



County of Sacramento

Proposition 1B Bond Program

Program Number 0300000425

Report No. 19-2660-034
October 2019

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Robert L. Scott, MSA, CPA, CGMA, Supervisor
Alex Jira, Lead
Jane Xuan

Final reports are available on our website at <http://www.dof.ca.gov>.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



October 17, 2019

Ms. MarSue Morrill, Chief
Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street
Sacramento, CA 95814

Dear Ms. Morrill:

Final Report—County of Sacramento, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the County of Sacramento's (County) Proposition 1B funded project listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
0300000425	P2505-0115	Watt Avenue at Route 50 Interchange Improvement

The enclosed report is for your information and use. The County's response to the report findings and our evaluation of the response is incorporated into this final report. This report will be placed on our website.

If you have any questions regarding this report, please contact Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Ms. Luisa Ruvalcaba, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.¹

CTC awarded the County of Sacramento (County) the following Proposition 1B funds:

- \$12.1 million from the Corridor Mobility Improvement Account (CMIA)
- \$8.6 million from the State-Local Partnership Program Account (SLPP)

The County was required to provide a dollar-for-dollar match of local funds for the SLPP funding.

The County used the funds to improve the Watt Avenue at Route 50 Interchange (Project 0300000425). The project modifies the interchange, widens Watt Avenue, and adds bike/pedestrian and public transit facilities. Construction for this project is complete and the project is operational.

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the project described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit period and total reimbursed expenditures is presented in Appendix A.

The audit objectives were to determine whether:

1. Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.
2. Deliverables/outputs were consistent with the project scope and schedule.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Reports (FDR).

PROGRAM DESCRIPTION¹

CMIA: \$4.5 billion of bond proceeds made available to the CMIA to finance a variety of eligible transportation projects. CTC's general expectation is that each CMIA project will have a full funding commitment through construction, either from the CMIA alone or from a combination of CMIA and other state, local, or federal funds.

SLPP: \$1 billion of bond proceeds made available to the SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds. Transportation Impact Fee funds were used to meet the match requirement.

¹ Excerpts obtained from the bond accountability website <https://bondaccountability.dot.ca.gov/>.

The County's management is responsible for ensuring accurate financial reporting; compliance with project agreements, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. CTC and Caltrans are responsible for the state-level administration of the program.

METHODOLOGY

In planning the audit, we gained an understanding of the project and respective programs, and identified relevant criteria, by reviewing the executed project agreements, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations, and interviewing Caltrans and County personnel.

We conducted a risk assessment, including evaluating whether the County's key internal controls relevant to our audit objectives, such as procurement, progress payment preparation, reimbursement request preparation, and review and approval processes were properly designed, implemented, and operating effectively. Our assessment included conducting interviews with County personnel, observing processes, and testing transactions related to construction expenditures, construction engineering expenditures, contract procurement, and project deliverables and outcomes. Deficiencies in internal controls that were identified during our audit and determined to be significant with the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of data from the County's payroll system, Compass. To assess the reliability of the reports generated by the system, we interviewed County staff, performed analytics on payroll expenditure report data, and traced payroll transactions to employee pay statements. We determined the data was sufficiently reliable to address the audit objectives.

We determined a reliability assessment of the data from the County's Compass system for financial reporting was not necessary because other sufficient evidence was available to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies on the following page.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the County's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.</p>	<ul style="list-style-type: none"> • Reviewed procurement records to verify compliance with Caltrans' Local Assistance Procedures Manual (LAPM) requirements to determine if the project was appropriately advertised and awarded to the lowest, responsible bidder by reviewing bidding documents, contracts, and project advertisements. • Selected significant and high-risk expenditure categories to verify compliance with selected project requirements. Specifically, we selected expenditures from the construction and construction engineering categories. • Selected expenditures from 11 reimbursement claims and one contract change order (CCO), and performed the following: <ul style="list-style-type: none"> ○ Determined if selected reimbursed and match expenditures were allowable, authorized, project-related, incurred within the allowable timeframe, and supported, by reviewing accounting records, progress payments, pay statements, and cancelled checks. ○ Determined if the reimbursed CCO was project-related, not a duplication of work, incurred within the allowable timeframe, and supported, by reviewing the project's scope of work, comparing the work of the CCO to the original construction contract, and reviewing vendor invoices. • Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the project agreement by interviewing County staff, reviewing a list of other project funding sources and expenditure reports, and performing analytical procedures to identify possible duplicate payments.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the project scope and schedule.</p>	<ul style="list-style-type: none"> • Determined whether project deliverables/outputs were consistent with the project scope by reviewing the Project Programming Request and supporting documentation, and conducting a site visit to verify project existence. • Evaluated whether project deliverables/outputs were completed on schedule as described in the Project Programming Request by reviewing the FDR and the County's Notice of Completion.
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the FDR.</p>	<ul style="list-style-type: none"> • Determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDR with the expected project benefits/outcomes described in the executed project agreement by reviewing studies that support reduced air emissions and reduced travel times.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements, except as noted in Finding 1. We also obtained reasonable assurance project deliverables/outputs were consistent with the project scope and schedules, except as noted in Finding 2. Although the project was behind schedule, the County appropriately informed Caltrans and CTC of the delay.

