



INSPECTOR GENERAL

California Department of Transportation

Los Angeles County Metropolitan Transportation Authority Project Audit



Independent Office of Audits and Investigations

Bryan Beyer, Inspector General
Matt Espenshade, Chief Deputy

January 2025
23A.PJCT09



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



Inspector General

California Department of Transportation

Bryan Beyer, Inspector General

Matt Espenshade, Chief Deputy

January 15, 2025

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

Final Report — Los Angeles County Metropolitan Transportation Authority, Project Audit

Dear Director Tavares:

The Independent Office of Audits and Investigations (IOAI) completed its audit of the Los Angeles County Metropolitan Transportation Authority (LA Metro). We audited two projects, one for reimbursed costs in the amount of \$14,808,000 and both for project deliverables and benefits.

Enclosed is our final report, which includes LA Metro's response to the draft report. Our evaluation of the response is incorporated into this final report. The final report is a matter of public record and will be posted on our website.

In accordance with Government Code section 14460(d)(2), IOAI reports the status of audit findings and recommendations on an annual basis to the Governor, the Legislature, and the California Transportation Commission. Therefore, IOAI will collaborate with the California Department of Transportation (Caltrans) twice a year to assess the corrective actions taken on audit recommendations.

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

Sincerely,

Matt Espenshade, CFE
Chief Deputy Inspector General

Gavin Newsom, Governor

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Tony Tavares
January 15, 2025
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Stephanie Wiggins, Chief Executive Officer, LA Metro
Kimberly Houston, Deputy Chief Auditor, LA Metro

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Terms Used in Report

| Terms/Acronyms | Definition |
|------------------------------|---|
| Benefits | Nonphysical improvements (e.g., congestion reduction, air quality improvement) |
| CalSTA | California State Transportation Agency |
| Caltrans | California Department of Transportation |
| Commission | California Transportation Commission |
| Deliverables | Actual physical infrastructure improvements (e.g., bike lanes, transit stations) |
| Implementing Agency | Agency completing the work in an awarded project; in the case of this audit, LA Metro |
| LA Metro | Los Angeles County Metropolitan Transportation Authority |
| LPP | Local Partnership Program |
| Mezzanine Project | Willowbrook/Rosa Parks Station Mezzanine Improvements Project |
| Program Supplement | Incorporates all provisions in the Master Agreement between the state and implementing agency and stipulates that the agency comply with all conditions set forth therein as a condition of reimbursement of state funds. |
| SB1 | Senate Bill 1, Road Repair and Accountability Act of 2017 (Chapter 5, Statutes of 2017) |
| Signals Improvements Project | Willowbrook/Rosa Parks Station and Blue Line Light-Rail Operational Improvements Project |
| TIRCP | Transit and Intercity Rail Capital Program |

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Summary

The purpose of this audit was to determine whether claimed and reimbursed costs for the Willowbrook/Rosa Parks Station Mezzanine Improvements Project (Mezzanine Project) were allowable and adequately supported in accordance with Caltrans' agreement provisions and state regulations. In addition, we determined whether project deliverables for both the Mezzanine Project and the Willowbrook/Rosa Parks Station and Blue Line Light-Rail Operational Improvements Project (Signals Improvements Project) were consistent with the projects' scope and schedules, as described in the executed agreements. We did not evaluate benefits for either project because LA Metro had not finalized one project and Caltrans did not require benefits for the other.

We were unable to obtain reasonable assurance that \$1,546,077 out of the \$14,808,000 claimed by LA Metro and reimbursed by Caltrans for the Mezzanine Project was allowable and supported in accordance with Caltrans' agreement provisions and state law. Specifically, LA Metro charged the state for changes made to elements of a larger project and we question whether those changes were within the scope of the Mezzanine Project.

The audit also identified gaps in LA Metro's adherence to financial reporting and project completion requirements. Due to the unreliability of LA Metro's accounting data for the Mezzanine Project, we could not determine whether it had met the matching fund requirement that was a condition of the award of the grant. Finally, LA Metro did not accept the construction contracts for both projects in the time frame allowed by applicable guidelines.

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Introduction

Background

Senate Bill 1 (Chapter 5, Statutes of 2017), also known as the Road Repair and Accountability Act of 2017, provided the first significant, stable, and ongoing increase in state transportation funding in more than two decades.¹ The California Transportation Commission (Commission) and the California State Transportation Agency (CalSTA) are responsible for various programs that provide state funds to local public agencies; these programs include the Local Partnership Program (LPP) and Transit and Intercity Rail Capital Program (TIRCP).

As a Senate Bill 1 (SB1) program, the LPP is subject to both its own program guidelines and the SB1 Accountability and Transparency Guidelines. The Commission is responsible for adopting guidelines, programming projects, allocating funds, and reporting on Commission-administered SB1-funded programs, including the LPP.

In 2014 the State Legislature added section 75220 to the Public Resources Code (Chapter 36, Section 21, Statutes of 2014), creating TIRCP to fund transformative capital improvements. In 2017, SB1 provided \$245 million annually for TIRCP.

CalSTA is responsible for the administration of TIRCP. However, in August 2015, the secretary of CalSTA delegated its authority to Caltrans and directed Caltrans to administer the program pursuant to the TIRCP guidelines and Caltrans' policies and procedures for the administration of similar grant programs.

