



Transmitted via e-mail

June 30, 2011

Mr. Malcolm Dougherty, Acting Director
Department of Transportation
1120 N Street
Sacramento, CA 95814

Ms. Bimla Rhinehart, Executive Director
California Transportation Commission
1120 N Street
Sacramento, CA 95814

Dear Mr. Dougherty and Ms. Rhinehart:

Final Report—Audit of Proposition 1B Bond Funds

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Proposition 1B bond funds administered by the California Transportation Commission (Commission) and Department of Transportation (Caltrans) for the period ending June 30, 2010.

The Commission's and Caltrans' response to the report observations are incorporated into this final report. The Commission and Caltrans agreed with our observations and we appreciate their willingness to implement corrective actions. The observations in our report are intended to assist management in improving its program.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reporttransparency.ca.gov/> within five working days of this transmittal.

A detailed Corrective Action Plan (CAP) addressing the observations and recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target completion dates.

We appreciate the assistance and cooperation of the Commission and Caltrans. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Andre Boutros, Chief Deputy Director, California Transportation Commission
Ms. Maura Twomey, Deputy Director, California Transportation Commission
Ms. Jennifer Waldon, Staff Services Analyst, California Transportation Commission
Ms. Susan Bransen, Assistant Director, Audits and Investigations, Department of
Transportation
Mr. Carlos Aguila, Chief, External Audits, Department of Transportation
Mr. Douglas Gibson, Proposition 1B Audit Manager, Department of Transportation
Mr. Kurt Scherzinger, Chief, Office of Capital Improvement Programs, Department of
Transportation
Ms. Doris Alkebulan, Transportation Programming-Proposition 1B Specialist, Department
of Transportation
Mr. Steven Keck, Chief, Division of Budgets, Department of Transportation
Ms. Athena Gliddon, Chief, Office of Capital and Finance, Department of Transportation

AUDIT REPORT

California Transportation Commission Department of Transportation Corridor Mobility Improvement Program Proposition 1B



Source: Department of Transportation – CMIA I-80 Widening Project in Placer County

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

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

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EXECUTIVE SUMMARY

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the California Transportation Commission's (Commission) and Department of Transportation's (Caltrans) administration of Proposition 1B funding as of June 2010. Our overall audit objectives were to determine if (1) bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate monitoring processes are in place to ensure projects are within scope and cost. Specifically, our audit focused on the Corridor Mobility Improvement Program.

Based on our audit scope, we determined awarded funds and administrative expenditures are reasonable and comply with legislation. However, we noted the following observations:

- Project status reporting and audit report transparency requirements are not fully met as required by Executive Orders S-02-07 and S-20-09.
- Caltrans' monitoring of follow-up accountability activities could be improved.
- Caltrans has not finalized its plan to measure performance outcomes.

Caltrans' fiscal and administrative controls over bond funds would be strengthened if it develops a corrective action plan to address the observations and recommendations noted in this report.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In November 2006, California voters passed Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Bond proceeds totaling \$19.925 billion were for various transportation-related projects, trade infrastructure and port security projects, school bus retrofit and replacement, transit and passenger rail improvements, transit security projects, and local bridge seismic retrofit projects.

Administered by a number of state departments, agencies, boards, and commissions, bond proceeds are allocated to 16 different programs. No one entity is charged to act as a lead agency for Proposition 1B. Each department is responsible for reporting its project and financial status to the appropriate parties.

Of the \$19.925 billion of Proposition 1B bond funds, the California Transportation Commission (Commission) and the Department of Transportation (Caltrans) collectively received a total of \$15.6 billion to administer 11 programs:

TABLE 1: CTC / Caltrans Program Allocations

Program	Allocation Amount (millions)	Administrative Agency
Corridor Mobility Improvement Account	\$ 4,500	Commission
State Route 99 Corridor	\$ 1,000	Commission
Trade Corridor Improvement Fund	\$ 2,000	Commission
STIP Augmentation	\$ 2,000	Commission
SHOPP Augmentation	\$ 500	Commission
Public Transportation Modernization	\$ 3,600	Caltrans
Traffic Light Synchronization	\$ 250	Commission
State-Local Partnership Program Account	\$ 1,000	Commission
Local Bridge Seismic Retrofit Account	\$ 125	Commission
Highway-Railroad Crossing Safety Account	\$ 250	Commission
Intercity Rail Improvement	\$ 400	Caltrans
Total	\$ 15,625	

Source: Government Code section 8879.23

The Commission is responsible for programming and allocating funds for 9 of the 11 Proposition 1B programs Caltrans implements.

