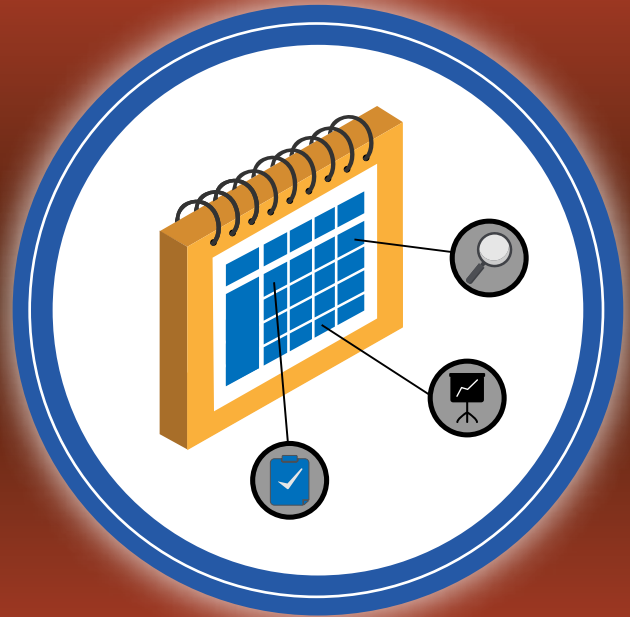


AUDIT PLAN

July 1, 2020 - June 30, 2021

Report of the Inspector General



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Audits

The Road Repair and Accountability Act, Chapter 5, Statutes of 2017 (SB 1), created the Independent Office of Audits and Investigations (IOAI) and the position of 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).

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 Caltrans 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.

Pursuant to SB 1, IOAI provides a full scope, independent, and objective audit and investigation program. The 2020-21 Audit Plan is a guiding document that outlines audit and investigative priorities and identifies specific engagements to be performed during the coming year.

Key SB 1 audits detailed in this plan include:

- Evaluation of new efficiency measures instituted to achieve \$100 million in savings.
- Progress of Caltrans towards meeting mandated SB 1 performance outcomes.
- Program oversight and accountability for various programs identified in SB 1.
- Effectiveness and accuracy of Caltrans Project Cost Estimates.
- Verification of SB 1 project costs for compliance with applicable laws, rules, and regulations.
- Caltrans efforts to enhance employee safety in the work zone.

The Audit Plan also includes incurred cost audits and reviews of financial documents of architectural and engineering firms that contract with Caltrans and local entities. In accordance with Caltrans' stewardship and oversight role over federal funds, Local Government Indirect Cost Rate proposals, Indirect Cost Allocation Plans, and incurred costs will be reviewed and audited as appropriate. Additionally, for SB 103 reviews will continue to determine when questions of diversity, equity and inclusion should be considered as part of the scope of work on routine audit work to assist in making recommendations consistent with the intent of SB 103 to increase procurement opportunities for small, disabled veteran, and disadvantaged business owners; and to prevent discrimination in hiring and contracting practices.

Investigations and Ethics

Confidential administrative investigations are conducted when allegations of employee misconduct are identified. Examples of allegations of employee misconduct are: misuse of state resources, incompatible activities, conflict of interest, document falsification and ethics policy violations. Information about the investigations derived from and management of the Ethics Hotline is also included in the Audit Plan.

