

Memorandum

*Serious drought.
Help Save Water!*

To: AMARJEET BENIPAL
District 3 Director

Date: March 30, 2016

File: P2505-0059

From: 
LAURINE BOHAMERA, Chief
External Audit - Contracts
Audits and Investigations

Subject: **AUDIT OF "WHITE ROCK ROAD WIDENING" PROJECT**

Attached is the audit report pertaining to the audit performed on the "White Rock Road Widening" project. The project's implementing agency is Sacramento County. The project was funded using Proposition 1B (Prop 1B) Corridor Mobility Improvement Account funds. The Prop 1B programmed amount was \$14,075,000. The EA No. is 03-928802. The audit was for the period of July 1, 2007, through June 30, 2014.

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the State Controller's Office on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of District Directors relative to audits performed.

The attached report includes one audit finding related to the County's failure to submit the Final Delivery Report within six months of the project becoming operable and not quantifying the actual benefits attained in the performance outcomes section of the Final Delivery Report.

Please provide A&I a corrective action resolution on the audit finding within 90 days of this memorandum's date identifying the estimated date the entire project will be completed, and a time for submitting the quantification of benefits attained in comparison to the baseline agreement.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

AMARJEET BENIPAL

March 30, 2016

Page 2 of 2

Attachment

- c: Stephen Maller, Deputy Director, California Transportation Commission
- Dawn Cheser, Assistant Deputy Director, California Transportation Commission
- Bruce De Terra, Division Chief, Transportation Programming
- Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
- Samuel Jee, Prop 1B Coordinator, Division of Project Management
- Luisa Ruvalcaba, Audit Manager, Audits and Investigations

SACRAMENTO COUNTY

Audit Report

CORRIDOR MOBILITY IMPROVEMENT ACCOUNT PROGRAM

PROPOSITION 1B BOND-FUNDED PROJECTS

EA No. 03-928802/P2505-0059

July 1, 2007, through June 30, 2014



BETTY T. YEE
California State Controller

February 2016



BETTY T. YEE
California State Controller

February 24, 2016

Laurine Bohamera, Chief
Audits and Investigations
California Department of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited Sacramento County's (implementing agency) financial management system relative to a project funded and reimbursed by Proposition 1B bond funds during the audit period of July 1, 2007, through June 30, 2014.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines and agreements.

We audited the Proposition 1B bond-funded project, "White Rock Road Widening, EA No. 03-928802," and determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18 (49 CFR 18), and/or California Public Contract Code sections 10140–10141.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

However, our audit found that Sacramento County did not quantify actual project benefits attained in the performance outcomes (benefits) section of the final delivery report (FDR). In addition, the FDR was not submitted within six (6) months of the project becoming operable, as required by the Commission and Caltrans Corridor Mobility Improvement Account (CMIA) Program Guidelines. The FDR submission date was March 5, 2015; the project construction phase completion date was December 31, 2013.

The SCO reviewed the county's responses to the draft audit report issued on December 14, 2015 (Attachment 1) and has determined the findings remain unchanged.

The county's response to the FDR finding indicates that the expected benefits described in the project baseline agreement are based on the completion of the entire project of seven miles, while the Proposition 1B CMIA-funded component of this project, which requires the FDR/SFDR to be reported to Caltrans upon completion of construction-phase and entire project, is approximately only 3.5-miles of this project. Therefore, it is not possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire seven-mile project is completed.

The SCO does not agree with or dispute the county's response that it may not be possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire seven-mile project is completed. However, we recommend that the findings remain unchanged for follow-up purposes by Caltrans, to verify the project benefits and performance outcomes, including travel time savings, have been conducted and reported to Caltrans upon completion of the entire project as indicated by the county and as required by Caltrans and the Commission CMIA program guidelines.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

Attachment

cc: Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Albert Sim, Auditor-in-Charge
Division of Audits – Bond Unit
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited Sacramento County's (implementing agency) financial management system relative to a project funded and reimbursed by Proposition 1B bond funds during the audit period of July 1, 2007, through June 30, 2014.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines, local assistance procedures, agreements, or approved amendments.

