

Independent Office of Audits and Investigations

Annual Summary of Findings and Recommendations

November 2018



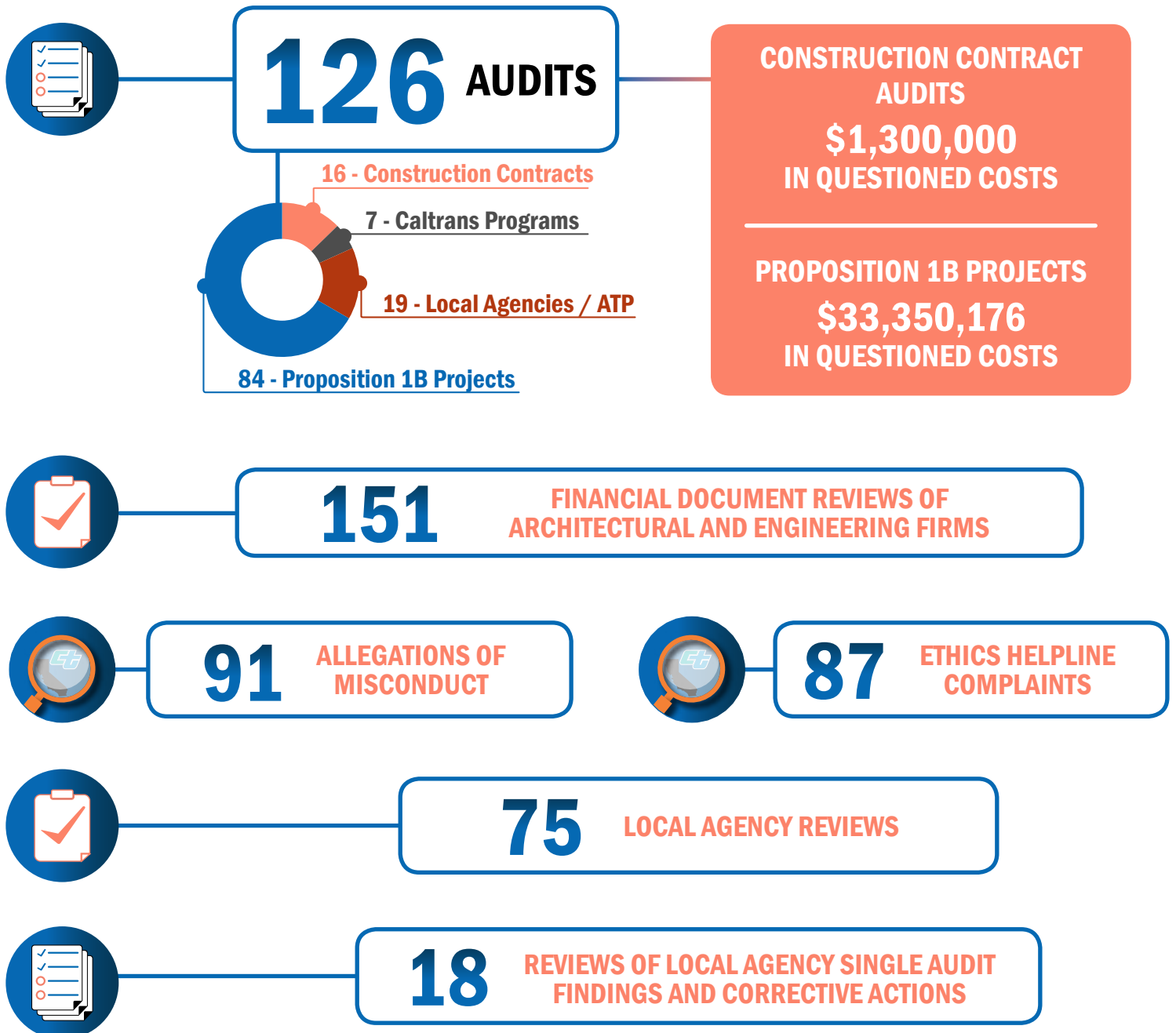
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INTRODUCTION

The Road Repair and Accountability Act, Chapter 5, Statutes of 2017 (SB 1), created the Independent Office of Audits and Investigations (IOAI) and the Inspector General to ensure the California Department of Transportation (Caltrans) and external entities that receive state and federal transportation funds from Caltrans are spending those funds efficiently, effectively, economically, and in compliance with applicable state and federal requirements.