¹Source: The Commission's SB1 Accountability and Transparency Guidelines

PROGRAM DESCRIPTIONS

TRANSIT AND INTERCITY RAIL CAPITAL PROGRAM

The Legislature created TIRCP to fund transformative capital improvements that would modernize California's intercity rail, bus (including feeder buses to intercity rail services), ferry, and rail transit systems to achieve the following policy objectives:²

- Reduce greenhouse gas emissions.
- Expand and improve transit service to increase ridership.
- Integrate the rail service of the state's various rail operations.
- Improve transit safety.

LOCAL PARTNERSHIP PROGRAM

SB1 created the LPP and continuously appropriates \$200 million annually to local and regional transportation agencies that have sought and received voter approval of taxes or imposed fees dedicated solely for transportation improvements. The Commission distributes LPP funds through a 50 percent statewide competitive component and a 50 percent formulaic component and funds projects to improve aging infrastructure, road conditions, active transportation, and transit and rail, and provide health and safety benefits.³

The Commission distributed the funds at the time of funding using a 50/50 percentage split between statewide competitive and formulaic components. The Mezzanine Project was funded under the formulaic component of the LPP. For projects funded in early funding rounds of the LPP formulaic component, Caltrans did not require that recipients report project benefits. TIRCP, which is a competitive program, funded the Signals Improvements Project.

For this audit, we selected two LA Metro projects that received funding from the state:

- 1. Mezzanine Project (Project Number 0718000295):** To construct an expanded mezzanine with three different vertical circulation elements to serve transfers between the Metro Blue and Green lines, incorporating two new staircases and a new elevator.
- 2. Signals Improvements Project (Project Number 0016000329):** To install new track crossovers, new train controls at 15 locations, new LED signals and power switches, 19 turnouts, new track, overhead wiring, and a communications upgrade.

Both projects are part of a larger effort to upgrade the Willowbrook/Rosa Parks Station, which serves as a major transit hub for LA Metro rail and bus lines and related infrastructure.

Caltrans reimbursed LA Metro \$53,302,000 for the projects.

²Excerpt from [CalSTA webpage](#).

³Excerpt from [LPP webpage](#).

Figure 1. The image shows the mezzanine prior to construction.



Source: Image provided by LA Metro on November 30, 2023.

Figure 2. The image shows the extension of the mezzanine post construction.



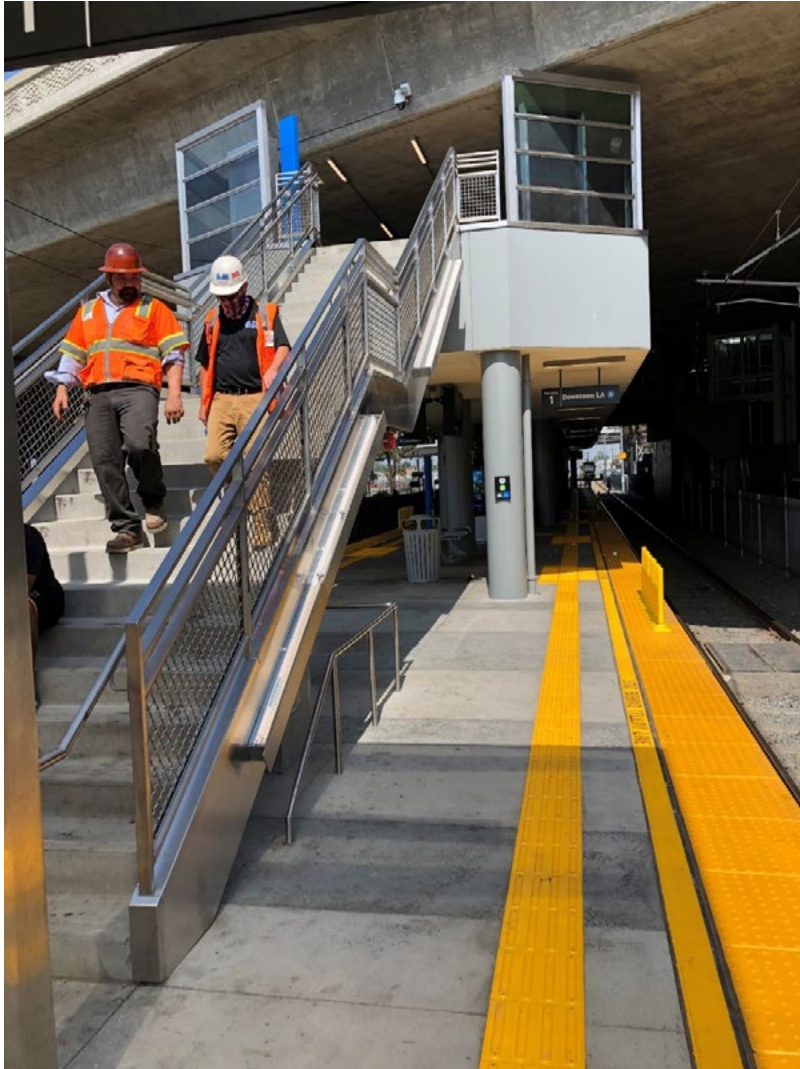
Source: Image provided by LA Metro on November 30, 2023.

