



Transmitted via e-mail

May 15, 2017

Ms. Alice M. Lee, Chief
External Audits—Contracts, Audits and Investigations
California Department of Transportation
1304 O Street
Sacramento, CA 95814

Dear Ms. Lee:

**Final Report—City/County Association of Governments of San Mateo County,
Proposition 1B Audit**

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City/County Association of Governments of San Mateo County (C/CAG) Proposition 1B funded projects listed below:

<u>EA Number</u>	<u>P Number</u>	<u>Project Name</u>
4A921	P2530-0046	SMART Corridor Projects – Demonstration
4A923	P2530-0047	SMART Corridor Projects – North Portion
4A925	P2530-0048	SMART Corridor Projects – South Portion
4A926	P2530-0039	SMART Corridor Projects – South Segment

The enclosed report is for your information and use. C/CAG's response to the report findings are incorporated into this final report. C/CAG agreed with our findings and we appreciate its willingness to implement corrective actions. This report will be placed on our website.

We appreciate the assistance and cooperation of C/CAG. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rick Cervantes, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Ms. Luisa Ruvalcaba, Audit Manager, External Audits–Contracts, Audits and Investigations,
California Department of Transportation
Ms. Sandy Wong, Executive Director, City/County Association of Governments of San Mateo
County
Mr. John Hoang, Project Manager, City/County Association of Governments of San Mateo
County
Mr. Nidal Tuqan, District Division Chief-Principal Transportation Engineer, Program/Project
Management, West Region, Caltrans District 4
Mr. Jim Porter, Director of Public Works, County of San Mateo
Mr. Brad Underwood, Director of Public Works, City of San Mateo

City/County Association of Governments
of San Mateo County
Proposition 1B Bond Program
EA Numbers 4A921, 4A923,
4A925, and 4A926



Smart Corridors Project

Prepared By:
Office of State Audits and Evaluations
California Department of Finance

MEMBERS OF THE TEAM

Jon G. Chapple, CPA
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Staff
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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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 \$17.5 million of Proposition 1B Traffic Light Synchronization Program (TLSP) funds for the San Mateo SMART Corridor Project (Project). The Project was originally planned as a single project with C/CAG as the implementing agency, but was split into four segmented projects. C/CAG remained as the implementing agency with assistance from other agencies as follows: \$1 million for the Demonstration phase (4A921) administered by the City of San Mateo, \$5.5 million for the North Portion (4A923) and \$7.5 million for the South Portion (4A925), both administered by Caltrans District 4, and \$3.5 million for the South Segment (4A926) administered by C/CAG. Construction is complete for projects 4A921, 4A923, and 4A926. Construction is still in progress for project 4A925.

The Project is located within the corridor bounded by US Route 101 (US 101) and State Route (SR) 82, from the Santa Clara County line in the south to I-380 in the north. The Project scope consists of deploying various intelligent transportation system elements along SR 82 within the state right of way and on local streets that connect to US 101 and SR 82. Once completed, these improvements are expected to reduce both recurring and non-recurring traffic congestion within the project limits.²

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations (Finance), audited the projects described in the Background section of this report. The audit period for each project is identified in Appendix A.

The audit objectives were to determine whether:

- Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC's program guidelines.

PROGRAM DESCRIPTION¹

TLSP: \$250 million of bond proceeds made available to the TLSP to finance traffic light synchronization projects or other technology-based improvements to improve safety, operations and the effective capacity of local streets and roads. Project funding is limited to the costs of construction and acquisition and installation of equipment.

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

² Source: Caltrans Memorandum number 2.1c.(6b) from CTC meeting May 23, 2012.

- Deliverables/outputs were consistent with the project scopes and schedules.
- Benefits/outcomes as described in the executed project agreements, approved amendments, or Baseline Agreements were achieved, and adequately reported in the Final Delivery Reports.

At the time of our site visit in November 2016, construction on project 4A925 was not complete, and Final Delivery Reports had not been submitted for projects 4A921, 4A923, and 4A926. In addition, C/CAG is not required to report actual project benefit/outcomes for each segmented project until completion of the entire Project. Accordingly, we did not evaluate whether project benefits/outcomes were achieved or adequately reported. Instead, we evaluated whether there was a system in place to report actual project benefits/outcomes.

We did not assess the efficiency or effectiveness of program operations.

C/CAG's, Caltrans', and the City of San Mateo's management are responsible for ensuring accurate financial reporting; compliance with contract provisions, state and federal regulations, and applicable program guidelines; and the adequacy of their respective job cost systems to accumulate and segregate reasonable, allocable, and allowable expenditures. CTC and Caltrans are responsible for the state-level administration of the program.