We audited the Proposition 1B bond-funded project, "White Rock Road, CMIA, EA No. 03-928802," and determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18 (49 CFR 18), and/or California Public Contract Code sections 10140–10141.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, local assistance procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

However, our audit found that Sacramento County did not quantify actual project benefits attained in the performance outcomes (benefits) section of the final delivery report (FDR). In addition, the FDR was not submitted within six (6) months of the project becoming operable as required by the Commission and Caltrans Corridor Mobility Improvement Account (CMIA) Program Guidelines. The FDR submission date was March 5, 2015; the project construction phase completion date was December 31, 2013.

The county's response to the FDR finding indicates that the expected benefits described in the project baseline agreement are based on the completion of the entire project of seven miles, while the Proposition 1B CMIA-funded component of this project, which requires the FDR/SFDR to be reported to Caltrans upon completion of construction-phase and entire project, is approximately only 3.5-miles of this project. Therefore, it is not possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire seven-mile project is completed.

The SCO does not agree with or dispute the county's response that it may not be possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire seven-mile project is completed. However, we recommend that the findings remain unchanged for follow-up purposes by Caltrans, to verify the project benefits and performance outcomes, including travel time savings, have been conducted and reported to Caltrans upon completion of the entire project as indicated by the county and as required by Caltrans and the Commission CMIA program guidelines.

Background

In accordance with Caltrans and Commission-executed project agreement(s) or approved amendments, the project was programmed and approved to receive \$14,075,000 in Proposition 1B bond funds, for one or more phases of work, under the CMIA program.

The implementing agency is responsible for implementation and successful completion of each project component and activities as defined in the project's baseline agreement. The project completion date was June 1, 2014.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2505-0059). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0027, dated December 1, 2007, between the SCO and Caltrans, which provides that the SCO will perform audits of project expenditures that were funded and reimbursed by the Proposition 1B Bond Fund to ensure compliance with Caltrans and Commission Proposition 1B program guidelines.
- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The SCO audited the implementing agency's financial management system relative to projects funded and reimbursed by the Proposition 1B Bond Fund during the audit period of July 1, 2007, through June 30, 2014.

The objectives of our audit were to determine whether:

- The implementing agency's accounting system and internal controls were adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines, procedures, project agreements, or approved amendments.
- The implementing agency complied with applicable federal and state procurement requirements as required by 49 CFR 18, California Public Contract Code sections 10140-10141, and/or provisions stated in the contract.

- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed the implementing agency's prior audits and single audit reports;
- Reviewed the implementing agency's written policies and procedures relating to accounting systems, construction project management, and contract management; and
- Interviewed employees, completed the internal control questionnaire, and performed a limited system walk-through in order to gain an understanding of the implementing agency's internal controls, accounting systems, timekeeping and payroll systems, and billing processes related to transportation projects; specifically, projects funded by Proposition 1B.

For the project(s) under review, we performed the following audit procedures:

- Obtained project files and reviewed preliminary information to ensure that the implementing agency complied with applicable state and federal procurement requirements;
- Obtained project expenditure reports, judgmentally selected a sample of activities that were funded by Proposition 1B, and obtained and reviewed supporting documentation to ensure that project expenditures were reasonable, allocable, and allowable in accordance with Caltrans and Commission program guidelines, procedures, agreements, and applicable state and federal requirements;
- Reviewed significant contract change orders to ensure that they were properly approved and supported;
- Reviewed project final reports, close-out documents, finance letters, and baseline agreements to ensure that variances or changes to the project's scope, schedule, costs, and benefits were properly approved and supported; and
- Reviewed the project payment history file and/or invoices sent to the Caltrans accounting office to ensure that the implementing agency properly prepared and/or billed Caltrans for reimbursement of project expenditures as required by Caltrans' local assistance procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the implementing agency's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

Conclusion

We determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines and agreements.

We audited the Proposition 1B bond-funded project, "White Rock Road, CMIA, EA No. 03-928802," and determined that:

- The implementing agency complied with applicable federal and state procurement requirements required by 49 CFR 18, California Public Contract Code sections 10140–10141, and/or provisions stated in the contract.
- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.
- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

However, our audit found that Sacramento County did not quantify actual project benefits attained in the performance outcomes (benefits) section of the final delivery report (FDR). In addition, the FDR was not submitted within six (6) months of the project becoming operable as required by the Commission and Caltrans Corridor Mobility Improvement Account (CMIA) Program Guidelines. The FDR submission date was March 5, 2015; the project construction phase completion date was December 31, 2013.