Figure 3. The image shows the staircase leading to the mezzanine prior to construction.



Source: Image provided by LA Metro on November 30, 2023.

Figure 4. The image shows the staircase leading to the mezzanine after the extension of the platform.



Source: Image provided by LA Metro on November 30, 2023.

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Audit Results

Based on this audit, we obtained reasonable assurance that the costs claimed by LA Metro and reimbursed by Caltrans were allowable and adequately supported in accordance with Caltrans' agreement provisions and state regulations, except for \$1,546,077, as noted in Finding 1. As described in Finding 2, we were unable to determine if the matching requirement was met, as the data provided to support those costs were unreliable. Finally, LA Metro failed to meet required project finalization requirements, as discussed in Finding 3.

Finding 1. LA Metro's Change Order Documentation for the Mezzanine Project May Include Items Outside the Approved Scope of Work Leading to \$1,546,077 in Questioned Costs

Condition

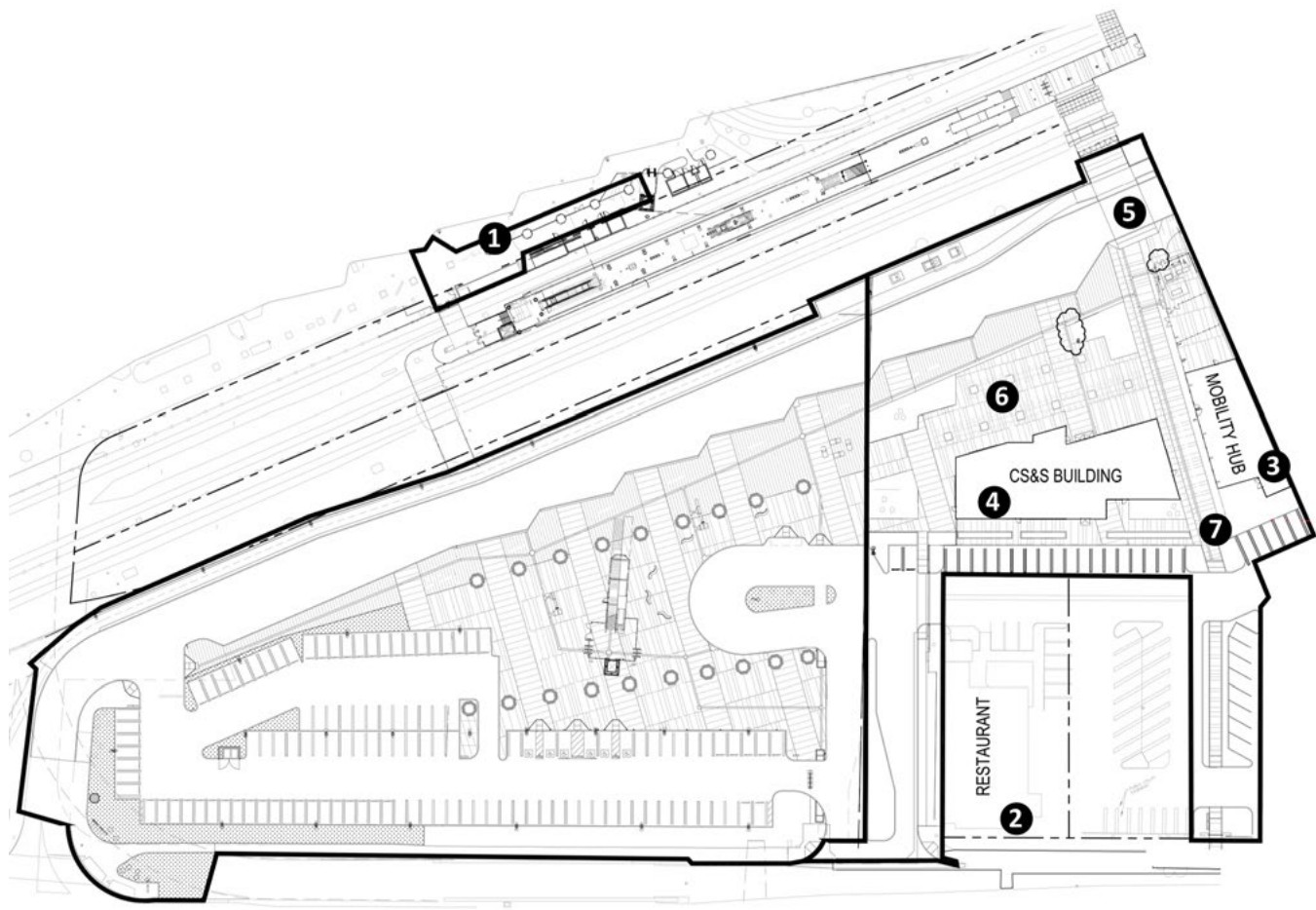
Caltrans reimbursed LA Metro \$1,546,077 for change orders that may have included work not within the scope of the Mezzanine Project. The Mezzanine Project is one element in a larger project centered around the Willowbrook/Rosa Parks light-rail station located in southeast Los Angeles County. The facility serves the Blue and Green light-rail lines and is also a hub for several bus lines.