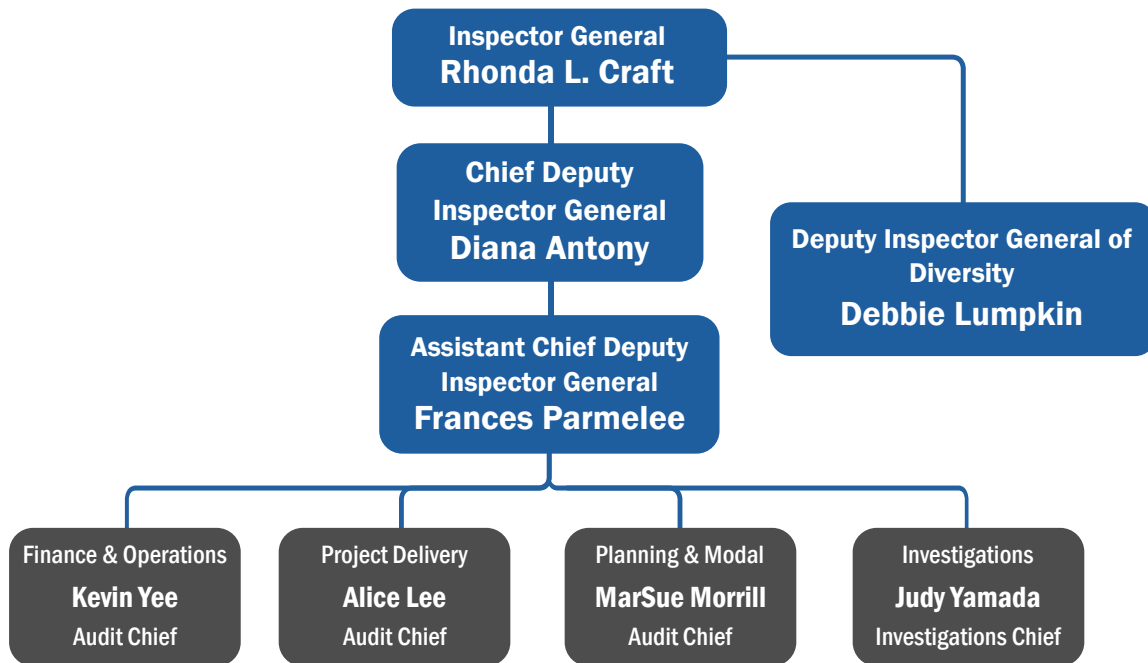
The 2020-21 Audit Plan identifies assignments and sets direction for the IOAI for July 1, 2020, through June 30, 2021. The Audit Plan is a guiding document that is subject to change based on the availability of resources and the need to set new priorities or initiate different projects over the course of the year.

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

As part of the assessment of risk within Caltrans, IOAI considered the following risk factors: asset management; effective coordination of SB 1 programs; ability to recruit, hire, train, and retain well-qualified staff; shift to multi-modal transportation planning and policy; need to modernize technology systems; and ability to achieve performance targets. The financial impact of these factors, specific directives in law, recent or past audit experience, and employee disciplinary information were also considered. The selection of audits and reviews of external entities is also risk-based. An external entity's risk was assessed using a number of factors including, but not limited to: little or no audit history, poor prior performance, past whistleblower or ethics complaints received, and financial impact. Much of the external audit work is mandated by law or policy, requested by Caltrans, and/or by agreement with the Federal Highway Administration.

The California Legislature designated the California State Auditor (CSA) as the responsible agency to perform the annual audit of the state's financial statements and compliance with the Single Audit Act. This Audit Plan does not provide for an independent audit of the Caltrans financial management system; however, CSA may rely on certain audits performed by IOAI when performing the Single Audit.

Caltrans, as a pass-through entity of federal funds, must ensure local government agencies, universities, and non-profit entities comply with single audit requirements. IOAI assists the department in this effort.



Inspector General

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 shall serve a six-year term. The Inspector General is vested with the authority to exercise all responsibility for maintaining a full scope, independent, and objective audit and investigation program as prescribed by law. 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 the department and to report findings and recommendations to the Secretary of Transportation and the director and chief deputy director of Caltrans on an ongoing and current basis.

At least annually, or upon request, the Inspector General is required to report to the Governor, the Legislature, and the California Transportation Commission (CTC) with a summary of investigation and audit findings and recommendations.

Deputy Inspector General

To administer the statutory requirements of SB 103, Governor Edmund G. Brown, Jr. appointed a Deputy Inspector General for Diversity and Small Business Development in 2018. 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 works with external partners to identify and resolve issues.

SB 1 Performance Outcomes

Efficiency Measures to Achieve \$100 Million in Savings ([click for report](#))

SB 1 requires Caltrans to implement efficiency measures with the goal to achieve at least

\$100 million per year in savings to invest in maintenance and rehabilitation of the state highway system. Caltrans is required to report the savings to the California Transportation Commission (CTC).

In the 2019-20 Audit Plan, the IOAI included an audit to determine if Caltrans had internal controls in place to ensure the program areas identified can achieve the estimated savings. Specifically, the audit objectives were to determine if the reported efficiency savings reported and the methodology used to calculate the savings is supported with adequate documentation and if the savings would be available for reinvestment into the maintenance and rehabilitation of the state highway system. The audit report is expected to be issued in October 2020.

The 2020-21 Audit Plan includes an audit which will be initiated after Caltrans submits its annual Efficiency Report to the CTC in October 2020. IOAI will perform an audit of the new efficiency measures with significant savings identified to determine whether the savings reported by Caltrans are supported and available for reinvestment in the maintenance and rehabilitation of the state highway system.