METHODOLOGY

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

For All Projects:

- Examined the project files, master agreements, program supplements, program guidelines, and applicable policies and procedures.
- Reviewed procurement records to ensure compliance with applicable local, state, and federal procurement requirements.
- Reviewed accounting records and progress payments.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported by accounting records.
- Reviewed a sample of contract change orders to ensure they were within the scope of the projects, properly approved, and supported.
- Evaluated whether other revenue sources were used to reimburse expenditures already reimbursed with bond funds.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements or amendments, and Baseline Agreements.
- Evaluated whether there is a system in place to report actual project benefits/outcomes by reviewing a sample of supporting documentation and interviewing C/CAG, Caltrans, and the City of San Mateo staff.

For Projects 4A921, 4A923, and 4A926:

- Evaluated whether project deliverables/outputs were met by reviewing a sample of supporting documentation and conducting site visits to verify project existence.

For Project 4A925:

- Reviewed a sample of project deliverables/outputs by conducting a site visit to ensure consistency with the project scope.

In conducting our audit, we obtained an understanding of internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed, implemented, and operating effectively. Any deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Except as discussed in the following paragraph, 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.

Finance and Caltrans are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

Except as noted below in Finding 1, Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines. In addition, except as noted in Finding 2, the project deliverables/outputs were consistent with the project scopes and schedules. Although all projects were behind schedule, C/CAG appropriately informed Caltrans and CTC of the delays. Also, there was a system in place to report actual project benefits/outcomes. The *Summary of Projects Reviewed* is presented in Appendix A.

Finding 1: Questioned Arbitration and Equipment Expenditures

C/CAG claimed and was reimbursed for ineligible arbitration and equipment expenditures for project 4A926. Specifically:

- Arbitration expenditures totaling \$95,368 were claimed in reimbursement invoice nine submitted to Caltrans. C/CAG subsequently determined that only \$47,684 of the claimed amount was eligible for reimbursement, while the remaining \$47,684 was not Proposition 1B related. C/CAG planned to correct the overbilling in a future invoice to Caltrans; however, the overbilling is still outstanding as of December 2016.
- A closed circuit television camera was not being used for its intended purpose. C/CAG claimed and was reimbursed \$22,000 for the installation of four cameras at the intersection of Whipple Avenue and Industrial Road. However, one of the cameras was not installed due to problems connecting cables through existing conduits at the intersection. C/CAG was notified of this issue during our audit, and subsequently returned the unused camera to Caltrans in December 2016.

Master Agreement No. 00330S, Article IV, section 7, states that payments to the administering agency can only be released by the State as reimbursements of actual allowable project costs and section 20 states that any overpayments to the Administering Agency shall be returned to State.

Recommendations:

- A. Remit \$47,684 to Caltrans for the questioned arbitration expenditures. Since the camera was returned to Caltrans, no remittance is necessary for the questioned equipment expenditures.
- B. Develop and maintain an adequate review process to ensure claimed expenditures are allowable prior to submitting reimbursement invoices to Caltrans.
- C. Ensure that equipment is used for its intended purpose.

Finding 2: Project Deliverables Not Completed Timely or Accurately

C/CAG reported incorrect information in the project quarterly reports and did not submit the Final Delivery Reports timely. Specifically:

- The Fiscal Year 2015-16 Third Quarter Report (for the period ending June 2016) listed \$17,500,000 in Proposition 1B expenditures for all four projects, even though Proposition 1B expenditures totaled \$14,958,773 as of October 2016. In addition, C/CAG reported construction completion at 100 percent for one segment (4A925) that is not expected to be complete until April 2017. The Caltrans Traffic Light Synchronization Program Local Assistance-Online Data Information System Users Guide sections 3.6 and 3.7 requires the implementing agency to report accurate expenditures and percentage of completion for the entire project, not just specific phases, as it stands on the last day of the quarter being reported.
- The required Final Delivery Reports for completed project segments 4A921, 4A923, and 4A926 were not submitted to CTC within six months of the projects becoming operable. C/CAG believed submitting the Final Delivery Reports was not required until completion of the entire Project, instead of each project segment. The Traffic Light Synchronization Program Guidelines section 16 requires a Final Delivery Report be submitted to CTC within six months of projects becoming operable. This section states that projects become operable at the end of the construction phase when the construction contract is accepted. In addition, the Caltrans Proposition 1B Project Close-out Process Update 2016 provides clarification for projects that are delivered in segments and requires a Final Delivery Report for each segment when the segment is complete.

Inaccurate reporting in the quarterly progress reports and late submission of the Final Delivery Reports decreases transparency of the status of projects and prevents CTC from reviewing project scope, final costs, duration of the project, and performance outcomes in an accurate and timely manner.