The Commission-approved scope of work for the Mezzanine Project included an expanded mezzanine incorporating two new staircases and a new elevator (refer to label number 1 in Figure 5). However, the change orders in question refer to work throughout the Willowbrook/Rosa Parks Station complex, which were not part of the scope of work and therefore, likely not reimbursable by Caltrans. See text box for LA Metro's definition of a change order. For instance, as shown in Figure 5, work outside the scope of the Mezzanine Project included replacing roof drains on a nearby restaurant (label 2) and working on nearby structures, such as the Mobility Hub (label 3), Customer Service and Security Building (label 4), pedestrian promenade (label 5), outdoor plaza (label 6), and canopy at the Mobility Hub (label 7).

A **change order** is a written, unilateral document issued by LA Metro incorporating changes in the work and/or adjustments in the total contract price and schedule.

Source: LA Metro's Acquisition Policy and Procedure Manual, July 2021

Figure 5. Map of the Willowbrook/Rosa Parks Station and surrounding area.



- | | |
|--|-------------------------------|
| 1: Mezzanine Project | 5: Pedestrian Promenade |
| 2: Restaurant | 6: Outdoor Plaza |
| 3: Mobility Hub | 7: Canopy at the Mobility Hub |
| 4: Customer Service and Security (CS&S) Building | |

Source: Created by the Independent Office of Audits and Investigations, based on the Overall Project Packages Key Map included in the Willowbrook/Rosa Parks Station Improvement Project Package C provided by LA Metro.

In 2019 and 2020, LA Metro initially charged the work in question to another element of the overall station improvement construction, apart from the Mezzanine Project. Specifically, LA Metro’s senior director of project control for the Construction Management Department (senior director) stated that he originally assigned more than \$1.5 million in charges to a task number that was not associated with the Mezzanine Project. In addition, we learned that several other LA Metro staff members also approved assigning those charges to another element of station improvement construction other than the Mezzanine Project. However, the senior director claimed these charges were determined to be a mistake and they were subsequently recoded (and charged) to the Mezzanine Project.

Despite the assertions made by the senior director, we doubt whether the work associated with these change orders was entirely within the Mezzanine Project. Even if LA Metro assigned the change orders to the Mezzanine Project from the start, we would still question the allowability of these charges based on the work described. For example, it is unclear to us how replacing roof drains on a nearby restaurant could be part of the work on the Mezzanine Project. As shown above in Figure 5, some of the work charged to the Mezzanine Project occurred on structures separate from the mezzanine, such as the work on the mobility hub and outdoor plaza.

Based on information we obtained during our audit, instead of correcting prior mistakes, LA Metro was searching for additional work it could assign to the Mezzanine Project for reimbursement by Caltrans for the project's maximum allowable amount. The senior director stated that the grants manager asked him to identify any changes to the Willowbrook/Rosa Parks station project that LA Metro could code as Mezzanine Project work. Also, an email we reviewed sent among two accounting staff members processing the task number changes indicated that LA Metro made the switch for state billing purposes. LA Metro's efforts to find additional work to assign to the Mezzanine Project also coincided with LA Metro submitting its final reimbursement request to Caltrans. Ultimately, LA Metro sought reimbursement for \$1,546,077 million, the remaining amount of the grant.

In response to our concerns, LA Metro stated that more detailed, technical descriptions of the scope of the work it assigned to the Mezzanine Project demonstrate that the work was indeed directly tied to the project. Although, as indicated above, we doubt whether LA Metro appropriately charged this work to the Mezzanine Project, we recognize that the documents we reviewed are technical, in nature. Therefore, we believe that Caltrans has staff with the proper expertise to review the documents and judge the appropriateness of the work to the project as described in the project agreements.

Criteria

The LPP guidelines describe the policy, standards, criteria, and procedures for the management of the 2018 LPP. These guidelines state:

The Local Partnership Program is a reimbursement program for eligible costs incurred.

Further, the 2018 SB1 Accountability and Transparency Guidelines specifies what costs are allowed to be reimbursed. These guidelines state:

Project costs reimbursed are to be only made for costs arising to carry out the project scope, project costs, and project schedule as set forth in the project application and programmed by the Commission.

The Commission programmed and allocated LA Metro \$14.8 million for the

Mezzanine Project in 2018 from the LPP formulaic component. Therefore, only costs incurred for the Mezzanine Project are eligible for reimbursement.

Cause

According to the director of project control, LA Metro's Construction Management Department staff initially misjudged the work performed for the change order and mistakenly assigned the wrong task number. However, we question whether the work was appropriately assigned to the Mezzanine Project due to the work's lack of immediate connection to the Mezzanine Project.

Effect

The Mezzanine Project costs may be overstated by \$1,546,077, as costs could include work not within scope. Noncompliance with the SB1 Accountability and Transparency Guidelines decreases transparency and accountability to the Commission, other external stakeholders, and the public.

Recommendations

- 1.1 LA Metro should work with Caltrans to determine the amount of work performed for the Mezzanine Project and develop a corrective action plan that recovers any reimbursed expenses not associated with the Mezzanine Project.
- 1.2 LA Metro should perform a thorough review of work performed to ensure costs are properly assigned to the correct task order.