California Transportation Commission ¹

The Commission was established in 1978 by Assembly Bill 402 (Chapter 1106, Statutes of 1977) out of a growing concern for a single, unified California transportation policy. The Commission replaced and assumed the responsibilities of four independent bodies: the California Highway Commission, the State Transportation Board, the State Aeronautics Board, and the California Toll Bridge Authority. The Commission is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. Caltrans is responsible for the construction and management of all transportation systems throughout California, and therefore has a close working relationship with the Commission.

The Commission also advises and assists the Secretary of Business, Transportation, and Housing Agency, and the Legislature in formulating and evaluating state policies and plans for California's transportation programs. The Commission is also an active participant in the initiation and development of state and federal legislation that seeks to secure financial stability for the state's transportation needs. The Commission's mission is to enhance the economic, social, and environmental welfare of all California citizens by providing for a comprehensive, multimodal state transportation system consistent and compatible with the orderly economic and social progress of the state.

California Department of Transportation

Although funds are made available to the Commission upon appropriation by the Legislature, the Commission allocates those monies to Caltrans to implement various programs. Caltrans' mission is to improve mobility across California by providing the safest transportation system in the nation for users and workers, maximize transportation system performance and accessibility, efficiently deliver quality transportation projects and services, preserve and enhance California's resources and assets, and promote quality service through an excellent workforce.² They work closely with the Commission and other regional and public agencies to fulfill program goals.

Corridor Mobility Improvement Account (CMIA)

Funds allocated to this account are for improving performance on the state highway system or major access routes to the state highway system. The CMIA presents an opportunity for the state's transportation community to provide demonstrable congestion relief, enhanced mobility, improved safety, and stronger connectivity to benefit traveling Californians. The Commission works in partnership with Caltrans and regional agencies to carry out this program. To be considered in this program, the Commission must find that the project meets certain criteria such as:

- Improves mobility in high-congested areas by improving travel times or reducing the number of daily vehicle hours of delays.
- A high priority project in the corridor.
- Provides for mobility improvements in all regions of California.
- The project can commence construction or implementation no later than December 31, 2012.

Many of these CMIA projects are multi-funded by federal, local, or other state funds.

¹ Excerpts of this section were taken from the Commission's website, www.catc.ca.gov

² Information from the Department of Transportation website, www.dot.ca.gov

Follow-Up Accountability Activities

As part of Executive Order S-02-07's directive, the Commission developed an Accountability Implementation Plan (Plan) for the CMIA. The Plan identifies project expenditures and outcomes will be audited in accordance with government auditing standards and, at a minimum, semi-final audits will be conducted within six months of the final project delivery report, as well as a final audit will be performed and reported within six months of the date of project completion. Additionally, financial audits may be performed, in accordance with government auditing standards, at any time during the progress of the bond-funded project of the implementing agencies and project sponsors.

To comply with these requirements, Caltrans contracted with the State Controller's Office (SCO) to perform pre-award/post-award audits/reviews and interim/post audits of contracts between Caltrans and private contractors, local governmental agencies, and rail-related entities. Generally, the pre-award/post award audits/reviews consist of reviewing the contractor's processes and internal controls and determining whether the proposed costs are reasonable. The interim/post audits consist of determining whether costs claimed and reimbursed are adequately supported and in compliance with contract provisions and state and federal regulations, as well as determining whether the contractor's financial management system is adequate to accumulate and segregate reasonable, allocable, and allowable costs.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we conducted an audit to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and if adequate in-progress and follow-up processes were in place. Specifically, our scope was to determine whether:

- Administrative expenditures are reasonable and comply with legislation.
- Reporting requirements are met.
- Caltrans' audit coverage over Proposition 1B expenditures and related processes—such as the contract change order process—is adequate.
- Proposition 1B expenditures achieved the intended outcomes.