SB 1 requires the Inspector General to report a summary of investigation and audit findings and recommendations at least annually to the Governor, the Legislature, and the California Transportation Commission (CTC). This first annual report from the Inspector General covers the period July 1, 2017, to June 30, 2018.



KEY FINDINGS/HIGHLIGHTS - CALTRANS PROGRAMS

1. Baseline for Senate Bill 1 Performance Outcomes - P3010-0639 Issued April 24, 2018 (click for report)



SB 1 requires Caltrans meet specified performance objectives over the next 10 years, including the expected condition of assets such as pavement, culverts, transportation management systems (TMS), and the number of bridges fixed. It is crucial that Caltrans establish a baseline inventory of assets and their conditions so that progress toward the performance objectives can be accurately measured and reported. The purpose of this audit was to determine if the established baseline inventory was supported and reliable, and if Caltrans had a plan and performance criteria for each of the assets, if policies and procedures were in place to adequately track and assess asset conditions and monitor and report on outcomes.

The audit determined Caltrans is making progress toward the development of procedures to achieve SB 1 performance outcomes and identified the following areas where improvement can be made:

Adopt policies and procedures to comply with level of service performance outcomes.

Complete inventory of culverts and establish an ongoing re-inspection program.

Maintain an accurate inventory of the TMS elements.

An audit of the pavement asset class will be completed in 2018 - 19 because Caltrans finalized its first Transportation Asset Management Plan (TAMP) and related benchmarks after fieldwork was completed.



Since the audit was released, Caltrans has prioritized additional staff to complete the inventory of culverts and establish an ongoing re-inspection program.



The 2018 - 19 Audit Plan proposes audits of the process and methodology for pavement and TMS projects to continue the work of establishing an appropriate baseline for measuring progress toward SB 1 performance outcomes.

KEY FINDINGS/HIGHLIGHTS - CALTRANS PROGRAMS

2. Efficiency Measures Audit – P3010-0641 Issued July 23, 2018 [\(click for report\)](#)

SB 1 requires Caltrans to implement efficiency measures with the goal of generating at least \$100 million annually in savings to invest in maintenance and rehabilitation of the state highway system. This audit was limited to evaluating the process, policies, procedures, and methodology used in identifying and measuring savings for efficiencies selected by Caltrans. Efficiency measures reviewed include streamlining environmental reviews, Value Analysis, and contracting using the Construction Manager/General Contractor model.

The audit determined that Caltrans programs were proactive in identifying areas of efficiencies and developing policies and procedures to achieve at least \$100 million in savings.



Caltrans used recommendations from the audit report regarding assumptions, calculations, and tracking of costs and savings prior to submitting its Annual Efficiencies Report to the CTC.



A planned audit will determine if the efficiency savings estimates reported to the CTC are supported and if Caltrans has developed a methodology to track savings from Value Analysis and Construction Manager/General Contractor processes in the future.

3. Impact of Equipment Rental Audit - P3010-0636 Issued May 25, 2018 [\(click for report\)](#)

In fiscal years 2015 - 16 and 2016 - 17, Caltrans spent \$25 million for equipment rentals. The purpose of this audit was to determine the cost effectiveness of renting versus purchasing equipment and whether there is adequate ongoing equipment monitoring activities.

The audit determined cost and use records are missing, insufficient, and/or unreliable; compliance with established policies and procedures is deficient; contract management deficiencies resulted in over payments and payments without contract authority; and fleet optimization is ineffective.

The audit recommended Caltrans compile sufficient and reliable rental cost and usage data to optimize equipment use and determine when Caltrans should purchase rather than rent equipment in the future; update policies and guidance; ensure rental contracts are clear, concise, and include all necessary clauses; and ensure staff understand rental equipment contract terms and conditions and review all invoices for compliance with all contract terms and conditions.

KEY FINDINGS/HIGHLIGHTS - ARCHITECTURAL AND ENGINEERING CONSULTANTS

Financial documents from Architectural and Engineering (A&E) consultants are reviewed to determine if the Indirect Cost Rate and direct costs proposed are supported, reasonable, and in compliance with the cost principles and administrative requirements set forth by the Federal Highway Administration in 48 CFR Part 31 and 23 CFR Part 172. Caltrans and local agency contracts are reviewed. Avoided costs are estimates of unallowable costs identified by auditors prior to contract execution. Unallowable costs can include, among other things, overstated indirect cost rates and incorrect vehicle and equipment rates.