Recommendations:

- A. Develop procedures to ensure that accurate information, including expenditures and percent of project completion, is reported in the quarterly progress reports.
- B. Submit the Final Delivery Reports for the completed segments to CTC and ensure the Final Delivery Report for project segment 4A925 is submitted within six months of the segment becoming operable (construction contract acceptance date).

APPENDIX A

The following acronyms are used throughout Appendix A.

- City/County Association of Governments of San Mateo County: C/CAG
- California Transportation Commission: CTC
- Traffic Light Synchronization Program: TLSP

Summary of Projects Reviewed

EA Number	Expenditures Incurred/ Reimbursed	Project Segment Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved ¹	Benefits/ Outcomes Adequately Reported ¹	Page
4A921	\$1,000,000	C	Y	Y	N/A	N/A	A-1
4A923	\$5,243,649	C	Y	Y	N/A	N/A	A-2
4A925	\$5,730,216	I	Y	Y	N/A	N/A	A-3
4A926	\$2,984,908	C	P	Y	N/A	N/A	A-4

Legend

C = Complete
I = Interim
Y = Yes
N = No
P = Partial
N/A = Not Applicable

¹ C/CAG is not required to report actual project benefits/outcomes for each segmented project until completion of the entire Project. Accordingly, although construction was complete for project segments 4A921, 4A923, and 4A926, benefits/outcomes will not be reported until completion of the final project segment 4A925.

EA Number: 4A921

Project Name: SMART Corridor Projects – Demonstration

Program Name: TLSP

Project Description: Deployment of various intelligent transportation systems elements along SR 82 and on local streets that connect US 101 and SR 82 within the City of San Mateo.

Audit Period: October 28, 2008 through April 30, 2013²

Project Status: Construction is complete

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed
Construction	\$1,000,000
Total Proposition 1B Expenditures	\$1,000,000

Audit Results:

Compliance—Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.

Deliverables/Outputs

The construction phase of the project segment was completed in April 2013. At the time of our site visit in November 2016, deliverables/outputs were consistent with the project scope. However, this segment was behind schedule and was completed 27 months late. C/CAG updated Caltrans and CTC of the delay. In addition, the Final Delivery Report was not submitted timely.

Benefits/Outcomes

Actual benefits/outcomes will not be reported for segment 4A921 until segment 4A925 is completed. However, there is a system in place to report actual project benefits/outcomes.

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

EA Number: 4A923

Project Name: SMART Corridor Projects – North Portion

Program Name: TLSP

Project Description: Deployment of various intelligent transportation systems elements along SR 82 and on local streets that connect US 101 and SR 82 from Whipple Avenue to I-380.

Audit Period: October 28, 2008 through April 24, 2016³

Project Status: Construction is complete

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Incurred
Construction	\$4,422,798
Construction Support	820,851
Total Proposition 1B Expenditures	\$5,243,649

Audit Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements, state regulations, contract provisions, and Caltrans/CTC program guidelines.

Deliverables/Outputs

The construction phase of the project segment was completed in July 2014. At the time of our site visit in November 2016, deliverables/outputs were consistent with the project scope. However, this segment was behind schedule and completed 30 months late. C/CAG updated Caltrans and CTC of the delay. In addition, the Final Delivery Report was not submitted timely.

Benefits/Outcomes

Actual benefits/outcomes will not be reported for segment 4A923 until segment 4A925 is completed. However, there is a system in place to report actual benefits/outcomes.

³ Ibid.

EA Number: 4A925

Project Name: SMART Corridor Projects – South Portion

Program Name: TLSP

Project Description: Deployment of various intelligent transportation systems elements along SR 82 and on local streets that connect US 101 and SR 82 from Santa Clara County to Whipple Avenue.

Audit Period: October 28, 2008 through October 18, 2016⁴

Project Status: Interim

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Incurred
Construction	\$5,207,867
Construction Support	522,349
Total Proposition 1B Expenditures	\$5,730,216

Audit Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred in compliance with the executed project agreements, state regulations, contract provisions, and Caltrans/CTC program guidelines.

Deliverables/Outputs

Target completion date for this segment was June 2013. At the time of our site visit in November 2016, deliverables/outputs were consistent with the project scope. However, the project segment was behind schedule, and not complete as of our site visit. C/CAG updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual benefits/outcomes were not reported because this segment has not been completed. However, there is a system in place to report actual project benefits/outcomes.

⁴ Ibid.

EA Number: 4A926

Project Name: SMART Corridor Projects – South Segment

Program Name: TLSP

Project Description: Deployment of various intelligent transportation systems elements along SR 82 and on local streets that connect US 101 and SR 82 from Santa Clara County to Whipple Avenue.

Audit Period: October 28, 2008 through June 30, 2016⁵

Project Status: Construction is complete

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed	Questioned Cost
Construction	\$2,454,635	\$ 0
Construction Engineering	530,273	47,684
Total Proposition 1B Expenditures	\$2,984,908	\$47,684

Audit Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines, except for \$47,684 in arbitration expenditures.