Based on our risk assessment³, our audit was limited to Proposition 1B's CMIA. The audit included transactions and controls from program inception through June 30, 2010.

The audit did not include an assessment of the bond authorization, issuance, and sale processes. Further, no assessment was performed on the reasonableness of projects.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether adequate monitoring processes were in place, we performed the following procedures:

- Reviewed the Bond Act, Caltrans' Construction Manual, CMIA program guidelines, and applicable legal provisions and regulations.

³ Our risk assessment included a review of documents received and numerous detailed discussions conducted. See Appendix A for list of interviewees.

- Gained an understanding of the relevant internal controls to design adequate audit procedures.
- Interviewed key personnel at the Commission and Caltrans responsible for program oversight.
- Performed process walkthroughs with Caltrans' headquarters and district staff.
- Verified the information reported to the Strategic Growth Plan Bond Accountability website⁴.
- Reviewed the cost allocation methodology for reasonableness.
- Reviewed audit work products and quality control review documents prepared by SCO and Caltrans.

Recommendations were developed based on review of documentation made available to us, and interviews with the Commission and Caltrans management and key staff directly responsible for administering bond funds. This audit was conducted from April 2010 through April 2011.

Except as noted, this performance audit was conducted in accordance with government auditing standards, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by government auditing standards. Finance is not independent of Caltrans, as both are 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. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

⁴ Bond accountability website address is www.bondaccountability.com.

The California Transportation Commission (Commission) and Department of Transportation (Caltrans) awarded funds in compliance with applicable legal requirements and established criteria. The design of the projects awarded through the Corridor Mobility Improvement Account (CMIA) are consistent with the applicable requirements. In addition, administrative expenditures incurred are reasonable and valid. We determined Caltrans has fiscal and programmatic controls and procedures established for Proposition 1B funded projects. To gain assurance these controls were sound, we noted the existence of comprehensive guides and policy manuals, and segregation of oversight responsibilities. Additionally, we inquired within various Caltrans divisions regarding their roles and responsibilities related to project management, and observed reviews are conducted over the contract change order process.

To build on these controls, Caltrans' fiscal and administrative procedures could be improved as follows:

Observation 1: Some Project Reporting Requirements Are Not Met

Executive Order S-02-07 requires departments to report ongoing in-progress actions taken to ensure bond-funded projects and activities remain within scope and cost. In addition, information on bond proceeds shall be listed on a public website, including a description of each project and the total amount expended for each project.

Fiscal project information currently posted on the bond accountability website is misleading because the *Total Bond-Funded Column* represents the amount programmed for each project, not the amount expended or awarded. Programming is the process by which specific funds for a project are identified⁵. Generally, the programmed amount is more than the awarded amount. See the Table below.

Title	County	State Route	Total Project Cost (x1000)	Total Bond Funding (x1000)	Planned Construction Start	Planned Construction Finish
Eastbound I-580 HOV- Hacienda to Greenville	Alameda	580	\$153,869	\$72,200	06/01/2008	12/01/2011
I-580 Westbound HOV Lane - Greenville to Foothill	Alameda	580	\$137,888	\$72,200	03/01/2011	11/01/2013
I-580/Isabel Interchange	Alameda	580	\$130,250	\$45,250	02/01/2009	01/01/2012
I-880 Southbound HOV Lane Extension - Hegenberger to Marina Blvd	Alameda	880	\$108,000	\$94,600	03/01/2012	04/01/2014
Route 24 Caldecott Tunnel Fourth Bore	Alameda	24	\$385,839	\$73,439	07/01/2009	05/01/2014
Route 84 Expressway Widening - Segment 1 & 2	Alameda	84	\$122,859	\$20,000	11/30/2011	07/31/2013
SR 32 Widen Phase 1	Butte	32	\$9,925	\$3,425	12/31/2010	11/30/2012
State Route 4 Angels Camp Bypass	Calaveras	4	\$60,688	\$3,574	09/01/2007	09/01/2010
State Route 4 East Widening from Somersville to Route 160	Contra Costa	4	\$426,139	\$85,000	11/01/2010	12/01/2014
I-80 Integrated Corridor Mobility Project	Contra Costa, Alameda	80	\$64,555	\$55,300	07/01/2009	10/01/2011
US 50 HOV Lanes - Phase 1	El Dorado	50	\$44,568	\$20,000	12/01/2008	06/01/2010
Route 46 Expressway - Segment 3	Kern	46	\$77,728	\$34,909	07/01/2010	07/01/2014
Route 198 Expressway	Kings	198	\$92,921	\$44,514	10/01/2009	02/01/2012
I-405 Carpool Lane I-10 to US 101 (Northbound)	Los Angeles	405	\$1,034,000	\$703,900	04/01/2009	04/01/2013