Views of Responsible Official

We issued a draft audit report on December 14, 2015. Michael Penrose, Director, responded by letter dated December 22, 2015 (Attachment 1). The final audit report includes the county's response.

Restricted Use

This report is solely for the information and use of Sacramento County, Caltrans, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 24, 2016

**Schedule 1—
Summary of Project Costs
Approved, Expended, and Audited
July 1, 2007, through June 30, 2014**

Project No./EA No.: 03-928802

Project Information: Contract No. 4098, White Rock Road Improvement Project – Grant Line Road to Prairie City Road

<u>Phases Reimbursed by Proposition 1B Bond Fund</u>	<u>Programmed and Approved</u>	<u>Expended</u>	<u>Audited¹</u>	<u>Finding(s)²</u>
Environmental Studies & Permits (PA & ED)	\$1,200,000	\$1,143,332.46	\$1,143,332.46	
Plans, Specifications & Estimates (PS & E)	1,000,000	999,999.98	999,999.98	
Construction Engineering (CE)	1,969,166	1,597,700.86	1,597,700.86	
Construction Contract (CC)	9,905,834	9,006,698.64	9,006,698.64	
Total	\$14,075,000	\$12,747,731.94	\$12,747,731.94	

<u>Project Phase(s):</u>	<u>Baseline</u>	<u>Approved</u>	<u>Actual</u>
Beginning ENV	07/01/07	07/01/07	07/01/07
End ENV (PAED)	07/01/09	07/01/09	07/01/09
Beginning Design	07/01/09	07/01/09	07/01/09
End Design (RLT)	12/01/10	01/31/12	01/31/12
Begin ROW	07/01/09	07/01/09	07/01/09
End ROW	12/01/10	11/29/11	11/29/11
Begin CON (Award)	05/01/11	04/30/12	04/30/12
End CON	11/01/13	12/31/13	12/31/13
Begin Closeout	01/01/13	01/01/14	01/01/14
End Closeout	06/01/16	06/01/14	06/01/14

¹ Amount claimed by Sacramento County and reimbursed by Caltrans as of November 11, 2014.
Final invoice number 49, was not processed at the time of the audit.

² See the Finding and Recommendation section.

Finding and Recommendation

**FINDING —
Noncompliance
with the Caltrans
Proposition 1B
Follow-up
Accountability
Plan**

Our audit found that Sacramento County did not quantify actual benefits attained in the performance outcomes (benefits) section of the final delivery report (FDR). In addition, the FDR was not submitted within six (6) months of the project becoming operable as required by the program guidelines. The FDR submission date was March 3, 2015; the project construction phase completion date was December 31, 2013.

Governor's Executive Order S-02-07 states, in part, "Department expenditures of Bond proceeds shall be subject to determine whether the expenditures made from Bond proceeds achieved the intended outcomes." In effect, we were unable to fully determine the degree of attainment of the project's intended outcomes.

Per the California Department of Transportation Prop 1B (2006) Follow-Up Accountability Plan CMIA performance outcomes guidelines, the county is required to submit a FDR to the Commission on the scope of the completed project, its final costs as compared to the approved project budget, its duration as compared to the project schedule in the project baseline agreement, and performance outcomes derived from the project as compared to those described in the project baseline agreement.

The county was required to furnish a narrative with as much detail as possible explaining the project's impact on travel time savings. In assessing the impact that a construction project has on travel time, a comparison of pre- and post-construction travel time needs to be conducted.

While the county did include the project's expected benefits in the baseline agreement, they did not subsequently perform a quantification of actual benefits compared with expected benefits derived from the project, for reporting purposes, in the performance outcome section of the final delivery report.

An incomplete or inaccurate FDR will not provide a measurement of actual outcomes of the project compared to what was originally budgeted and forecasted, thereby causing difficulties in evaluating the degree of attainment of the project's original intent. Additionally, the incorrect FDR could hamper the Commission's efforts in using the report to monitor actual project performance and as a decision-making tool for future CMIA programming of Proposition 1B Funds.

