



Stanislaus County

Proposition 1B Bond Program

Project Number 1000000100

Team Members

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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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Transmitted via e-mail

May 10, 2018

Ms. Alice M. Lee, Chief
External Audits–Contracts, Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Ms. Lee:

Final Report—Stanislaus County, Proposition 1B Audit

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

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
1000000100	P2510-0012	Kiernan Avenue Interchange

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

If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Jeremy Jackson, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Elena Guerrero, Acting Audit Manager, External Audits–Contracts, Audits and Investigations, California Department of Transportation
Mr. Matthew J. Machado, Director, Public Works Department, Stanislaus County
Mr. Chris Brady, Deputy Director, Public Works Department, Stanislaus County

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 \$33.4 million of Proposition 1B State Route 99 (SR 99) Corridor funds to Stanislaus County (County) for the Kiernan Avenue Interchange project (1000000100). The project consisted of the reconstruction of the interchange at SR 99/SR 219 and the construction of SR 99 northbound and southbound auxiliary lanes between the Kiernan Avenue and Pelandale Avenue interchanges in Stanislaus County. Construction for this project is complete.

PROGRAM DESCRIPTION¹

SR 99: \$1 billion of bond proceeds made available to SR 99 to finance safety, operational enhancements, rehabilitation, and capacity improvements necessary to improve SR 99 in the San Joaquin and Sacramento Valleys.

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 audit period for the 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, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements.
- Deliverables/outputs were consistent with the project scope and schedule.
- Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Report.

At the time of our site visit in November 2017, construction for the Kiernan Avenue Interchange project was complete. However, the County had not yet submitted the Final Delivery Report. 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.

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

The County's management is responsible for ensuring accurate financial reporting; compliance with contract provisions, 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

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

- Examined the project files, project agreements, program guidelines, and applicable policies and procedures to gain an understanding of the project and respective program.
- Reviewed procurement records to verify compliance with applicable local and state procurement requirements.
- Selected a sample of expenditures to determine if they were project-related, properly incurred, authorized, and supported by accounting records, progress payments, invoices, cancelled checks, and electronic fund transfer documents.
- Reviewed a sample of contract change orders to determine if they were within the scope of the project, 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 met by reviewing supporting documentation and conducting a site visit to verify project existence.
- Evaluated whether project deliverables/outputs were completed on schedule by reviewing project files, project agreements, and approved amendments.
- Evaluated whether there is a system in place to report project benefits/outcomes by reviewing a sample of supporting documentation.

In conducting our audit, we obtained an understanding of internal control, 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. 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.

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.

Except as noted below, 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. Additionally, the project deliverables/outputs were consistent with the project scope. Although the project was behind schedule, the County appropriately informed Caltrans and CTC of the delay. However, the County does not have a system in place to report actual project benefits/outcomes as noted in Finding 5. The *Summary of Project Reviewed* is presented in Appendix A.

Finding 1: Procurement Process for Consultants Needs Improvement

The County entered into a construction management services contract with Consultant B, which creates the appearance of a conflict of interest and increases the risk of fraud, waste, and abuse of Proposition 1B funds. The following issues were identified:

- Consultant A was awarded a contract to perform the plans, specifications, and estimates (PS&E) in the design phase of the project. Consultant A hired Consultant B as a subconsultant to perform six of seven tasks listed in the PS&E contract. The budget for those six tasks was \$1,078,660, representing 20 percent of the \$5,499,163 PS&E contract. Consultant B was subsequently hired by the County to perform construction management services. Construction management services included oversight of the PS&E. Consultant B performing PS&E work and construction management services for the same project creates the appearance of a conflict of interest. In addition, Cooperative Agreement 10-355, section 48, states that the County will not employ the engineering firm preparing PS&E for construction management of the project.
- The Vice President (VP) of Consultant A participated in the selection of the construction management contractor. Although the County had five panel members scoring the consultants, the VP of Consultant A recommended Consultant B. Consultant A’s participation creates the appearance of a conflict of interest because Consultant B worked for Consultant A on the PS&E contract. Local Assistance Procedures Manual (LAPM) section 10.5, states that all committee members must complete and sign a conflict of interest statement (Form 10-T) prior to selection process initiation. Further, Form 10-T certifies that the panel member has no current contractual relationship with any of the firms (including subconsultants) that are subject to the scoring evaluation. The County could not provide evidence that Consultant A had signed the Form 10-T. In addition, LAPM section 10.1 (Federal Regulation Conflict of

Overview of Consultants

Consultant A:

- Hired by the County to perform PS&E tasks.
- Hired Consultant B to complete PS&E tasks.
- Consultant A VP participated in the selection of construction management contractor.
 - VP did not sign a statement of independence.
 - VP recommended Consultant B be awarded the construction management contract.