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FINANCIAL DOCUMENT REVIEWS OF A&E CONTRACTS



59

 Contracts

(Valued at **\$332,000,000**)

Between Caltrans and A&E Consultants:

≈\$6,457,169 in avoided costs



92

 Contracts

(Valued at **\$158,000,000**)

Between Local Agencies and A&E Consultants:

≈\$1,300,000 in avoided costs

KEY FINDINGS/HIGHLIGHTS - LOCAL AGENCIES

The Stewardship and Oversight Agreement between the Federal Highway Administration and Caltrans requires Caltrans to assess accounting controls of local agencies through various monitoring activities described in Caltrans' Local Assistance Procedures Manual, including Indirect Cost Allocation Plan (ICAP)/Indirect Cost Rate Proposals (ICRP) reviews and audit, Incurred Cost Audits, Pre-Award Audits, and reviews of local agency Single Audits. Local agencies must receive acceptance or approval of their ICAPs/ICRPs to bill Caltrans for overhead costs.



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LOCAL AGENCY REVIEWS



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LOCAL AGENCY AUDITS

TYPES OF LOCAL AGENCY AUDITS

2 - Procurement Process

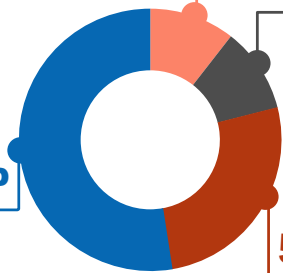
2 - Active Transportation Program

City of Compton - P1575-0058 ([click for report](#))

City of Arvin - P1575-0057 ([click for report](#))

\$815,000 in Questioned Costs

10 - ICRP / ICAP



5 - Incurred Cost

\$405,000 in Unallowable/Questioned Costs



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**REVIEWS OF LOCAL AGENCY SINGLE AUDIT
FINDINGS AND CORRECTIVE ACTIONS**

KEY FINDINGS/HIGHLIGHTS - PROPOSITION 1B

The California Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) dedicated \$19.925 billion over a ten-year period for transportation projects. Under Government Codes 8879.2(c) and 8879.50, audits are required of bond project expenditures and outcomes.

\$266,206,242

84 PROJECTS

\$33,350,176

TOTAL UNALLOWABLE/QUESTIONED COSTS

12.6%

QUESTIONED COSTS AS % OF TOTAL

PROPOSITION 1B NON-DOLLAR FINDINGS

	CALTRANS PROJECTS	LOCAL AGENCY PROJECTS	TOTAL	PERCENT OF TOTAL AUDITED
FINAL DELIVERY REPORT NOT SUBMITTED TIMELY	11	10	21	25.00%
FISCAL CONTROLS NEED IMPROVEMENT	9	6	15	17.86%
IMPROVEMENTS NEEDED IN REPORTING PROJECT BENEFITS/ OUTCOMES	9	1	10	11.90%
PROJECT BENEFITS/OUTCOMES NOT SUPPORTED OR ACHIEVED	4		4	4.76%
PROJECT DELIVERABLES NOT COMPLETED TIMELY OR ACCURATELY	2	2	4	4.76%
IMPROVEMENTS NEEDED IN PROCUREMENT PROCESS	1	3	4	4.76%
INCORRECT REPORTING OF PROJECT BENEFITS/OUTCOMES		2	2	2.38%
CONTROLS OVER MATCHING FUNDS NEED IMPROVEMENT	1	1	2	1.19%
INADEQUATE OVERSIGHT OF CONSULTANT EXPENDITURES		1	1	1.19%
INADEQUATE CONTRACT CHANGE ORDER OVERSIGHT		1	1	1.19%
IMPROVEMENTS NEEDED IN PROJECT CLOSE-OUT PROCESS		1	1	1.19%
QUESTIONED COSTS FOR ARBITRATION AND EQUIPMENT EXPENDITURES		1	1	1.19%

INVESTIGATIONS



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ALLEGATIONS OF MISCONDUCT

The IOAI conducts independent administrative investigations of alleged misconduct by any of Caltrans' 20,864 employees. Investigations can result from: complaints received from Caltrans management and/or employees, the Caltrans Ethics Helpline, audit findings, and/or members of the public. Investigative staff work collaboratively with all levels of Caltrans management—in headquarters and districts—to investigate and report on allegations of employee misconduct. The Investigations Unit also assists external entities, such as the California State Auditor and law enforcement agencies with their investigations. Substantiated cases are referred to Caltrans management and Caltrans' Office of Discipline Services to determine the appropriate level of discipline. Disciplinary action can include demotion, reduction in pay, or termination.