Progress Toward Achieving SB 1 Performance Outcomes ([click for report](#))

SB 1 establishes performance outcomes for five state highway assets:

- Not less than 98 percent of pavement in good or fair condition.
- Not less than 90 percent level of service achieved for maintenance of potholes, spalls, and cracks.
- Not less than 90 percent of culverts in good or fair condition.
- Fix at least an additional 500 bridges.
- Not less than 90 percent of transportation management system (TMS) units in good condition.

Bridges

An audit was initiated in June 2020 and will be completed in 2020-21. The audit will review Caltrans efforts to meet the performance outcome for bridges to ensure policies, procedures, and metrics exist to adequately track, assess, monitor, and report on bridge improvements. Additionally, the audit will assess the progress Caltrans is making on meeting the performance objective of fixing at least 500 bridges and will review the process and documentation to support the revised baseline of 114 bridges per year.

Culverts

An audit was initiated in 2019-20 and will be completed in 2020-21. The audit will determine if Caltrans implemented a corrective action plan and made progress in establishing an accurate and complete inventory of culverts; established a re-inspection process for existing culvert inventory; are identifying future culvert maintenance activities and progress made to achieving the SB 1 performance goals; and has documented policies and procedures to ensure culverts are properly inventoried and assessed on an ongoing basis.

Follow-Up on Prior SB 1 Audits Findings

In fiscal year 2019-20, three audits are planned to follow up on each of the findings noted in the Baseline for Senate Bill 1 Performance Outcome audit, dated April 2018. That audit determined whether Caltrans had established an appropriate baseline to measure future progress toward achieving the performance goals. The planned audit objectives included evaluating the corrective actions taken by Caltrans in the following areas:

- Level of service performance outcomes - policies and procedures to ensure compliance with SB 1.
- Complete inventory of culverts.
- Accuracy of inventory in relation to the Transportation Management System Elements.

The audits for Level of Service and Transportation Management System Elements were postponed to 2020-21 as Caltrans' implementation of corrective actions were in process. See above for the culvert related audit.

Independent Office of Audits and Investigations Oversight Responsibilities

Accuracy of Capital Project Cost Estimates

An audit was initiated in 2019-20 and will be completed in 2020-21. The Audit will determine if Caltrans' process for estimating capital project costs can be improved to reduce Caltrans' risk related to over/under budgeting by reviewing the frequency, magnitude, and causes of variances in costs from the engineer's certified estimate to contract acceptance.

Accuracy of Support Project Cost Estimates

The 2020-21 audit plan includes an audit to determine if Caltrans' process for estimating support project costs can be improved to reduce Caltrans' risk related to over/under budgeting by reviewing the frequency, magnitude, and causes of variances in costs from project inception to contract acceptance.

SB 1 Fund Allocations and Expenditure Internal Controls

The 2020-21 audit plan includes an audit to determine if Caltrans has adequate internal controls to adequately account for all SB 1 allocations and expenditures, including expenditures at the program and project level.

Increasing Accountability for Local Assistance Programs

SB 1 states the intent of the Legislature to hold Caltrans and local governments accountable for the efficient investment of transportation funds including through performance goals that are tracked and reported. The California Transportation Commission (CTC) is responsible for identifying and reporting to the Legislature and public the expected and actual benefits of projects and whether projects are delivered within their approved scope, cost, and schedule. To fulfill this obligation, the CTC adopted SB 1 Accountability and Transparency Guidelines that apply to all specified SB 1 programs. Additionally, individual program guidelines, such as Active Transportation Program Guidelines or Trade Corridor Enhancement Program Guidelines, were adopted and define specific program-level requirements.

Pursuant to CTC guidelines, Caltrans provides the administrative oversight for SB 1 programs and ensures the terms and conditions of the CTC guidelines and subsequent programming, allocation, reporting, and other actions are followed.

The 2020-21 Audit Plan includes audits of local recipients funding received under various Caltrans program. In line with SB 1 allocations and other risk criteria, the audits include SB 1 project costs. Areas of audit may include the Active Transportation Program; Congested Corridor; Trade Corridor; Transit and Intercity Rail; Local Planning; Maintenance; and Local Partnership Program. The objective of these audits is to determine if project costs claimed and reimbursed are supported and in compliance with agreement provisions and state and federal laws and regulations, and if expected performance outcomes and outputs were met.