Additionally, we obtained reasonable assurance the County achieved the expected project benefits/outcomes as described in the project agreement, and the benefits/outcomes were adequately reported in the FDR.

FINDINGS AND RECOMMENDATIONS

Finding 1: Unallowed Construction Engineering Expenditures

The County claimed and was reimbursed \$2 million of construction engineering expenditures for direct labor costs. We tested \$239,184 of the direct labor costs claimed and found \$60,397 to be unsupported. The unsupported costs relate to direct labor dollars and fringe benefit components.

The County used an average labor rate to recover direct labor costs charged to the project. The average labor rate consisted of annual direct labor costs including fringe benefit costs such as vacation, sick leave, training, health insurance benefits, and retirement costs divided by the employee's annual production hours. Annual production hours excluded vacation, sick leave, and training hours which can result in significantly less than 2,080 work hours in a year. The County's use of annual productive hours rather than 2,080 annual work hours to determine an employee's hourly rate resulted in an overstated hourly direct labor rate. The overstated hourly direct labor cost is, therefore, unsupported and ineligible for Proposition 1B reimbursement.

Further, the County included unemployment insurance, workmen's compensation insurance, and pension obligation bond allocations as labor rate fringe benefit components. However, these cost components could not be traced to the County's labor costing system or the employee's pay statement. Therefore, these fringe benefit components are unsupported costs and ineligible for Proposition 1B reimbursement.

Master Agreement, Article IV, section 7 and LAPM 5.2 states that payments will be made for actual costs incurred and reflect the cost of completed work, which has been paid.

The County stated the average labor rates is used to bill intercounty agencies and assumed the rates would be allowable for billing Proposition 1B projects. Unfamiliarity with Proposition 1B funding provisions in the project agreement and claiming unallowable costs places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers, increases oversight agency monitoring and post audit resolution costs, and reduces the number of fundable Proposition 1B transportation projects.

Recommendations:

- A. Remit \$60,397 to Caltrans.
- B. Collaborate with Caltrans to identify the additional unsupported and ineligible construction engineering costs incorrectly claimed as direct labor cost-dollars and included in the fringe benefit rate.
- C. Develop, implement, and maintain processes that ensures claimed expenditures are allowable based on the executed agreement and program guidelines prior to submitting reimbursement claims to Caltrans. Maintain complete records supporting amounts claimed and retain for the audit period provided in the agreement.

Finding 2: Final Delivery Reports Not Submitted Timely

The CMIA and SLPP FDRs for the project were not submitted to Caltrans within six months of the project becoming operable (construction contract acceptance date). The FDRs for the project were due January 2017, and were not submitted to Caltrans until January 2019. According to the County, the FDRs were delayed due to an oversight.

The CMIA and State Route 99, Accountability Implementation Plan, Supplement 1 – Financial Accountability, section IV C.1, and the SLPP Program Guidelines (2010), Section 15, require completion of a FDR within six months of the project becoming operable. The guidelines state a project becomes operable at the end of the construction phase when the construction contract is accepted.

For this project, the construction contract was accepted in July 2016. Late report submissions decreases transparency of project status and hinders Caltrans/CTC's ability to timely review the completed project's scope, final costs, project schedule, and performance outcomes.

Recommendations:

- A. Review program guidelines to ensure a clear understanding of the requirements.
- B. Develop and implement a process to ensure the timely submittal of FDRs for future state funded projects.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Corridor Mobility Improvement Account: CMIA
- County of Sacramento: County
- Final Delivery Report: FDR
- State-Local Partnership Program Account: SLPP

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
0300000425	\$20,695,000	C	P	P	Y	Y	A-1

Legend

- C = Complete
- Y = Yes
- P = Partial

Project Number: 0300000425

Project Name: Watt Avenue at Route 50 Interchange Improvement

Program Name: CMIA and SLPP

Project Description: Modify the Watt Avenue and Route 50 interchange, widen Watt Avenue, and add bike/pedestrian and public transit facilities.