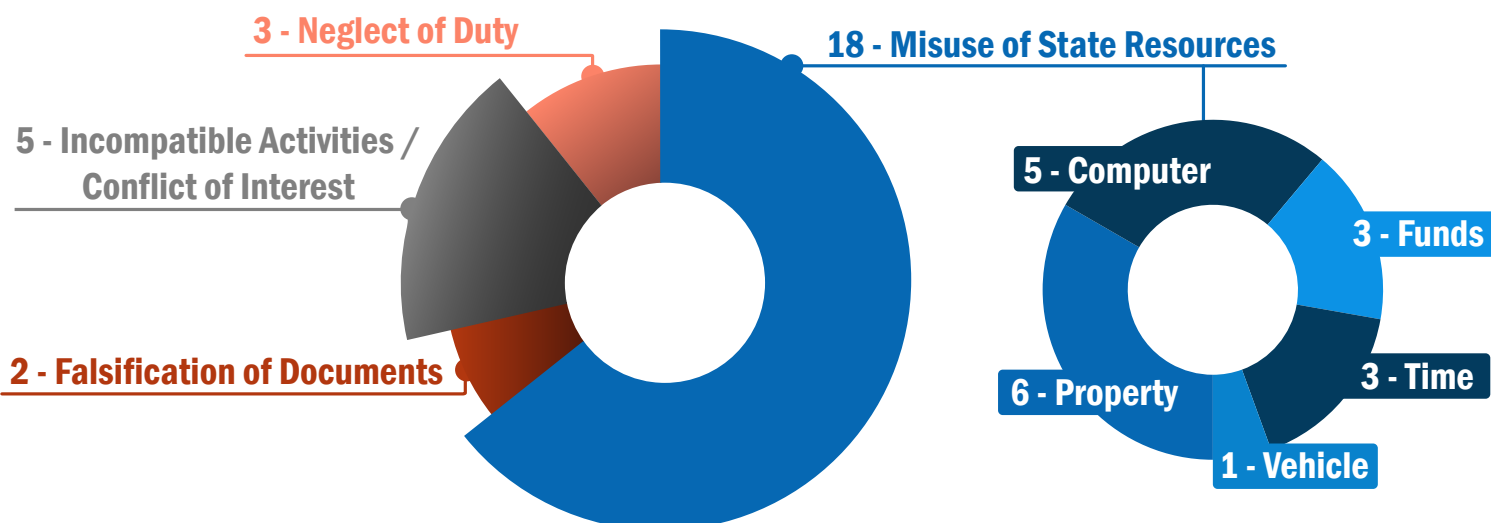
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FORMAL INVESTIGATIONS