⁵ Defined by Caltrans' *How Caltrans Builds Projects* handbook.

Additionally, upon selection of a project, fiscal information is displayed by fund source and by project component. Although there is a column for *Cost to Date* expenditures, those figures are comingled with non-bond funding. Caltrans does prepare and submit quarterly reports to the Commission identifying the progress of projects, including total amount expended for each project. These quarterly reports would satisfy the requirements of Executive Order S-02-07 but are not available on the bond accountability website.

Executive Order S-20-09 also requires departments to post external and internal audit reports on the Reporting Transparency in Government (Transparency) website. In June 2010, Caltrans stated it would comply. As of December 19, 2010, the State Controller's Office (SCO) had completed 33 audits from May 2008 through May 2010; however, these reports are not posted on the Transparency website as of April 28, 2011. Caltrans indicated the reports are pending evaluation by Caltrans' Legal Division. Once the evaluations are complete, the reports would be posted and subsequently distributed to the Commission. Based on our review of Caltrans' tracking spreadsheet dated December 19, 2010, the 33 audit reports do not include information that would prevent Caltrans from complying with Executive Order S-20-09. As such, the reports should be considered finalized.

Recommendations:

- A. Clarify the information posted on the Bond Accountability website. A footnote on the *Bond Funded Column* and the *Cost to Date Column* could be inserted to clarify the true representation of the figures.
- B. Post the quarterly reports or other information to provide the total amounts expended for each project.
- C. Post audit reports within 5 business days of finalization and distribute to parties charged with governance, such as the Commission.

Observation 2: Follow-Up Accountability Activities Can Be Improved

According to Executive Order S-02-07, follow-up accountability includes conducting audits of bond expenditures to determine whether they were made in accordance with established front-end criteria, and processes were consistent with all legal requirements. Additionally, the Commission's follow-up accountability plan for these bond funds require semi-final and final audits to be performed. As the implementing agency for Proposition 1B projects, Caltrans is responsible for ensuring bond proceeds are spent efficiently and effectively.

As noted in the *Background* section of this report, Caltrans entered into an interagency agreement with SCO to perform audits of projects receiving Proposition 1B funds. Caltrans performed certain activities to ensure the interagency agreement was executed as planned, such as, but not limited to, the following:

- Development of a risk-based approach for selecting projects for audit.
- Formally communicating to SCO relevant key information about the selected project for audit.
- Monthly updates from SCO.
- Tracking of certain information about each audited project.
- Performance of periodic quality control reviews (QCRs) of SCO's work products.

To determine if Caltrans' audit coverage was adequate, we reviewed the activities noted above. Our audit determined Caltrans communicates relevant key information about the selected project for audit and regular monthly updates occur between the two parties. We suggest the following improvements be implemented to increase the effectiveness and efficiency of its audit resources.

Risk-Based Approach

Caltrans developed a risk-based approach for selecting projects. Although the audit plan has been improved over time, Caltrans should re-assess its overall approach and consider committing additional audit resources to focus on higher risk areas, such as the contract change order process (CCO). During our review of audit workpapers, we determined the current CCO audit procedures provide minimal audit coverage. Additional procedures should be considered to include a review of the CCO funding categories (i.e. contingency and supplemental funds). These funding categories are considered high risk because contract change orders are not priced in accordance with the contract, labor hours may be arbitrarily inflated, labor rates may exceed actual pay rates, and charges for material may be excessive.⁶ These inherent risks lend themselves to greater exposure to potential misuse or abuse of bond funds. Armed with this data, Caltrans—whether it is SCO or Caltrans' Audit and Investigations Unit—should consider applying more targeted focus on the CCO.