Finding 2. LA Metro Cannot Support That It Contributed the Required Matching Funds Because Its Expenditures Report Data Are Unreliable

Condition

As a condition of the project award, LA Metro had to make a one-for-one dollar contribution matching the state contribution of \$14.8 million for the Mezzanine Project. The director of project control provided us with expenditure detail reports from LA Metro's accounting database showing expenditures of \$4.9 million for design and \$26.5 million for construction, for a total of \$31.4 million. We selected transactions totaling \$6,416,563 from this report to evaluate the accuracy of the report and confirm whether LA Metro had met the matching contribution requirement. Specifically, we selected three transactions from the design and eight from the construction portions of the report totaling \$2,250,560 and \$4,166,003, respectively.

Based on our review, we noted either errors in the calculation of expenditures or expenditures that LA Metro could not support. Specific to the Mezzanine Project design expenditures, LA Metro allocated a percentage of total design costs to the mezzanine because the design work applied to multiple aspects of the overall Willowbrook/Rosa Parks Station project. When asked about details of the design expenditures, LA Metro grants management staff acknowledged that the project team had reversed the percentages resulting in incorrect charges for Mezzanine Project design work. According to LA Metro, the actual design expenditures were \$3.2 million, not the \$4.9 million shown in the expenditures report it had provided. Although LA Metro made a correcting entry, the updated report failed to reflect the actual charges for each transaction. Instead, LA Metro simply subtracted the original incorrect total of \$4.9 million and added a line item showing the new, adjusted total.

Regarding the construction expenditures, LA Metro also applied only a percentage of the total invoiced costs for three of the eight transactions we reviewed. We gave LA Metro several opportunities to address our concerns about how those percentages were calculated, but it either could not answer our questions or the supporting documentation was inadequate.

By LA Metro's own admission, the expenditure report for design costs is inaccurate and it did not address our concerns regarding select construction expenditures. Due to the inaccuracies, the Financial Information System (FIS) expenditures report is not reliable and therefore inadequate to substantiate that LA Metro met the matching requirement for the Mezzanine Project.

Criteria

For this project, LA Metro signed a program supplement that contained conditions to which, as the implementing agency, it must adhere. The program supplement states:

The recipient agrees to use eligible matching funds for the type identified in its project application/nomination, for the required dollar for dollar minimum local match to the LPP funds.

Further, the 2018 LPP Guidelines specify that projects funded require a fund match. According to the guidelines:

Projects funded from the Local Partnership Program will require at least a one-to-one match of private, local, federal, or state funds except jurisdictions with a voter approved tax or fee which generates less than \$100,000 annually need only provide a match equal to 50% of the requested Local Partnership Program funds.

The Master Agreement in effect for the Mezzanine Project includes provisions LA Metro must follow. Specifically, one provision relating to record retention states:

The RECIPIENT, its contractors and subcontracts shall establish and maintain an accounting system and **records that properly accumulate and segregate incurred PROJECT costs and matching funds by line item of the accounting system** of RECIPIENT, its contractors and all subcontractors shall conform to the Generally Accepted Accounting Principles (GAAP), **enable the determination of incurred costs at interim points of completion, and provide support for reimbursement payment vouchers or invoices.** *[Emphasis added.]*

By not having a reliable report showing the matching amounts, we are not able to determine if the matching requirement has been met. Therefore, LA Metro is not in compliance with provisions of its Master Agreement.

Cause

According to LA Metro's deputy executive officer of finance, the Accounting Department relied on the grants manager and director of project control for project design expenditure calculations instead of confirming amounts independently.

Effect

LA Metro cannot adequately substantiate that it adhered to the construction contract's matching requirements and therefore may be out of compliance with applicable guidelines.

Recommendations

- 2.1 Caltrans should coordinate with LA Metro to develop a corrective action plan to resolve whether LA Metro met the matching requirements for the Mezzanine Project. We also recommend that Caltrans recover any difference between the required matching amount and the actual matching amount as determined by Caltrans.
- 2.2 LA Metro should establish an adequate review process to monitor and ensure matching requirements are met.

Finding 3. LA Metro Did Not Meet Key Deadlines for Completing Projects

Condition

LA Metro missed required deadlines for officially completing the construction contract, also known as Contract Acceptance. Contract Acceptance is the project milestone in which LA Metro project managers certify that they inspected the work and the contractor completed all outstanding items. As seen in Table 1, LA Metro failed to meet the contract acceptance deadlines for both the Mezzanine and Signals Improvements Projects. Under both the LPP and TIRCP, implementing agencies have 36 months to accept the contract after contract award. In the case of the Signals Improvements Project, LA Metro has still not accepted the contract more than four years after the deadline.

Table 1. For both projects, LA Metro failed to accept contract within 36 months.

| Project | Contract Acceptance | | |
|----------------------|---------------------|---------------|-------------|
| | Date Due | Date Realized | Months Late |
| Mezzanine | 6/5/2021 | 10/11/2022 | 16 months |
| Signals Improvements | 6/28/2020 | Pending | 52 months* |

*As of October 2024.

Source: Analysis by the Independent Office of Audits and Investigations of LA Metro’s construction contract documents and information provided by its staff.

