

# AUDIT PLAN

**July 1, 2021 - June 30, 2022**

**Report of the Inspector General**



**[ig.dot.ca.gov](http://ig.dot.ca.gov)**

# 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 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 LGBTQ business enterprises or individuals. SB 103 directs the Inspector General to review, audit, and report on Caltrans' outreach efforts required by this section. In addition, the Inspector General shall audit businesses as appropriate to ensure that persons associated with entities that do not meet the definition of a new or limited contracting small business enterprise do not create a new associated entity that would meet the definition of new or limited contracting small business enterprise and thus subvert the purposes of this section.

Further, Government Code section 14460(a) requires IOAI to ensure Caltrans and external entities that receive state and federal transportation funds from Caltrans are spending those funds efficiently, effectively,

## IOAI Mission Statement

***Promoting accountability and transparency of state and federal transportation funding through independent and objective audits and investigations.***

## IOAI Values

***Independence*** – We conduct our work in an impartial and objective way while improving outcomes for all.

***Integrity*** – We promote trust and accountability through our consistent and ethical actions.

***Excellence*** – We look for innovative ways to effect change and continuously improve.

***Professionalism*** – We proudly represent our profession, our team, and the State of California.

economically, and in compliance with applicable state and federal requirements. Those external entities include, but are not limited to, private for profit and nonprofit organizations, local transportation agencies, and other local agencies that receive transportation funds either through a contract with Caltrans or through an agreement or grant administered by Caltrans.

Pursuant to SB 1, IOAI provides a full scope, independent, and objective audit and investigation program. The 2021-22 Audit Plan is a guiding document that outlines audit and investigative priorities and identifies specific engagements to be performed during the coming year. The majority of the audits performed by IOAI are considered performance audits under Government Auditing Standards.

## **Performance Audits**

Under Government Auditing Standards, performance audits provide objective analysis and conclusions to assist management and those charged with governance and oversight with improving program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. Performance audits vary widely depending on the audit objectives and scope. Common performance audits include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. Examples of these audits include, but are not limited to, determining:

- The extent to which legislative, regulatory, or organizational goals and objectives are being achieved.
- Current status or condition of program operations or progress in implementing legislative requirements.
- Determination of whether the entity is following sound procurement practices.
- Reliability, validity, or relevance of performance measures concerning program effectiveness and results or economy and efficiency.
- Resources are used in compliance with laws, regulations, or other requirements.
- Management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making.
- Incurred or proposed costs are in compliance with applicable laws, regulations, contracts, or grant agreements.
- Indirect Cost Allocation Plans and Indirect Cost Rate Proposals are prepared in accordance with Title 2 Code of Federal Regulations Part 200 (2 CFR 200).

## 2021-22 Audit Plan Risk Assessment

The 2021-22 Audit Plan identifies assignments and sets direction for IOAI for July 1, 2021 through June 30, 2022. 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; 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 is assessed using a number of factors including, but not limited to, fiscal significance, past audit history, program performance, and past whistleblower or ethics complaints received. External audits also include work that 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 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.

# **2021-22 Audit Work Plan**

## **Oversight of State and Federal Funds**

SB 1 provided a significant increase in state transportation funding and also created new and augmented existing programs including but not limited to, the Active Transportation Program, the Local Partnership Program, the Local Streets and Roads Program, the Solutions for Congested Corridors Program, the State Highway Operation and Protection Program (SHOPP), the State Transportation Improvement Program, and the Trade Corridor Enhancement Program. The increase in funding to new and established programs also increased programmatic oversight for the delivery of SB 1 projects to ensure benefits, scope, cost, and schedules were consistent with the program objectives and executed agreements.

Additionally, the Stewardship and Oversight Agreement between the Federal Highway Administration and Caltrans establishes roles and responsibilities for oversight activities and requires Caltrans to assess subrecipient accounting controls of local entities through various monitoring activities described in Caltrans' Local Assistance Procedures Manual (LAPM).

As such, to provide oversight of state and federal funds, IOAI conducts audits and reviews, including, but not limited to, the following:

### **Program Audits**

The objective of a program audit is to assess the extent to which legislative, regulatory, or programmatic goals and objectives are being achieved, and determine if Caltrans has adequate controls in place to manage the programs. In recent years, IOAI has performed several audits related to specific SB 1 requirements including but not limited to, evaluation of new efficiency measures implemented to achieve \$100 million in savings and assessment of Caltrans' progress towards meeting SB 1 performance outcomes. For 2021-22, IOAI plans to conduct program audits of the Caltrans Divisions responsible for the oversight of the following programs:

- Active Transportation Program
- Local Partnership Program
- Transit and Intercity Rail Capital Program

### **Project Audits/Cost Incurred Audits**

Project audits or audits of incurred costs are performed to determine whether project costs claimed and reimbursed are allowable, reasonable, and adequately supported in compliance with agreement provisions,

established guidelines, and state and federal laws and regulations, and to determine whether project deliverables (outputs) and outcomes are reasonable in comparison with the project cost, scope, schedule, and benefits described in executed project agreements or approved amendments. Projects are selected based on a risk assessment as noted in the Risk Assessment section of this plan and represent projects funded by various programs including but not limited to, the Active Transportation Program, the Local Partnership Program, the Solutions for Congested Corridors Program, the State Highway Operation and Protection Program, the State Transportation Improvement Program, the Trade Corridor Enhancement Program, and the Transit and Intercity Rail Capital Program.

### **Audits of AE Consultant Contracts with Caltrans and Local Agencies**

IOAI performs audits of architectural and engineering (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 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.

## **Mandated Audits and Other Activities**

Mandated audits are required by statute, policy, standards, or an agreement. The Audit Plan includes the following mandated audits and other activities.

### **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 Code sections 8879.2(c) and 8879.50, audits are required of bond project expenditures and outcomes. IOAI is responsible for conducting 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 California 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.

## **Reviews of AE Consultant Cost Proposal Bid Documents**

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

## **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.

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

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

## **Follow-up Audits and Reviews**

IOAI tracks and follows-up on all audit recommendations to determine if they were properly implemented by management. An audit report with findings requires auditees to submit a Corrective Action Plan (CAP) at 60-day, 180-day, and 360-day intervals. If audit recommendations are not fully implemented, CAPs are required every 180 days until the findings are resolved. Throughout the year, IOAI reviews CAPs submitted and performs a review and/or follow-up audit as deemed necessary.

## **Quality Control Review**

Government Auditing Standards, Quality Control and Assurance section 5.02, requires an audit organization conducting engagements



in accordance with standards to 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. IOAI maintains an internal quality control system over performance audits performed under Government Auditing Standards.

Additionally, in accordance with Government Auditing Standards, a Peer Review is conducted by external auditors and requires staff hours to prepare for and participate in the review. The objective of the Peer Review is to determine if our internal quality control system is operating effectively to provide reasonable assurance of compliance with Government Auditing Standards. Our current Peer Review report is located at: <https://ig.dot.ca.gov/reports>. IOAI's next Peer Review is scheduled for fall 2021.

## **Investigations**

The Investigations Unit of IOAI conducts independent and confidential administrative investigations involving allegations of employee misconduct. Investigations can result from complaints from Caltrans management and/or employees, IOAI 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 CSA and law enforcement agencies, with investigations involving Caltrans employees.

### **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.