Project Monitoring

Caltrans utilizes Excel spreadsheets to track and monitor information for specific projects, such as project name, project number, contractor name, audit completion date, and number of findings. However, we noted the numerous spreadsheets may not be efficient and the information tracked may not be effectively assessed. For example, our review of a tracking spreadsheet noted actual billed hours exceeded budgeted hours on average of two times higher than originally budgeted. Caltrans did not request justification for the excess hours charged and follow-up activity was not documented. As of April 2010, Caltrans implemented a new process to ensure actual billed hours do not exceed the budgeted hours.

In addition, our review of Caltrans' tracking spreadsheet identified duplication of audit work. Specifically, audits of the same contractor for two different projects were listed on the spreadsheet. When we reviewed the workpapers, reliance could have been placed on the earlier audit to realize audit hour savings. Both audits billed relatively the same amount of audit hours even though a large portion of the workpaper documentation was identical. Caltrans states a new system to improve project monitoring is in development and is estimated to go live in May 2011.

Quality Control Review Process

Caltrans implemented the QCR process to provide assurance audits are performed in accordance with government auditing standards and intended to perform QCRs prior to the issuance of each audit report. Caltrans performed a QCR on 50 percent of audit reports issued; however, they were performed after SCO issued the audit reports. Because the QCR reviews were conducted after the fact, Caltrans' expectations may not always be met. For example, significance levels for audit reporting purposes were not agreed upon prior to the start of audit work. SCO considered certain audit observations insignificant but planned to follow up in the final audit. This decision was not brought to Caltrans' attention until the completion of a QCR. As of October 2010, Caltrans requires SCO to report via memorandum all observations. The QCR process can be an effective

⁶ Risks identified based on auditor's research of industry standards and practices.

monitoring activity if timely implemented as intended (conducted prior to audit report issuance). At this time, Caltrans does not have a long-term strategy for performing these QCRs.

We reviewed a sample of SCO audit workpapers (12 of 33 audits) and determined the QCR process could be improved. The following SCO documentation weaknesses were identified:

- Observations were not carried forward to a summary document to facilitate follow-up efforts.
- Communication of observations to contractors and Caltrans was not adequately documented.
- Methodology in final reports was inconsistent with the audit documentation.
- Stated audit procedures were not properly performed or adequately documented. For example:
 - Documented risk assessment was not specific to the organization under audit
 - Materials compliance procedures were incomplete
 - Contract change order analysis was not supported
 - A final report was issued without evidence of supervisor review
 - Support for expenditures was not adequate

These documentation weaknesses could have been identified during the QCR process (if working as intended). In two audits sampled, we found workpaper deficiencies that were not identified in Caltrans' QCR.

When Proposition 1B legislation was adopted in November 2006, Caltrans was challenged with implementing new multi-billion dollar funded programs and establishing proper controls within stringent timeframes. This fast-paced agenda contributed to a lack of clear, detailed plans and procedures with respect to accountability from the outset. As stated above, our review of Caltrans' audit activities could be improved to ensure adequate follow-up accountability to provide assurance bond proceeds are spent appropriately and effectively, thereby decreasing the risk of waste and abuse.

Recommendations:

The interagency agreement between SCO and Caltrans requires a clear understanding of expectations and deliverables. Specifically, Caltrans should:

- A. Develop a long-term strategy, including specificity in roles and responsibilities of both Caltrans, SCO, and other stakeholders. The strategy should be assessed on a periodic basis to ensure the interagency agreement's objectives will be accomplished. This can be done via an annual engagement letter.
- B. Reassess the current audit approach by considering audit results and areas of risk.
- C. Employ enhanced project monitoring practices to ensure effective and efficient use of audit resources.
- D. Implement a more timely and rigorous QCR process to ensure audit documentation is complete, accurate, and fully supported.