Consultant B:

- Hired by Consultant A to perform PS&E tasks.
- Awarded construction management contract by County.
 - Did not complete a conflict of interest statement.
- Oversaw its own work from the PS&E phase.
- Completed additional tasks for Consultant A per contract amendment with County.

Interest 23 CFR 1.33), states that no contracting agency employee who participates in the procurement, management, or administration of state funded contracts or subcontracts shall have, directly or indirectly, any financial or other personal interest in connection with such contract or subcontract.

- The County did not require Consultant B to complete the Consultant in Management Position Conflict of Interest and Confidentiality Statement (Form 10-U). Consultant B provided project management services over the construction phase of the project. The LAPM section 10.1 requires consultants acting in a management support role to complete Form 10-U.
- The County approved a \$37,610 amendment for work that was beyond the scope of the PS&E contract. Consultant A then subcontracted the entire scope of work to Consultant B. According to the County, it had not claimed reimbursement for costs related to the amendment, and they do not plan to seek reimbursement in future claims. LAPM section 10.8 requires that only work within the original scope of services shall be added by amendment to the contract. The addition of work outside the original advertised scope of work will make that work ineligible for state reimbursement.

According to the County, it did not think the relationship between Consultant A and Consultant B was significant enough to require adherence to Caltrans' conflict of interest policies. LAPM section 10.1 states that prior to allowing a consulting firm to provide services on subsequent phases of the same project, the implementing agency must establish appropriate compensating controls to ensure a conflict of interest does not occur in the procurement, management, and administration of consulting services. Based on the instances described above, the County did not establish appropriate controls. The appearance of a conflict of interest may hinder the transparency and accountability of bond funds to the public.

Recommendations:

- A. Read and review project agreements and applicable guidelines to ensure a clear understanding of the requirements for awarding consultant contracts including completing applicable forms regarding conflict of interest.
- B. Develop, maintain, and comply with procedures to eliminate the potential conflict of interest for consultants performing work on behalf of the County.
- C. Ensure expenditures incurred from the \$37,610 amendment are not subsequently claimed for reimbursement.

Finding 2: Inadequate Oversight of Consultant Expenditures

The County did not properly review consultant invoices to ensure expenditures were in compliance with Caltrans' and the County's contract requirements resulting in \$65,261 of questioned expenditures. Specifically:

- The County claimed \$62,181 of ineligible construction engineering expenditures for work performed by Consultant A. The construction support services were performed between April 2013 and August 5, 2013; however, Contract Amendment 1 authorizing the work was in effect starting August 6, 2013. According to the County, because unexpended funds remained in the original PS&E contract, it did not process Contract Amendment 1 prior to the performance of the work.

LAPM section 10.8 states that all contract amendments must be in writing and fully executed by the consultant and local agency before reimbursable work begins on the amendment and failure to comply with this section may result in the loss of local agency funding.

In addition, section 2.3 of the County contract with Consultant A states the consultant shall not receive compensation for any services provided outside the scope of services specified, unless the County or Project Manager for the project, prior to the consultant performing the additional services, approves such additional services in writing. The contract further provides that oral requests and/or approvals of such additional services or additional compensation shall be barred and are unenforceable. Lastly, County contract Exhibit A, section 7.5 states that construction period support will be a future addendum.

- The County approved Consultant A invoices, which included hourly labor rates that did not agree with the rates listed in Contract Amendment 1. According to the County, the consultant billed at the original contract rates and not the Contract Amendment 1 billing rates. The invoice service dates occurred during the period covered by the Contract Amendment 1 and the County should have paid Consultant A based on the rates listed in Contract Amendment 1. The billed rates, both higher and lower than amended contract rates, result in \$3,080 of questioned construction engineering expenditures.

Contract Amendment 1 between the County and Consultant A, Attachment 1.1 states invoices shall list the hours expended, with rates, and reimbursable expenses in accordance with the schedule of charge rates, incorporated in Contract Amendment 1. Contract Amendment 1 was in affect during the period the expenditures were claimed for reimbursement.

