbursed expenditures, is presented in Appendix A.

The audit objectives were to determine whether:

1. Project costs were allowable, adequately supported by accounting records and source documents, and in compliance with relevant criteria.
2. Project deliverables/outputs were consistent with the project scopes and schedules.
3. Benefits/outcomes were achieved and reported in accordance with applicable requirements.

At the end of fieldwork in December 2023, construction was not complete for all three projects and only projects 0017000183 and 0020000280 have reporting requirements for benefits/outcomes. In addition, contract procurement audit procedures were not performed on the ProVen Management contract for project 0017000183.

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

METHODOLOGY

In planning the audit, we gained an understanding of the projects and respective programs and identified relevant criteria by interviewing Caltrans and JPB personnel, and reviewing the executed project agreements and amendments, Caltrans's/CTC's program guidelines, and applicable state requirements.

We conducted a risk assessment, including evaluating whether JPB's key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key Internal controls evaluated focused on procurement; reimbursement request preparation; review and approval processes for contractor, change orders, consultant, and JPB labor expenditures; project deliverables/outputs completion; and project benefits/outcomes reporting. Our assessment included conducting interviews with JPB personnel, observing processes, and testing transactions related to contract procurement, construction phase expenditures, project deliverables/outputs, and project benefits/outcomes.

Additionally, we assessed the reliability of data from JPB's Project Expenditure Reports generated from its financial management system, PeopleSoft. To assess the reliability, we interviewed JPB's staff, reviewed information process flows, reviewed system controls, examined existing reports, and performed data testing. We determined the Project Expenditure Reports data were sufficiently reliable to address the audit objectives. Lastly,

we determined verification of other data from PeopleSoft 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.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether project costs were allowable, adequately supported by accounting records and source documents, and in compliance with relevant criteria.</p>	<ul style="list-style-type: none"> • Selected two contracts based on quantitative significance. Determined if the contracts were appropriately advertised and awarded by interviewing key staff and reviewing procurement records such as cost analyses, project advertisements, request for proposal packets, proposal and bidding evaluation documents, board meeting minutes, staff reports, board resolutions, and awarded contracts, and comparing to relevant criteria. • Determined if selected reimbursed contractor and consultant costs were allowable, project-related, incurred within the audit period, and supported by reviewing project agreements, contractor and consultant invoices, expenditure reports, and reimbursement claims, and comparing to relevant criteria. <ul style="list-style-type: none"> ○ For project 0017000183, one contractor invoice was selected based on qualitative significance and one consultant invoice was selected based on quantitative significance. ○ For project 0020000280, one contractor invoice was selected based on quantitative significance. ○ For project 0413000353, one contractor invoice and ten consultant invoices were selected based on quantitative significance. • Determined if selected contract change orders (CCO) were within the scope of work, not a contract duplication, incremental, supported, completed within the audit period, and properly approved by reviewing the awarded contracts, CCOs, CCO logs, and expenditure reports, and comparing to relevant criteria. <ul style="list-style-type: none"> ○ For projects 0017000183 and 0020000280, selected one quantitatively significant CCO from each project. ○ For project 0413000353, selected two quantitatively significant CCOs. • Determined if JPB labor costs were project-related, incurred during the audit period, properly authorized/approved, and supported by reviewing the approved indirect cost rate plan, timesheets, paycheck stubs, and Project Expenditure Report, and comparing to relevant criteria. <ul style="list-style-type: none"> ○ For project 0017000183, selected four quantitatively significant employee labor costs from two quantitatively significant pay periods. • For all three projects, evaluated whether duplicate payments occurred by reviewing consultant and contractor invoices and Project Expenditure Reports, and performing analytical procedures to determine whether vendor invoices were claimed for reimbursement more than once.

Audit Objective	Methods
<p>Objective 2: To determine whether project deliverables/outputs were consistent with the project scopes and schedules.</p>	<ul style="list-style-type: none"> • For projects 0017000183 and 0020000280, determined whether the progress of the deliverables/outputs were consistent with the project scope and schedule by interviewing key staff and reviewing delivery receipts, photographs, and progress reports, and comparing to relevant criteria. • For project 0413000353, determined whether the progress of the deliverables/outputs was consistent with the project scope and schedule by reviewing grade crossing optimization testing documents, system certification, and Prop 1A Semi-Annual Reports, and comparing to relevant criteria. • For all three projects, determined whether significant compliance provisions for scope and deliverables/outputs were completed as required by interviewing key staff and reviewing progress reports, and comparing to relevant criteria.
<p>Objective 3: To determine whether benefits/outcomes were achieved and reported in accordance with applicable requirements.</p>	<ul style="list-style-type: none"> • For projects 0017000183 and 0020000280, determined whether a system is in place to determine if benefits are met by interviewing key staff and reviewing ridership counts, equity analyses, the environmental impact report, and the ridership service plan, and comparing to relevant criteria.