Recommendation

For all Proposition 1B-funded projects, the county should ensure that the final delivery report's performance outcomes section is supported by source documents and contains quantification of actual benefits attained as compared with the expected benefits described in the project baseline agreement. Additionally, the FDR should be submitted within six (6) months of the project becoming operable, as required by the Commission and Caltrans program guidelines.

County's Responses

- The county acknowledged that the FDR did not provide a quantification of actual benefits attained for the completion of the CMIA-funded component of this project, which is approximately 3.5-miles. The county reasoned that it is not possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire seven-mile project is completed.
- The county also recommended that the construction acceptance date (for the CMIA-funded component of this project) should be reported as July 15, 2015. The county reasoned that it considered construction to be completed upon acceptance of the contract by the Sacramento County Board of Supervisors.

SCO's Comments

- The SCO does not agree with or dispute the county's response that it may not be possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire seven-mile project is completed. However, we recommend the findings should remain unchanged for transparency and follow-up purposes, for Caltrans to verify whether the project benefits and performance outcomes, including travel time savings, have been conducted and reported to Caltrans upon completion of the entire project as indicated in the county's response and as required by Caltrans and the Commission CMIA program guidelines.
- Per Caltrans construction manual, acceptance of contract – construction phase is on the day that the project work is completed in accordance with all of the requirements of the Standard Specifications, special provisions, change orders..., etc., if and when the resident engineer determines the contractor has complied with the terms of the agreement.

The FDR schedule of project milestones completed by the resident engineer/project manager reported the end of construction contract phase as of December 31, 2013. In addition, the Contract Completion Notice issued by the Sacramento County Recorder - Municipal Services, noted the date of contract completion was January 23, 2014 (no significant difference).

**Attachment—
Auditee's Response to
Draft Audit Report**

Department of Transportation
Michael J. Penrose, Director



Divisions
Administration
Maintenance & Operations
Engineering & Planning

County of Sacramento

December 22, 2015

Andrew Finlayson, Chief, State Agency Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Finlayson:

This letter is in response to the State Controller's Office (SCO) letter dated December 14, 2015, regarding the draft audit report for Sacramento County's Proposition 1B bond-funded project, "White Rock Road Widening Project, EA No. 03-928802".

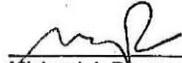
The Sacramento County's responses to the draft SCO audit report are:

- The audit findings and recommendations indicate that the County did not quantify actual benefits attained in the performance outcomes (benefits) section of the Final Delivery Report (FDR). The findings note that the FDR should provide a quantification of the actual benefits compared with the expected benefits described in the baseline agreement. The benefits described in the baseline agreement are based on a project to improve the 7-mile segment of White Rock Road between Sunrise Boulevard and US Highway 50. The CMIA-funded component of this project completed approximately 3.5-miles of this project, and the balance of the project will be completed using other funds. Because the CMIA-funded component only completed a portion of the improvements for the project analyzed in the baseline agreement, it is not possible to accurately quantify the project benefits and performance outcomes, including travel time savings, until the entire 7-mile project is completed. Improvements to the remaining components of the project, east and west of the CMIA-funded component, are currently in development including environmental review and design. Once these improvements are completed, it will be possible to accurately quantify the actual benefits attained in comparison to the baseline agreement.
- The audit findings and recommendations indicate a construction completion date of December 31, 2013. The County considers construction to be completed upon acceptance of the contract by the Sacramento County Board of Supervisors. Contract acceptance for this project was on July 15, 2014. We recommend that the audit report reflect this date.

State Controllers' Office Draft Audit Report (Sacramento County)
Proposition 1B Bond-funded project, "White Rock Road Widening EA No. 03-928802
December 22, 2015
Page 2

Thank you for the opportunity to review the draft audit report. If you have any questions, please contact Refugio Razo, Jr. at (916) 874-6074 or at razor@saccounty.net.

Sincerely,



Michael J. Penrose, Director
Department of Transportation

MJP/DS:RR

Cc: Dan Shoeman, Chief, SacDOT
Steve White, SCE, SacDOT
Thor Lude, Chief, CMID
Scott Werth, SCE, CMID
Maggie Stewart, Chief, AFS, Finance

**State Controller's Office
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