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MISCONDUCT SUBSTANTIATED

TYPES OF SUBSTANTIATED MISCONDUCT

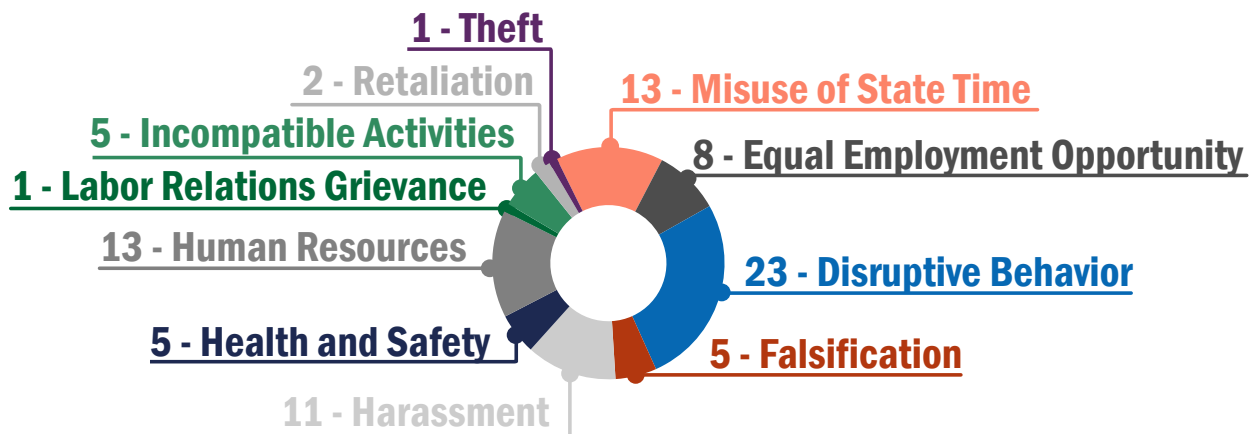


CALTRANS ETHICS HELPLINE

On January 16, 2018, management of the Caltrans Ethics Helpline was transferred to the IOAI. The helpline is a phone- and internet-based, multi-lingual service for Caltrans employees to report allegations of fraud, waste, and abuse; employee misconduct; and other ethics policy violations. The Investigations Unit conducts preliminary reviews of the complaints to determine the appropriate course of action, which may include follow-up from Caltrans management, formal investigations, and/or referral to law enforcement. Additionally, there is an “Ask Ethics” phone number and email address where Caltrans employees can seek guidance and ask questions about situations and issues in the workplace that raise ethical concerns. This report includes partial-year data from January 16 to June 30, 2018.



TYPES OF COMPLAINTS



ADMINISTRATIVE ACCOMPLISHMENTS

ORGANIZATIONAL STRUCTURE

SB 1 requires the Governor to appoint an Inspector General to lead the IOAI, and upon confirmation by the California State Senate, the Inspector General serves a six-year term. The Inspector General is vested with the authority to maintain a full-scope, independent, and objective audit and investigation program. The Inspector General has a duty to review policies, practices, and procedures and conduct audits and investigations of activities involving state transportation funds administered by Caltrans.

The 2017 - 18 Budget Act established 10 new positions and transferred 48 existing positions from Caltrans programs to the IOAI. The organizational structure of the audit staff at the time of the transfer was generally based on the type of entity being audited—Caltrans programs and divisions (internal), local government agencies, and contracts between Caltrans and consulting and construction firms (external). One example highlights the inadequacy of this structure: audits of three Joint Powers Authorities were completed and showed some weaknesses in oversight by the related Caltrans program; however the audit staff was not consulted when a separate audit of the same Caltrans program was initiated several months later. The lack of interaction between external and internal auditors was a missed opportunity to look at the program's overall effectiveness.

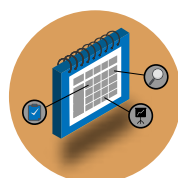
To create an environment in which auditors can develop expertise in Caltrans programs and make recommendations that are timely, relevant, and meaningful, the IOAI audit staff has been restructured into three units—Finance and Operations, Project Delivery, and Planning and Modal. Each of these units relates to programs or functional areas of Caltrans that best fit together. The Investigations Unit will not change.