- The County approved Consultant B invoices which included key staff that were not specified in the Contract Agreement. The Contract Agreement included key staff names, positions, and billing rates. Although invoiced staff were in the same position and billed at the same rate, Consultant B did not receive prior written authorization from the County to replace the specified staff. According to the County, it was aware of the substitution but had only provided verbal approval. LAPM section 10.8 (Substitution of Consultant Personnel and Sub-consultants) requires prior written authorization for replacement of key consultant personnel. A lack of prior written authorization can result in expenditures being ineligible for reimbursement.
- The County did not maintain a sufficient audit trail to identify which consultant expenditures were eligible for reimbursement from Proposition 1B funds. The County received 10 invoices from Consultant A totaling \$186,376; however, it only claimed \$179,235 for reimbursement. The County could not demonstrate which expenditures were included in the claim for reimbursement. Cooperative Agreement 10-355 section 37 requires partners to maintain a financial system that can properly accumulate and segregate incurred project costs, and provide billing and payment support. According to the County, it could not remember which expenditures were included or excluded for reimbursement.

Recommendations:

- A. Remit \$65,261 (\$62,181 + \$3,080) to Caltrans.
- B. Develop and implement policies and procedures to ensure consultant invoices are properly reviewed for accuracy and compliance with contract agreements.
- C. Obtain a formal executed amendment prior to incurring expenditures for services outside the scope of the original contract.
- D. Ensure an adequate audit trail is maintained to facilitate the tracing of claimed expenditures to the County's accounting records and supporting documentation.

Finding 3: Questioned Construction Expenditures

The County claimed and was reimbursed ineligible construction expenditures totaling \$100,000. Construction expenditures totaling \$386,383 were claimed in reimbursement invoice 1; however, only \$286,383 was supported. County staff stated that a keying error was made and the error was not identified during the review of the reimbursement invoice. LAPM section 5.4 "Method of Reimbursement" states the local agency must incur and pay for project costs prior to invoicing Caltrans for reimbursement.

Recommendation:

- A. Remit \$100,000 to Caltrans.
- B. Develop and maintain an adequate review process to ensure expenditures are accurate and allowable prior to submitting reimbursement invoices to Caltrans.

Finding 4: Inadequate Contract Change Order Oversight

The County claimed unsupported contract change order expenditures totaling \$9,771. Specifically, the County approved an increase in the contract item for an additional 6,125 linear feet of temporary fiber roll in Contract Change Order 41. However, daily project reports only supported the use of 2,868 linear feet of material, resulting in 3,257 linear feet of unsupported material. The County was billed \$3 per foot for the fiber material, totaling \$9,771 (\$3 x 3,257). The County did not have an adequate review process to ensure the Assistant Resident Engineer's Daily Report supported increases to contract items listed in the contract change orders. LAPM section 16.13 requires the reimbursement request be based on accurate quantities.

Recommendations:

- A. Remit \$9,771 to Caltrans.
- B. Develop and maintain an adequate review process to ensure contract change order expenditures are supported, accurate, and allowable prior to submitting reimbursement invoices to Caltrans.

Finding 5: Improvements Needed in the Project Close-Out Process

The County is required to submit a Final Delivery Report by April 2018; within six months of project completion. However, at the time of our site visit in November 2017, the County stated they were unaware of the requirement, and that they did not have a system in place to ensure compliance of the Final Delivery Report. Further, the County was also unaware it was required to report on the pre and post comparable project benefits/outcomes and did not have a system in place to measure daily vehicle hours of delay and daily minutes saved based on 1.2 persons per vehicle.

The Corridor Mobility Improvement Account and SR 99 Accountability Implementation Plan, section IV C.1, states that within six months of the project becoming operable, the implementing agency will provide a Final Delivery Report to CTC on the scope of the completed project, including performance outcomes derived from the project as compared to those described in the project baseline agreement. Without an accurate assessment of projected and actual project outcomes, CTC cannot determine whether project benefits were met.

Recommendations:

- A. Read and review program guidelines to ensure a clear understanding of the project close-out reporting requirements.
- B. Develop and implement policies and procedures to ensure project close-out reporting requirements are met.
- C. Submit a Final Delivery Report by April 2018. Include the pre and post comparable project benefits/outcomes. Maintain documentation supporting the project benefits/outcomes reported in the Final Delivery Report.