Criteria

Mezzanine Project

The LPP guidelines describe the policy, standards, criteria, and procedures for the management of the 2018 LPP. These guidelines state:

After the award of contract, the implementing agency has **up to 36 months to complete (accept) the contract.** *[Emphasis added.]*

The Commission may extend the deadlines for expenditures for project development or right-of-way, or for contract completion no more than one time, only if it finds that an unforeseen and extraordinary circumstance beyond the control of the responsible agency has occurred that justifies the extension. The extension will not exceed the period of delay directly attributed to the extraordinary

circumstance and cannot exceed more than 20 months for project completion and 12 months for expenditure.

Signals Improvements Project

Similarly, the 2015 TIRCP guidelines also provide a clear deadline for project finalization. These guidelines state:

After the award of a contract, the implementing agency **has up to 36 months to complete (accept) the contract.** *[Emphasis added.]*

CalSTA or the Commission ... may grant a deadline extension only if it finds that an unforeseen and extraordinary circumstance beyond the control of the responsible agency has occurred that justifies the extension. The extension will not exceed the period of delay directly attributable to the extraordinary circumstance and will in no event be for more than 12 months.

Cause

According to the director of project control, the Construction Management Department was not aware of the 36-month deadline and, therefore, did not know to seek an extension.

Effect

The state grants funds with the requirement that projects will be closed out in a reasonable time. Failure by implementing agencies to do so hampers the state's ability to track project status.

Recommendation

- 3.1 LA Metro should develop and implement procedures to monitor expected project deadlines and ensure staff understand requirements associated with funding program guidelines.

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Appendix A. Scope and Methodology

We conducted this audit to determine whether Caltrans reimbursed LA Metro for costs that were allowable and adequately supported in accordance with Caltrans' agreement provisions and state regulations. We only reviewed costs related to the Mezzanine Project. However, for both the Mezzanine and Signals Improvements Projects, we determined whether LA Metro completed specified deliverables. At the time that the Mezzanine Project was funded by the Commission, benefits were not required; therefore, we did not evaluate benefits for that project. The Signals Improvements Project is not operable.⁴ As LA Metro is not required to report on the benefits until one year from operability, we did not evaluate benefits associated with the Signals Improvements Project either. Our audit period was from June 29, 2016,⁵ through February 20, 2024.⁶

We conducted this audit according to generally accepted government auditing standards. These 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. We gained an understanding of the projects and relevant criteria by reviewing applicable state regulations, the Commission's and Caltrans' guidelines, LA Metro's policies and procedures, executed project agreements, billing records, and prior audit reports. We also performed a risk assessment to identify and evaluate whether key internal controls relevant to our audit objectives were properly designed, implemented, and operating as intended. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Assessment of Data Reliability

Generally accepted government auditing standards require we assess the sufficiency and appropriateness of the computer-processed information that we use to support our findings, conclusions, and recommendations. In performing this audit, we identified expenditure detail reports from LA Metro's accounting system, FIS, used to track the matching costs requirements. To assess the reliability of these data, we interviewed LA Metro staff and determined if selected match costs were supported by source documentation. We determined these expenditure detail reports to be insufficiently reliable for our reporting purposes due to concerns about the accuracy of the data pertaining to matching costs contributed by LA Metro.

⁴TIRCP Guidelines define a project as operable when the construction contract is accepted or acquired equipment is received.

⁵The audit period start date reflects the date LA Metro was allocated funding for the project by the Commission.

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

Table 2. Objectives and methods in the audit process.

| Audit Objective | Methods |
|--|--|
| <p>Objective 1</p> <p>To determine whether project costs incurred were allowable and adequately supported in accordance with Caltrans’ agreement provisions and state regulations.</p> | <p>Procurement</p> <p>Reviewed construction contract documents for the Mezzanine and Signals Improvement Projects to determine whether LA Metro followed its own policies and state law for procuring contracts.</p> <p>Mezzanine Project Costs</p> <p>Identified all 14 Mezzanine Project invoices submitted to the state and compared total amounts to reimbursed amount. Selected all 14 invoices and determined if they were approved, within the scope of work, submitted timely, and supported by reviewing project files, vendor invoices, and contract progress payments, and comparing to relevant criteria.</p> <p>Change Orders</p> <p>Selected the two contract change orders for the Mezzanine Project. Determined if the contract change order was within the scope of work, approved, completed, and supported by reviewing the contract change order, email correspondence, LA Metro acquisition policies, progress payments, and invoices.</p> <p>Matching Funds</p> <p>Determined if selected match costs were allowable, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records and comparing project reimbursed amounts with project expenditure reports.</p> |
| <p>Objective 2</p> <p>To determine whether project deliverables were consistent with the project scope and schedule as described in the executed project agreements or approved amendments.</p> | <p>Determined whether the project deliverables for both projects were consistent with the project scope by reviewing before and after photos, certificates of substantial completion, Construction Contract Acceptance documents for the Mezzanine Project, and conducting an in-person site visit during fieldwork.</p> |
| <p>Objective 3</p> <p>To determine whether project benefits were consistent with the project scope as described in the executed project agreements or approved amendments.</p> | <p>We did not evaluate the project’s benefits for the Mezzanine Project because the LPP did not require the delivery of project benefits at the time the project was funded by the Commission.</p> <p>We did not evaluate whether the project’s benefits for the Signals Improvements Project were consistent with the project scope because the project was in progress as of February 20, 2024, which was the end of our audit period.</p> |

Auditee's Response



Metro

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November 22, 2024

Mr. Bryan Beyer, CIG
Inspector General
Independent Office of Audits and Investigations
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Attention: Joe Sheffo

RESPONSE TO CONFIDENTIAL DRAFT REPORT – LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, PROJECT AUDIT

Dear Mr. Beyer:

Los Angeles County Metropolitan Transportation Authority (Metro) appreciates the opportunity to review Caltrans' Independent Office of Audits and Investigation (IOAI) draft report and have comments incorporated into its evaluation and final report. Please see Metro's response to the draft audit report below.