Deliverables/Outputs

The construction phase of the project segment was completed in May 2016. At the time of our site visit in November 2016, deliverables/outputs were consistent with the project scope. A closed circuit camera was reimbursed with Proposition 1B funds and not used for its intended purpose; however, C/CAG returned the unused camera to Caltrans in December 2016.

The project segment was also behind schedule and completed 31 months late. However, C/CAG updated Caltrans and CTC of the delay. In addition, the Final Delivery Report was not submitted timely.

Benefits/Outcomes

Actual benefits/outcomes will not be reported for segment 4A926 until segment 4A925 has been completed. However, there is a system in place to report actual project benefits/outcomes.

⁵ Ibid.

C/CAG

CITY/COUNTY ASSOCIATION OF GOVERNMENTS OF SAN MATEO COUNTY

Atherton • Belmont • Brisbane • Burlingame • Colma • Daly City • East Palo Alto • Foster City • Half Moon Bay • Hillsborough • Menlo Park • Millbrae • Pacifica • Portola Valley • Redwood City • San Bruno • San Carlos • San Mateo • San Mateo County • South San Francisco • Woodside

April 27, 2017

Jennifer Whitaker, Chief
Office of State Audits and Evaluations
California Department of Finance
915 L Street
Sacramento, CA 95814-3706

**RE: Response to Draft Report of the City/County of Governments of San Mateo County
Proposition 1B Audit**

Dear Ms. Whitaker,

This letter is in response to your April 14, 2017 letter and the March 2017 Office of State Audits and Evaluations, California Department of Finance Draft Audit Report of C/CAG Proposition 1B Bond Program EA Numbers 4A921, 4A923, 4A925, and 4A926.

We are pleased that the Audit Report reflects that the Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines, with the exception of Finding 1 and Finding 2.

Below are our responses to Finding 1 and Finding 2:

We accept Finding 1 and Finding 2 in the Audit Report and will address the noted deficiencies as recommended. Consistent with the recommendations listed in the Audit Report:

- Response to Recommendations and Finding 1: Questioned Arbitration and Equipment Expenditures
 - o As stated to the auditors and indicated in the finding, C/CAG was aware of the overbilling and plans to make the correction in a future invoice to Caltrans. During the audit, C/CAG staff proposed to remit the \$47,684 to Caltrans via deducting that amount from the final reimbursement invoice to be submitted to Caltrans. That proposal was verbally accepted by the auditor during the audit. C/CAG will remit the \$47,684 to Caltrans as part of the final reimbursement invoice as soon as the final expenditures are confirmed and approved.
 - o Since the audit, C/CAG has developed and will continue to maintain an adequate review process prior to submitting reimbursement invoice to Caltrans.
 - o A closed circuit television camera was not being used for its intended purpose. As stated in the Draft Audit Report, C/CAG has already returned the unused camera to Caltrans in December 2016. The situation has already been remedied.
 - o C/CAG will coordinate with Caltrans to ensure that equipment is used for its intended purpose.

- Response to Recommendation and Finding 2: Project Deliveries Not Completed Timely or Accurately
 - o Since the audit, C/CAG has developed procedures to ensure accurate information, including expenditures and percent of project completion, is reported in the quarterly reports.
 - o As stated to the auditors, in the case of EA Numbers 4A921, 4A923, and 4A926, completion of construction activities (construction contract acceptance date) for any one segment does not necessarily indicate that the segment is operable, rather the project is consider operable only after construction for all segments, including EA Number 4A925, are completed. C/CAG will submit the Final Delivery Reports for the completed segments to CTC and ensure the Final Delivery Report for project segment 4A925 is submitted within six months of the segment becoming operable (construction contract acceptance date).

We appreciate the Department of Finance and the audit team of Mr. Rick Cervantes – Audit and Evaluation Manager, Mr. Moses Ofurio – Financial and Performance Evaluator, and Mr. Garrett Fujitani – Financial and Performance Evaluator, for their professionalism in conducting a thorough review. Please do not hesitate to contact me at 650-599-1409 or John Hoang, Project Manager at 650-363-4105 if you have any questions.

Sincerely,

Original Signed By

Sandy Wong
Executive Director

Cc: Ms. Alice M. Lee, Chief, External Audits–Contracts, Audits and Investigations, Caltrans
Ms. Luisa Ruvalcaba, Audit Manager, External Audits–Contracts, Audits and Investigations, Caltrans
Mr. Nidal Tuqan, District Division Chief-Principal Transportation Engineer, Program/Project Management, West Region, Caltrans District 4
Mr. Jim Porter, Director of Public Works, County of San Mateo
Mr. Brad Underwood, Director of Public Works, City of San Mateo