Addressing Information Technology Risks

In its December 2019 State Leadership Accountability Act report to the Department of Finance (DOF), Caltrans identified the lack of adequate funding allocated to the IT infrastructure lifecycle management program. Caltrans received additional funding in the 2018-19 Budget Act to develop an Information Technology Architecture Roadmap. The application Architecture Roadmap was completed and is waiting for final presentation to Caltrans Executive Board. This Roadmap will be used to prioritize and guide future application efforts. Caltrans will develop a Budget Change Proposal to fund the IT infrastructure lifecycle management program.

The 2019-20 Audit Plan included an audit to determine whether Caltrans is in compliance with State Administrative Manual (SAM) and Statewide Information Management Manual (SIMM) requirements to establish and maintain appropriate computer software management practices and ensure that computer software used and/or purchased with state funds is legally procured and is used in compliance with licenses, contract terms, and applicable copyright laws. This audit was deferred as Caltrans was in the process of implementing a new software tool to reconcile and track computer software. The postponed audit is planned for 2020-21.

A second audit will document and evaluate Caltrans' information technology governance process and incorporate findings into the ongoing risk assessment process. These two audits will assist the department as it moves forward to address information technology risks. This audit was also postponed and is planned for 2020-21.

Employee Safety

Caltrans' number one goal is to provide safety to its employees and the public who use the transportation system. The 2019-20 audit plan included an audit of Caltrans' efforts to increase the safety of its employees in the work zone. The audit included a review of programs within Caltrans that have responsibility for safety policy and procedures. This year's carryover audit will evaluate if employees have the tools necessary to perform their duties safely and if not, what tools are needed to enhance safety.

State-wide Commuting with State Vehicles

IOAI Investigations Unit conducted an investigation on behalf of the California State Auditor, involving employees within one District based on an allegation claiming employees were using their state-assigned vehicles for commute purposes. The investigation involved management who may not need an assigned state vehicle. This audit will include a review of the statewide policies and procedures and practices over business-related use of vehicles.

Reviewing Architectural & Engineering Consultant Cost Proposal Bid Documents

As a service to Caltrans Division of Procurement and Contracts (DPAC), the IOAI reviews cost proposal financial documents from Architectural and Engineering (AE) firms submitted to Caltrans as part of a bid proposal.

Audits of A&E Consultant Contracts with Caltrans and Local Agencies

IOAI performs independent audits of AE contracts. These audits test direct and indirect project costs billed by AE consultants to Caltrans and local agencies for compliance with contractual state and federal requirements.

Audits of Extra Work and Emergency At-Force Account Change Orders on Highway Construction Projects

The 2020-21 Audit Plan includes audits of payments to construction contractors for “Extra Work” and “Emergency” At-Force Account change orders that allow for payment for time and material work (labor, materials, equipment, and markup) added to the original scope of a contract or for emergency work. This method of payment is only allowed when strictly necessary such as when the extent of work is unknown or is of such character that a price cannot be determined to a reasonable degree of accuracy. Audits are performed to determine if billed costs are in compliance with Caltrans Standard Specifications, consistent with contract provisions.

Special Request Audits

At the request of the Caltrans Division of Construction, audits are conducted of construction contractors’ claims of financial damages resulting from projects delayed and/or terminated by Caltrans. Audits are performed to determine if claimed costs are allowable, allocable, reasonable, and in compliance with federal and state laws and regulations and contract provisions.

Providing Oversight of Federal Funds Received by Local Entities

The Stewardship and Oversight Agreement between the Federal Highway Administration and Caltrans establishes roles and responsibilities for oversight activities and requires Caltrans assess subrecipient accounting controls of local entities through various monitoring activities described in Caltrans' Local Assistance Procedures Manual (LAPM), including: Indirect Cost Allocation Plan (ICAP) acceptance and audit process, Incurred Cost Audits, Pre-award Agency Audits, and Single Audits. The 2020-21 Audit Plan includes the actions described below to comply with these requirements.

Submission Reviews and Audits of Local Governments Indirect Cost Rate Proposals and Indirect Cost Allocation Plans (ICRP/ICAP)

ICRP/ICAP submitted by local governments are accepted or reviewed for compliance with the requirements of 2 CFR Part 200. Once IOAI determined that the ICRP/ICAP meets the submission requirements, the IOAI issues acceptance letters to allow local governments to bill Caltrans for indirect costs. A risk assessment is performed by IOAI to identify the ICRP/ ICAPs that will be subject to an audit. The audit work is performed by either the IOAI and/or the Department of Finance through an inter-agency agreement.