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Stanislaus County: County
- State Route 99 Corridor: SR 99
- State Route: SR

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
1000000100	\$32,766,292	C	P	Y	N/A	N/A	A-1

Legend

C = Complete

Y = Yes

P = Partial

N/A = Not applicable, Final Delivery report has not been submitted

Project Number: 1000000100

Project Name: Kiernan Avenue Interchange

Program Name: SR 99

Project Description: The project consisted of the reconstruction of the interchange at SR 99/SR 219 and the construction of SR 99 northbound and southbound auxiliary lanes between the Kiernan Avenue and Pelandale Avenue interchanges in Stanislaus County.

Audit Period: December 16, 2010 through June 30, 2017¹

Project Status: Construction is complete.

Schedule of Proposition 1B Expenditures

Proposition 1B Expenditures	Reimbursed	Questioned Expenditures
Construction	\$26,760,444	\$109,771 ²
Construction Engineering	6,005,848	65,261 ³
Total Proposition 1B Expenditures	\$32,766,292	\$175,032

Audit Results:

Compliance–Proposition 1B Expenditures

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 for \$175,032 of construction and construction engineering expenditures.

Deliverables/Outputs

The construction phase of the project was completed in October 2017. At the time of our site visit in November 2017, project deliverables/outputs were consistent with the project scope. However, the project was behind schedule and completed 14 months late. The County appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the Final Delivery Report had not been submitted to Caltrans as of November 2017 (report due date is April 2018). Additionally, there is not a system in place to report actual project benefits/outcomes as noted in Finding 5.

¹ The audit period end date reflects the billing period end date of the last reimbursement claim submitted to Caltrans.

² Findings 3 and 4 (\$100,000 + \$9,771= \$109,771).

³ Finding 2.



DEPARTMENT OF PUBLIC WORKS

Matt Machado, PE, LS
Director, County Surveyor

Chris Brady, PE
Deputy Director - Design/Survey/Fleet Maintenance

Frederic Clark, PE, LS
Deputy Director - Development/Traffic

David Leamon, PE
Deputy Director - Construction Administration/Operations

Letti Ortiz
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April 25, 2018

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

Re: Draft Report – Stanislaus County, Proposition 1B Audit – P2510-0012

Dear Ms. Whitaker,

The following letter is in response to the Draft Audit Report dated April 3, 2018. The County has reviewed the report and only takes exception to the audit findings as outlined below:

Finding 1, Bullet 4: The County disagrees that the work performed as part of the amendment was beyond the scope of the PS&E. In fact, the work was **directly related** to the services previously performed by consultant B during the PS&E phase. Consultant B performed land surveying and mapping activities related to the acquisition of right of way for the project. The work performed by consultant B as part of the amendment was then preparing post construction maps and legal descriptions for some of those same land acquisitions to be dedicated or deeded back to the State from the County for use as state highway. It was purely the County's oversight to not include those post construction services as part of the original PS&E package. It would not have benefitted the State or the County to hire a different land surveyor that had no history or knowledge of the project, to perform these surveying services. It is the County's position that the \$37,610 spent as part of the contract amendment to the PS&E contract were justified construction phase expenses as they were directly related to previously performed work on the project. Therefore, these expenses should be eligible for state reimbursement.

Finding 2, Bullet 1: The County disagrees that \$62,181 of construction engineering expenses are ineligible for reimbursement. It was illustrated to the audit team, who also agreed, that the services actually provided were reimbursable construction engineering expenses. However, due to a procedural error in timing on a contract amendment, the audit team has recommended the expenses to be ineligible for reimbursement. The County has clearly demonstrated that the expenditures were project related construction engineering expenses and were not a misuse of funds in any way, and that the expenditures should be eligible for reimbursement. The County understands and

agrees that in the future, the contract amendment process outlined in the LAPM should be strictly followed. The County formally requests that the State **NOT** require the County to remit the aforementioned funds.