Finance & Operations



Project Delivery

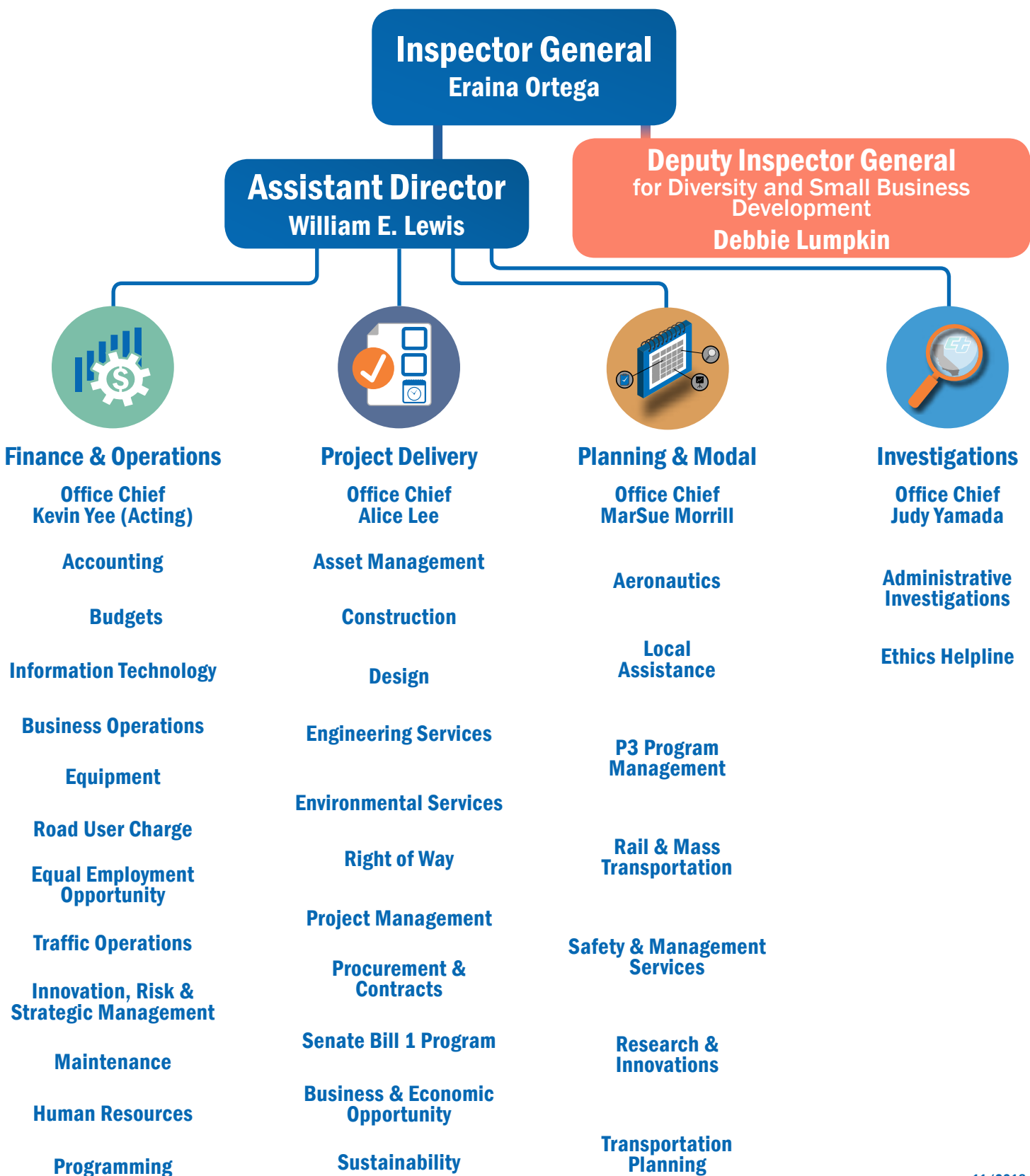


Planning & Modal



Investigations

One example from the Planning and Modal unit that demonstrates the potential benefit of the new structure is the audit team assigned to the Active Transportation Program (ATP) as part of the 2018 - 19 Audit Plan. Audits of local agencies are underway to determine if ATP projects have been completed as proposed, and a review of Caltrans' oversight of the program has begun. In the past, this program would have been audited by separate units. Under the new structure, auditors of both local agencies and Caltrans share information and formulate recommendations that improve accountability in the program overall.