Audits of Incurred Costs

Audits of Incurred Costs of local governments are performed to determine whether project costs claimed and reimbursed are allowable, reasonable, and adequately supported in compliance with agreement provisions, and state and federal laws and regulations. In line with SB 1 allocations and other risk criteria, IOAI will perform audits of SB 1 projects costs. Areas of audit may include the Active Transportation Program; Congested Corridor; Trade Corridor; Transit and Intercity Rail; Local Planning; Maintenance; and Local Partnership Program.

Incorporating Review of Diversity, Equity, and Inclusion Practices in Local Agency Audits

IOAI will continue to review opportunities to include diversity, equity and inclusion practices in all routine audit work. SB 103 expressed concerns about complex regulations, fair practices, process barriers, insufficient outreach, and development with over burdensome requirements. This fiscal year we will review opportunities to include diversity requirements in routine local agency audits.

Caltrans Outreach Plan & Implementation Report

In January 2019, Caltrans submitted a report to the Legislature detailing an outreach plan to increase procurement opportunities for new and limited contracting small business enterprises, including, but not limited to, those owned by women, minorities, disabled veterans, LGBT individuals, and other disadvantaged groups. Per SB 103, the Office of the Inspector General reviewed and provided an assessment of the outreach plan in fiscal year 2018-19. Outreach is a critical component to achieving diversity, equity, and inclusion. Therefore, the IOAI will continue its review of plan progress and accomplishments made by Caltrans through implementation of this plan.

Caltrans Small Business Growth Plan

SB 103 requires Caltrans to prepare a detailed plan by January 1, 2020 describing how the department will work to increase by up to 100% the dollar value of contracts and procurements awarded to certified small business, disabled veteran business enterprise, and disadvantaged business enterprise firms. Once Caltrans finalizes the report and provides it to the Legislature, a review will begin to determine if actions outlined in the report are in place and are being monitored to ensure progress is being made.

Mandated audits are required by statute, policy, standards or agreement. The 2020-21 Audit Plan includes the following mandated audits and assignments.

Proposition 1B Bond Audits

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. The IOAI is responsible for mandated performance audits to determine if Proposition 1B bond fund recipients complied with federal and state procurement requirements, project costs reimbursed were allowable, and to ensure project deliverables and outcomes were met. IOAI contracts with the Department of Finance to perform the majority of these audits, however, IOAI staff may conduct Proposition 1B audits in order to maintain knowledge and awareness in this field.

Quality Control Review

IOAI performs annual quality control reviews of the performance audits performed on Caltrans programs.

The General Accounting Office Government Auditing Standards (GAGAS), Quality Control and Assurance 5.02 requires an audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.

Monitoring of Quality requirements include that IOAI should:

- Section 5.42 requires establishment of policies and procedures for monitoring of quality control;
- Section 5.43 requires performance of monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures for GAGAS engagements;
- Section 5.44 requires analyzing and summarizing the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement along with recommendations for corrective actions;
- Section 5.45 requires the evaluation of the effects of deficiencies noted during monitoring of the audit organization's system of quality control to determine and implement appropriate actions to address the deficiencies;
- Section 5.46 requires the establishing of policies and procedures that require retention of engagement documentation for a period of time sufficient ... to evaluate its compliance with its system of quality control or longer if required by law or regulation.

Conducting Investigations

The Investigations Unit of the IOAI conducts independent, confidential administrative investigations involving allegations of employee misconduct. Investigations can result from: complaints from Caltrans management and/or employees, Caltrans' Ethics Hotline, audit findings, and/or direct contact from a member of the public. Investigative staff works collaboratively with Caltrans management at all levels (districts, programs, and divisions) to investigate and report on allegations of employee misconduct. The Investigations Unit also assists external entities, including the California State Auditor and law enforcement agencies, with investigations involving Caltrans employees.

Managing the Ethics Hotline

In January 2018, the Ethics Hotline was transferred to IOAI within the Investigations Unit. The Ethics Hotline is a phone- and internet based, multi-lingual site managed by a third-party vendor 24 hours a day, seven days a week. Examples of complaints received include allegations of abuse of state resources (i.e. time, vehicle, equipment), conflict of interest, falsification of documents, discrimination, health and safety violations, and hostile work environment. The ethics staff conducts the first level review of complaints from the Ethics Hotline. The complaints are analyzed and triaged to determine the appropriate course of action, which may include inquiry from Caltrans management, formal investigations by IOAI and/or referral to law enforcement.