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.

RESULTS

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the project costs were allowable, adequately supported by accounting records and source documents, and in compliance with relevant criteria.

We also obtained reasonable assurance the project deliverables/outputs were consistent with the project scopes and schedules.

Additionally, for projects 0017000183 and 0020000280, a system is in place to determine and report actual project benefits/outcomes.

The following acronyms are used throughout Appendix A.

- Electric Multiple Units: EMU
- Final Delivery Report: FDR
- Proposition 1A High-Speed Passenger Train Bond Program: Prop 1A
- Transit and Intercity Rail Capital Program: TIRCP

Summary of Projects Reviewed

Project Number	Reimbursed Costs	Project Status	Expenditures in Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0017000183	\$18,061,383	I	Y	Y	N/A1	N/A1	A-1
0020000280	\$29,497,384	I	Y	Y	N/A1	N/A1	A-2
0413000353	\$58,365,786	I	Y	Y	N/A2	N/A2	A-3

Legend

I = Construction is not complete.

N/A1 = Not applicable as the project is not complete.

N/A2 = Not applicable as reporting of benefits/outcomes is not a requirement of the project.

Y = Yes

Project Number: 0017000183

Project Name: Peninsula Corridor Electrification Project

Program Name: TIRCP

Project Description: Purchase of EMU trainsets necessary for operating the new service in the Caltrain corridor between San Jose and San Francisco.

Audit Period: June 28, 2017 through April 7, 2023 for audit objective 1⁵
June 28, 2017 through December 29, 2023 for audit objectives 2 and 3⁶

Project Status: Construction is not complete.

Schedule of Costs

Category	Reimbursed Costs
Construction/Project Management	\$18,061,383
Total Costs	\$18,061,383

Results:

Compliance–Costs

The project costs were allowable, adequately supported by accounting records and source documents, and in compliance with relevant criteria.

Deliverables/Outputs

The estimated construction completion date for the project is April 2024. At the end of our fieldwork in December 2023, project deliverables/outputs were consistent with the project scope and schedule.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project was not complete at the end of fieldwork in December 2023. In addition, JPB has a system in place to report actual project benefits/outcomes in the FDR.

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

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

Project Number: 0020000280

Project Name: Peninsula Corridor Electrification Expansion Project

Program Name: TIRCP

Project Description: Procure 37 new EMUs to increase capacity in the Caltrain corridor.

Audit Period: August 12, 2020 through December 20, 2022 for audit objective 1⁷
August 12, 2020 through December 29, 2023 for audit objectives 2 and 3⁸

Project Status: Construction is not complete.

Schedule of Costs

Category	Reimbursed Costs
Construction/Project Management	\$29,497,384
Total Costs	\$29,497,384

Results:

Compliance–Costs

The project costs were allowable, adequately supported by accounting records and source documents, and in compliance with relevant criteria.

Deliverables/Outputs

The estimated construction completion date for the project is December 2024. At the end of our fieldwork in December 2023, project deliverables/outputs were consistent with the project scope and schedule.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project was not complete at the end of fieldwork in December 2023. In addition, JPB has a system in place to report actual project benefits/outcomes in the FDR.

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

⁸ The audit period end date reflects the end of audit fieldwork date.

Project Number: 0413000353

Project Name: Caltrain Advanced Signal System

Program Name: Prop 1A

Project Description: Implements Positive Train Control—an integrated command, communication, and information system to control train movements along the Caltrain corridor—and grade crossing optimization to reduce crossing gate downtime in various Bay Area counties.

Audit Period: May 7, 2013 through April 21, 2023 for audit objective 1⁹
May 7, 2013 through December 29, 2023 for audit objectives 2 and 3¹⁰

Project Status: Construction is not complete.

Schedule of Costs

Category	Reimbursed Costs
Construction/Project Management	\$58,365,786
Total Costs	\$58,365,786

Results:

Compliance—Costs

The project costs were allowable, adequately supported by accounting records and source documents, and in compliance with relevant criteria.

Deliverables/Outputs

The estimated construction completion date for the project is January 2024. At the end of our fieldwork in December 2023, project deliverables/outputs were consistent with the project scope and schedule.

Benefits/Outcomes

This project does not have a reporting requirement for benefits/outcomes.

⁹ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to and approved by Caltrans.

¹⁰ The audit period end date reflects the end of audit fieldwork date.