Finding 4: The County disagrees that there was \$9,771 of unsupported fiber rolls placed on the project. The Assistant Resident Engineers Daily Reports do in fact account for all the material placed on the project and paid for through Contract Change Order 41. It was previously explained that the audit team had misinterpreted notes on the daily reports such as "not a pay quantity" or "not item work." In construction inspection and construction contract management, this means that the quantity placed and measured in the field was "in addition to" the original bid item pay quantity. An example would be to protect a staging area for the structural subcontractor, who had to continually relocate his equipment to construct three different stages of bridge. The staging areas are the means and methods of the contractor and therefore it was not possible for the design team to know where exactly the staging areas would be and how many there would be. Therefore, in this instance, the project required well over the contract amount of fiber rolls to meet the NPDES (storm water) permit requirements. The County disagrees that there was not an adequate review process to ensure expenditures are supported. The daily reports clearly illustrate that the construction management and inspection team was diligent in field measuring each and every linear foot of fiber roll on this project. It is the County's opinion that the quantities were justified for payment and reimbursement, and that it was a simple misunderstanding of the inspector notes on the daily reports that led to the assertion outlined in this finding.

The County appreciates the opportunity to further explain and justify the processes and actions taken on this project in an effort to fully comply with the applicable State requirements on this project. The County would kindly ask that the State reconsider the above mentioned findings and recommendations as outlined in the Draft Audit Report.

Should you have any additional questions or concerns regarding the above mentioned findings, please do not hesitate to contact Chris Brady, Deputy Director, at (209) 525-4184.

Sincerely,

"original signed by"

Matthew J. Machado, P.E.
Stanislaus County Public Works

Cc: Mr. Rick Cervantes, Manager, Office of State Audits and Evaluations
Ms. Alice M. Lee, Chief, External Audits-Contracts, Audits and Investigations,
California Department of Transportation
Ms. Elena Guerrero, Acting Audit Manager, External Audits-Contracts, Audits and
Investigations, California Department of Transportation

Stanislaus County's (County) response to the draft audit report has been reviewed and incorporated into the final report. The County provided responses to select portions of the draft audit report findings. In evaluating the County's response, we provide the following comments:

Finding 1: Procurement Process for Consultants Needs Improvement

The County provided a response that was limited to bullet point four. The County disagrees that the work performed as part of the amendment was beyond the scope of the PS&E contract. The County contends that the work in question was a directly related project expense, but was purely an oversight error in omitting the scope of the work in the original contract. Therefore, the County states these expenses should be eligible for state reimbursement. However, the County did not provide any additional evidence to support that the work was part of the original contract, was an eligible construction phase expenditure, or that the criteria cited in the finding was not relevant. Further, the County provided an e-mail dated January 31, 2018 stating the \$37,610 would be funded locally and their plan "has been not to invoice Caltrans for the \$37,610 expense." As such, the finding and recommendation remain unchanged.

Finding 2: Inadequate Oversight of Consultant Expenditures

The County provided a response that was limited to bullet point one. The County disagrees that \$62,181 of construction expenses are ineligible for reimbursement. The County states there was a procedural error in the timing of a contract amendment and the error should not make the expenditures ineligible for reimbursement. However, the County did not provide any additional evidence or criteria supporting the eligibility of the expenditures. As such, the finding and recommendation remain unchanged.

Finding 3: Questioned Construction Expenditures

The County did not provide a response to this finding. As such, the finding and recommendations remain unchanged.

Finding 4: Inadequate Contract Change Order Oversight

The County disagrees with this audit finding. The County contends that the contract change order and the work performed was eligible for reimbursement. Further, the County contends that the auditor misinterpreted the notes, "not a pay quantity" or "not item work", on daily inspection reports that were provided as support. Auditor reviewed the daily inspection reports and maintains that the statements written on the reports support the auditor's analysis. Foreexample:

"These waddles are not a pay item because (illegible) damaged the slope. The dump truck on site today should not be paid today. It was broke down most of the day. The contractor should not be paid for extra work today. (Contractor) placed 1642 L.F. of waddle on N.B. off-ramp slope. This quantity is not a pay quantity. It is placed by prime because of what (illegible) underground did."¹

¹ State of California, Department of Transportation, Assistant Resident Engineer's Daily Report, "219 Kiernan, Report No. WD#1394, Date 10-13-14" signed by Gary Mohler

Additionally, the County did not provide any evidence, such as industry publications, guidelines, or Caltrans definitions, to support that the auditor's interpretation of notes on the daily inspection reports was inaccurate. As such, the finding and recommendations remain unchanged.

Finding 5: Improvements Needed in the Project Close-Out Process

The County did not provide a response to this audit finding. As such, the finding and recommendation remain unchanged.