Audit Period: March 13, 2012 through December 31, 2016 for audit objective 1²
March 13, 2012 through January 31, 2019 for audit objective 2 and 3³

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Reimbursed	Questioned Expenditures
Construction	\$ 18,528,820	\$ 0
Construction Engineering	2,166,180	60,397
Total Proposition 1B Expenditures	\$ 20,695,000	\$ 60,397

Results:

Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations cited in the executed agreements, except for the unsupported and ineligible construction engineering direct labor costs and fringe benefit rate components, as noted in Finding 1. The match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in July 2016. At the time of our site visit in November 2018, project deliverables/output were consistent with the project scope and schedule, except that the FDR was submitted 24 months past the due date as noted in Finding 2. Although the project was behind schedule and completed 20 months after the planned due date, the County updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. Additionally, the County achieved the expected project benefits/outcomes as described in the executed project agreement.

² The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

³ The audit period end date reflects the FDR submission date.

Expected Benefits/Outcomes	Benefits/Outcomes Reported per the FDR	Benefits/Outcomes Achieved
Improves safety of the interchange by separating bicycle and pedestrian circulation from vehicular traffic.	There were no reported bicyclist/vehicular collisions after project construction.	Yes
Interchange modification to a partial cloverleaf design to eliminate the short weaving sections between successive ramps, which have a high potential for sideswipe accidents particularly during congested traffic conditions.	Monthly average of the collisions related to broad swipes and injuries decreased by 26 percent and 45 percent, respectively.	Yes
Daily Travel Times Savings (hours) 122	144	Yes
Peak Period Time Savings (Minutes) 8,290	9,746	Yes



County of Sacramento

October 1, 2019

Ms. Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Subject: **Proposition 1B Bond Program Audit – County Response
Project No. 0300000425 Watt Avenue at Route 50
Interchange Improvement
Audit Report Number 19-2660-034**

Dear Ms. McCormick:

The County of Sacramento (County) has received the State Department of Finance's Draft Report dated September 20, 2019, regarding the Proposition 1B audit performed for the Watt Avenue at Route 50 Interchange Project.

The County has reviewed the Department of Finance's findings and recommendations and has the following responses:

1. The County concurs that an average labor rate to recover direct labor costs was used. The County reconciles billed labor costs to actual labor costs on an annual basis. Future invoices are then adjusted by the amount of the difference on this reconciliation. This process was implemented based on a recommendation provided by the California Department of Transportation (CalTrans) on February 27, 2018. As for costs related to unemployment insurance, workers compensation and pension obligation bonds, the County's position is that supporting documentation was provided for these costs. The County will work with CalTrans to address the results of this audit.

2. The County has reviewed the Proposition 1B program guidelines to confirm the requirements for submittal of Final Delivery Reports (FDRs), and has implemented a process that ensures the timely submittal of FDRs for all current and future state funded projects. This process includes improved project tracking and monitoring, and ongoing coordination with the CalTrans District 3 Local Assistance Office, to ensure that FDRs for state funded projects are processed in accordance with program guidelines.

We understand the provided response will be incorporated into the final audit report. If you have any questions or need additional information, please contact me at (916) 874-6222.

Sincerely,

“Original signed by”

Dan Shoeman
Chief, Engineering & Planning

DS/rr

Cc: Ron Vicari, Director, Department of Transportation, County of Sacramento
Mike Guiver, Department of Transportation
Rick Carter, Principal Civil Engineer, Engineering and Planning Division, Department of Transportation, County of Sacramento
Steve White, Principal Civil Engineer, Engineering and Planning Division, Department of Transportation, County of Sacramento
Scott Werth, Principal Civil Engineer, Construction Management and Inspection Division, Office of Development and Code Services, County of Sacramento
Refugio Razo, Senior Civil Engineer, Engineering and Planning Division, Department of Transportation, County of Sacramento
Joyce Renison, Assistant Auditor-Controller, County of Sacramento
Mark Aspesi, Chief of Financial Reporting & Control, County of Sacramento
Alan Matre, Chief of Audits, County of Sacramento

EVALUATION OF RESPONSE

The County's response to the draft report has been reviewed and incorporated into the final report. We acknowledge the County's willingness to implement our recommendations specific to Finding 2. In evaluating the County's response, we provide the following comments:

Finding 1: Unallowed Construction Engineering Expenditures

The County disagrees the unemployment insurance, workmen's compensation insurance, and pension obligation bond allocations were unsupported. However, because the County did not provide additional supporting documentation, the finding and recommendation will remain unchanged.