Executive Summary

Caltrans' Independent Office of Audits and Investigation (IOAI) completed its audit of six LA Metro projects on November 8, 2024. IOAI audited the following grant awards for Metro projects:

- Metro Blue Line First and Last Mile Plan
- Metro Bike Share USC and South LA Expo Line Communities Expansion
- Willowbrook/Rosa Parks Station Mezzanine Improvement Project
- Transit Access Pass Bus Farebox Upgrade – Municipal Transit Operators
- Transit Access Pass Bus Farebox and Rail Station Validator Upgrades
- Blue Line Signals Improvement Project

①

LA Metro staff worked closely with the auditors throughout the audit, which took place between 2023 and late 2024. In the draft report published on November 8, 2024, the auditors state that the costs claimed by LA Metro and reimbursed by Caltrans were generally allowable and adequately supported in accordance with Caltrans' agreements and state regulations. However, the auditor cited three findings in their report:

1. LA Metro's Change Order Documentation for the Mezzanine Project may include items outside the approved scope of work leading to \$1,546,077 in questioned costs.

2. LA Metro cannot support that it contributed the required match funds because its expenditures report data are unreliable.
3. LA Metro did not meet key deadlines for completing projects.

LA Metro staff disagree with the IOAI auditor's findings, as detailed in Metro's responses below this section. However, Metro will work with Caltrans toward a timely resolution of any issues raised in this audit report as recommended by the IOAI auditors.

LA Metro Responses to IOAI Findings

IOAI Finding #1: LA Metro's Change Order Documentation for the Mezzanine Project may include items outside the approved scope of work leading to \$1,546,077 in questioned costs.

Metro Response

Metro disagrees with this finding. Metro maintains that all project costs are compliant. Metro staff shared relevant documentation with the auditors in several emails, communications, and conference calls. The Willowbrook Rosa Parks Project is composed of several packages, and separate contract documents to meet internal and third-party requirements and key deadlines, including Caltrans requirements. The three main project packages are as follows:

- Package A: New Buildings, Plaza, and the southern section of A-Line Platform
- Package B: Vehicle drop off area and parking lot
- Package C: Mezzanine Project

In order to be cost efficient, Packages A and C were awarded to one contractor and constructed as a singular project. As such, the Mezzanine Project (Package C) was built with Package A, which resulted in invoices with scope from both packages. However, the final total cost for Package C totaled over \$31,000,000. ②

Metro staff reviewed project Invoice 15 in detail with the auditors. The invoice included items from both packages but was comprised primarily of Mezzanine Project work (Bulletin 3). LA Metro worked closely with the IOAI auditors to clarify the details of Invoice 15 and allowability of the questioned costs. Metro believes the finding is based on an incomplete assessment of the construction work within the invoices.

Metro is concerned that the project reimbursements have been simplified to Invoice 15. Metro asserts that the scope of work in this specific Invoice is for the Mezzanine and meets the costs. Metro will gladly supply additional Invoices to Caltrans that further indicate justified expenses for the Mezzanine. Metro looks forward to partnering with Caltrans to rectify any concerns.

IOAI Finding #2: LA Metro cannot support that it contributed the required matching funds because its expenditures report data are unreliable.

Metro Response

Design Expenditures:

Metro disagrees with this finding as the agency asserts that the expenditure report data are reliable to support the documentation of required match funding for projects. As stated in the IOAI Draft Report, LA Metro corrected the design expenditures for the Mezzanine Project from \$4.9 million to \$3.2 million. The correction was reflected on the Expenditure Detail Report for the design provided to the auditors during the audit. (See Exhibit A, total for task 02.003 – design of Mezzanine). ③

For efficiency, the correction was made through a journal correcting entry by backing out the incorrect amount of \$4.9 million and adding the correct amount of \$3.2 million. This procedure is consistent with Metro's long-term practice of efficiently correcting the total expenditures for a task when the details consist of numerous transactions without having to go through every line item. During the exit conference on October 14, 2024, Metro discussed with the auditors that we can show the details for the correct amount of \$3.2 million using an excel file. On October 16, 2024, we provided the excel file listing the detailed transactions that make up the incorrect amount (\$4.9 million) as well as the correct amount (\$3.2 million) that supports our corrected accounting journal entry. (See Exhibit B).

Metro asserts that we provided a reliable expenditure report which demonstrates that we met the matching requirement amounts for the grant agreement for the design expenditures, as shown in Exhibits A and B. Metro looks forward to partnering with Caltrans to rectify any remaining concerns around this finding.