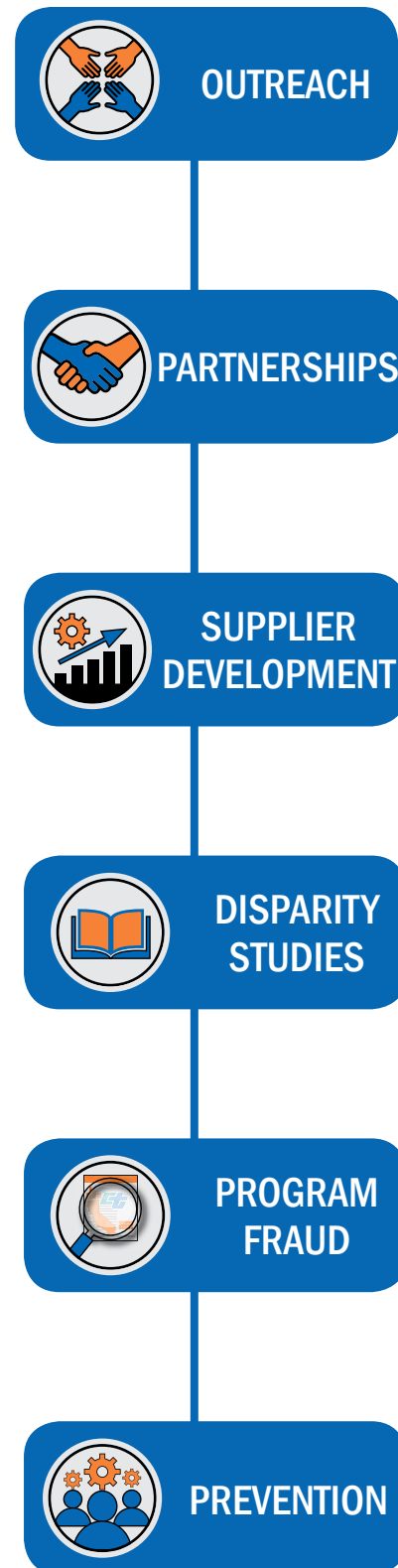


ADMINISTRATIVE ACCOMPLISHMENTS

DIVERSITY AND SMALL BUSINESS DEVELOPMENT

Following the passage of SB 1, SB 103 (Chapter 95, Statutes of 2017) was approved in July 2017 and requires Caltrans to undertake several activities to increase procurement opportunities for small/micro enterprises, disabled veteran-owned, and new and limited contracting small businesses, as well as underrepresented, disadvantaged, formerly incarcerated, and LGBT business enterprises or individuals. In addition, it requires Caltrans to prepare a plan that includes steps it will take to prevent discrimination or preferences in its employment and contracting practices. SB 103 also requires a detailed outreach plan that focuses on partnerships, sponsorships, training, workshops, prime supplier engagement, pre-bid meetings, mentorship programs, apprenticeships, and relevant disparity study findings. It directs the Inspector General to review, audit, and report on Caltrans' outreach efforts.

To administer the statutory requirements of SB 103, Governor Edmund G. Brown, Jr. appointed the Deputy Inspector General for Diversity and Small Business Development. The Deputy Inspector General (DIG) is responsible for the review of programs, policies, and procedures related to diversity and small business development efforts by Caltrans. The DIG works with the Inspector General, auditors, and investigators to identify risks and appropriate audits and investigations to assist Caltrans in preparing for and executing SB 103 requirements. In addition, the DIG is tasked with providing recommendations and sharing best practices that assist Caltrans in expanding its diversity efforts and small business development opportunities. The DIG is a resource within Caltrans and with external partners to identify and resolve issues.



COMMUNICATION STRATEGIES

INDEPENDENT OFFICE OF AUDITS AND INVESTIGATIONS WEBSITE

To promote transparency and provide clear and concise information to the public, the IOAI launched a website in November 2018. The website will provide access to reports issued, including final audit reports of Caltrans programs and external entities. The website includes resources for consulting firms, local agencies, and the Diversity and Small Business Development program.

Reports will be issued in HTML and PDF format for reading online or offline

Searchable audits and reports with navigation for easy readability



Schedule of audits and reports currently in process

Diversity and Small Business Development

Resources for consulting firms and local agencies

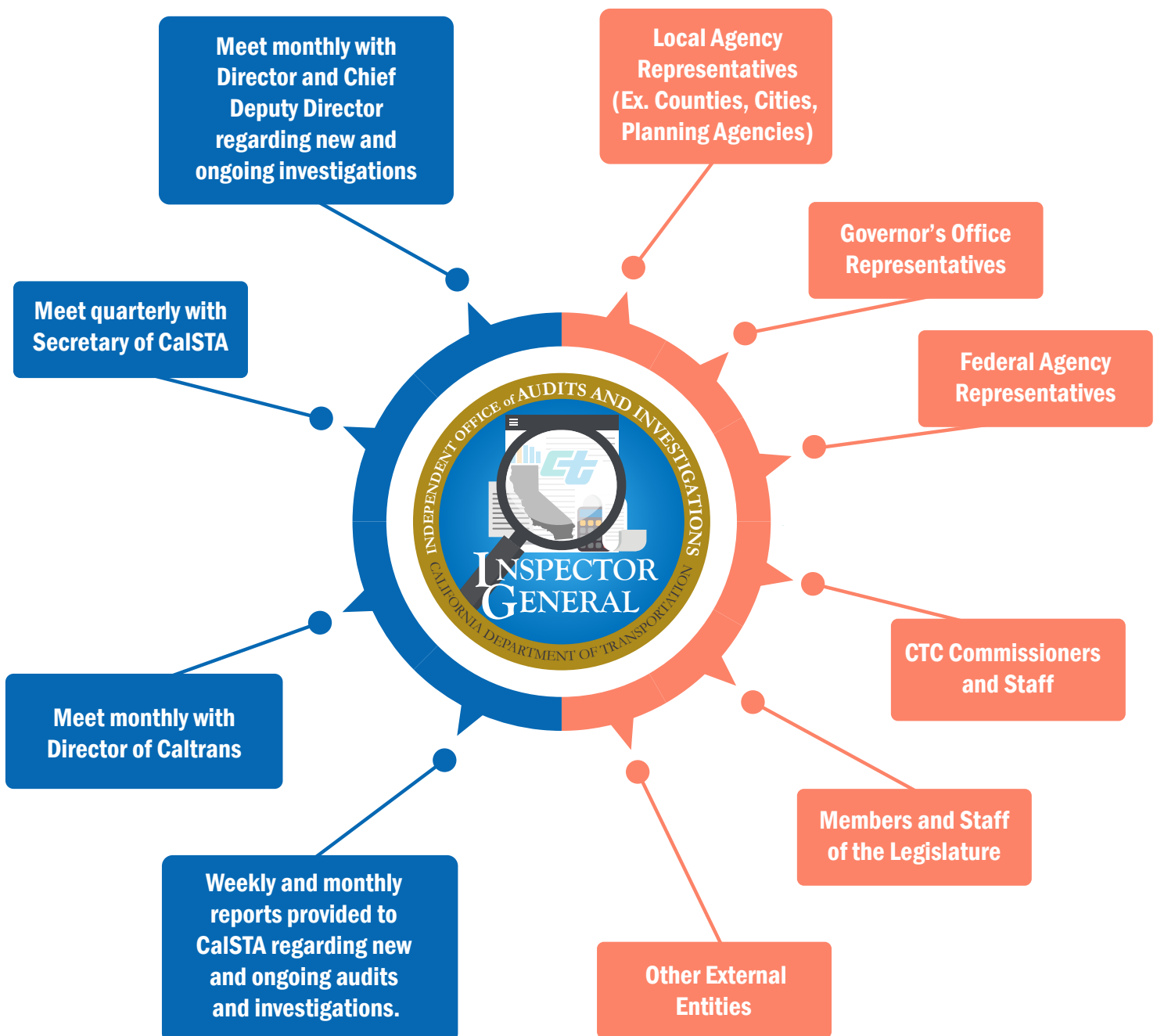
COMMUNICATION STRATEGIES

In addition to an annual report, SB 1 requires the Inspector General to report all audit and confidential investigation findings to the Secretary of the California State Transportation Agency (CalSTA) and to the Director and Chief Deputy Director of Caltrans on a regular and ongoing basis. Several communication strategies are used to fulfill this requirement.

Further, the Inspector General has met on an informal basis with staff of the Legislature, the CTC, the California Department of Finance, and local agency representatives. Looking ahead, more regular communication will be established with these representatives as well as those from federal agencies and other external entities as appropriate.

ESTABLISHED COMMUNICATIONS

ADDITIONAL FUTURE COMMUNICATIONS



LOOKING AHEAD

STATUS OF AUDIT RECOMMENDATIONS

The IOAI issued 7 audit reports containing 38 recommendations to Caltrans programs (divisions). At the time of this report, the divisions implemented 37 of the recommendations. The remaining recommendation has not been fully implemented.

Local agencies were issued 103 audit reports, including 2 ATP audits and 84 Proposition 1B audits. Prior to the passage of SB 1, recommendations made to local agencies were not tracked. Consistent with the requirement in SB 1 that the IOAI ensure external entities that receive state and federal transportation funds from Caltrans are spending those funds efficiently, the IOAI has begun to track implementation of recommendations made to local agencies.

Any significant recommendations that are not fully implemented will be reported in future reports with a written response explaining why significant recommendations are not fully implemented.

2018 - 19 AUDIT PLAN

The 2018 - 19 Audit Plan issued in July 2018 sets direction for the IOAI for the period July 1, 2018, through June 30, 2019. The Audit Plan is a guiding document that is subject to change based on the availability of resources and the need to set new priorities or initiate different assignments over the course of the year.

The Audit Plan proposes audits and reviews that are 1) mandated by state or federal law or policy, 2) determined necessary to comply with state or federal reporting requirements, and/or 3) selected after an assessment of the risk factors or conditions that could adversely affect the ability of Caltrans and external entities to accomplish stated goals and priorities.

PROPOSED AUDIT RELEASES FOR 2019

- ★ **Caltrans Enterprise Risk Management Program (January)**
- ★ **Active Transportation Program Accountability (January)**
- ★ **Disadvantaged Business Enterprise Program Certification Process (March)**
- ★ **Verification of Estimated Savings from Caltrans Efficiency Measures (April)**
- ★ **Progress Toward SB 1 Performance Outcomes for Pavement Assets (June)**
- ★ **Review of Plan to Prevent Discrimination or Preferences in Employment and Contracting Practices (June)**