Construction Expenditures:

Metro detailed in several meetings that the construction expenditures for the transactions reviewed as part of this audit are direct costs. In these transactions, the total distribution costs for Items 4-5 are direct costs for the mezzanine from Cubic Transportation System, Inc. to procure and install new TVMs, fare gate consoles, and emergency swing gates, and to remove and relocate the existing fare equipment to support the reconfiguration work at the mezzanine. For Item 7, the total distribution cost from Stantec is based on direct design and engineering services during construction for the mezzanine structure, including a revised beam schedule. Metro continues to assert that these transactions were direct costs and applying the percentage split was not applicable. Metro looks forward to partnering with Caltrans to rectify any remaining concerns around this finding. ④ ⑤

IOAI Finding #3: LA Metro did not meet key deadlines for completing projects.

Metro Response

Metro acknowledges that LPP and TIRCP requirements state that implementing agencies have up to 36 months to accept the contract after contract award. By accepting funds from these programs, Metro accepted responsibility to meet the requirement. However, Metro asserts that

Response To Confidential Draft Report – Los Angeles County Metropolitan Transportation Authority *November 22, 2024*

although this method of confirming adherence to the performance period deadline is practical in principle, it is challenging to universally apply in practice.

Metro is an agency with hundreds of transportation projects in planning, design, engineering, construction, testing, and operations. As such, Metro utilizes several strategies for simultaneously delivering portfolios of projects within the complex and changing conditions seen in the construction industry and, specifically, across Los Angeles County. Among the strategies available to and used by Metro to manage uncertainty, risk, and cost are alternative contracting methods, scope packaging and bundling within contracts, and scope phasing – at least one of which was utilized in the audited projects. These types of delivery strategies, which are effective at mitigating risk and managing uncertainty, are difficult to fit cleanly within the 36-month contract acceptance requirement. Even with these tools, Metro cannot control all factors. Like many others delivering construction projects during and since the start of COVID-19, Metro and its vendors had to take extraordinary steps to adjust to the changing conditions.

Metro will continue to improve its procedures to ensure it fulfills commitments to grantors. Additionally, Metro is actively working with State staff and other stakeholders to refine regulations, policies, and procedures that affect the agency's projects, including this requirement. Metro looks forward to partnering with Caltrans to rectify any remaining concerns around this finding.

If you have any questions, please reach out to Jeremy Borrego at Borregoj@metro.net 213-922-2240, or Kathy Banh at banhk@metro.net 213-547-4311. Thank you.

Sincerely,

 Digitally signed by Shawn Atlow
Date: 2024.11.25 16:06:37 -08'00'

Shawn Atlow
Executive Officer
Countywide Planning and Development

Enclosures: Exhibit A, Exhibit B

cc: Stephanie Wiggins, Sharon Gookin, Kimberly Houston, Ray Sosa, Timothy Lindholm, Nalini Ahuja, Randall Cameron, Laurie Lombardi, Jeremy Borrego, Kathy Banh, Rafie Zamani, Gerardo Alvarez, Paul Whang, Kenyon Price, Diana Estrada (Metro)

Comments Concerning the Response Received From LA Metro

To provide clarity and perspective, we are commenting on LA Metro's response to our report. The numbers below correspond to the numbers we have placed in the margin of the response.

1. LA Metro states we audited six projects. However, as we state in our report on page 4, we audited only two projects, the Mezzanine and Signals Improvements Projects.
2. LA Metro's approach does not exempt it from maintaining clear documentation that demonstrates costs are specifically associated with the approved scope of work for the Mezzanine Project. We believe the combination of project packages for construction efficiency, while potentially cost-effective, creates an additional responsibility to maintain clear segregation of costs between packages to ensure grant compliance. As we cite in our report on page 11, the 2018 SB1 Accountability and Transparency Guidelines state project costs qualify for reimbursement only made for expenses related to the project scope, costs, and schedule. Additionally, as stated in our report, we recognize that the documents we reviewed with detailed descriptions of the scope of work were technical, thus we recommend that LA Metro work with Caltrans to verify whether the questioned costs are exclusively related to the approved Mezzanine Project scope.
3. LA Metro provided an Excel file with additional details on October 16, 2024 (for brevity, we omitted the exhibits noted in LA Metro's response from this report). The Excel file and the exhibits noted in LA Metro's response are still insufficient to support how LA Metro calculated the corrected amount in its FIS expenditure report. As we describe on page 13 of our report, LA Metro did not provide adequate documentation, such as invoices, to support that its FIS expenditures report is reasonably complete and accurate.
4. As we discuss on page 13 of our report, for three transactions from the construction work we reviewed, LA Metro could not provide adequate evidence to support the percentage split it applied to the Mezzanine Project.
5. LA Metro claims that the costs specific to Cubic Transportation System, Inc. and Stantec should be fully allocated to the Mezzanine Project. However, LA Metro's claim contradicts the information it provided to us to support the transactions. Specifically, our review of the support provided by LA Metro noted that LA Metro did not actually allocate the full amount from those invoices to the Mezzanine Project; instead, it applied a percentage from each invoice to the Mezzanine Project. LA Metro did not provide evidence supporting its statement that the construction expenditures for the transaction reviewed during this audit are direct costs.



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