Observation 3: Lack of Finalized Plan to Measure Performance Outcomes

Executive Order S-02-07 requires departments to define performance standards or outcome measures within the front-end accountability plan as well as audit those outcomes to ensure they were achieved as intended. Performance measures are identified in the Commission's approved project baseline agreements; however, Caltrans does not currently have finalized procedures to evaluate and measure the achievement of those outcomes—both at the project and program levels. We noted Caltrans collects various types of data, has many tools available to measure performance outcomes, and held discussions regarding measuring outcomes. However, Caltrans could not provide documentation to support and identify the intended process, the responsible parties involved, the measurement tools to be utilized, and draft procedures. Further, the Commission communicated to Caltrans its expectations for reporting and measuring performance outcomes via the Accountability Implementation Plan documents; however, they are vague and not clearly defined. Without clearly defined guidance, the Commission's assurance that expectations are met by Caltrans is decreased. Lastly, because Caltrans does not have finalized procedures to evaluate and measure project and program performance, the required audits cannot be completed.

With more projects completing construction and becoming operable by the end of 2011, Caltrans needs to determine and implement appropriate performance measurement procedures to ensure compliance with the Executive Order, the Commission's Accountability Implementation Plan, and Caltrans' Follow-up Accountability Plan with respect to ensuring intended outcomes are met.

Recommendations

- A. The Commission should clearly define and communicate its expectations to Caltrans for reporting and measuring performance outcomes.
- B. Caltrans should finalize its process to measure performance outcomes. A finalized process would facilitate the development of audit procedures for assessing these outcomes.
- C. Caltrans should communicate its expectations and responsibilities to the appropriate stakeholders regarding the performance measurement process.

APPENDIX A

List of Interviewees

- A. California Transportation Commission
- B. State Controller's Office
- C. California Department of Transportation:
 - a. Audits and Investigations
 - b. Division of Accounting
 - c. Division of Budgets
 - d. Division of Transportation Programming
 - e. Division of Construction
 - f. Division of Engineering
 - g. Division of Project Management
 - h. Division of Traffic Operations
 - i. Division of Local Assistance
 - j. District 3 Regional Center
 - k. District 3 Field Office
 - l. District 4 Regional Center

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JAMES EARP
CARL GUARDINO
FRAN INMAN
JOSEPH TAVAGLIONE

STATE OF CALIFORNIA

EDMUND G. BROWN Jr., Governor



SENATOR MARK DESAULNIER, Ex Officio
ASSEMBLY MEMBER BONNIE LOWENTHAL, Ex Officio

BIMLA G. RHINEHART, Executive Director

CALIFORNIA TRANSPORTATION COMMISSION

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June 14, 2011

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Re: Draft Report – Audit of Proposition 1B Bond Funds

Dear Mr. Botelho:

Thank you for the opportunity to review and comment on the Department of Finance, Office of State Audits and Evaluations' (Finance) draft audit report regarding Proposition 1B bond funds administered by the California Transportation Commission (Commission) and the Department of Transportation (Caltrans) for the period ending June 30, 2010.

The Commission is pleased to note that Finance found that the Proposition 1B bond funds were awarded in compliance with applicable legal requirements and established criteria and that the administrative expenses incurred are reasonable and valid.

As Observations 1 and 2 pertain solely to Caltrans, the Commission has no comments regarding those findings. The detailed response to Observation 3 is as follows:

Observation 3: Lack of Finalized Plan to Measure Performance Outcomes

Recommendation: The Commission should clearly define and communicate its expectations to Caltrans for reporting and measuring performance outcomes.

Commission Response: As noted in your report, the Commission communicated

Mr. David Botelho, CPA

June 14, 2011

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its expectations to Caltrans for reporting and measuring performance outcomes via the Accountability Implementation Plan documents. In addition, the Commission has worked with Caltrans to develop the Proposition 1B Close-Out Process to further refine the Commission's expectations. Caltrans is currently implementing the Proposition 1B Close-Out Process, with staff training scheduled for June 2011.

The Commission appreciates the opportunity to provide a response to the draft audit report. If you have any questions or require further information, please do not hesitate to contact Maura Twomey, Deputy Director, at (916) 653-3148.

Sincerely,

Original signed by:

Bimla G. Rhinehart
Executive Director

DEPARTMENT OF TRANSPORTATION

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June 17, 2011

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Botelho:

I am pleased to provide the California Department of Transportation's (Caltrans) response to the Department of Finance, Office of State Audits and Evaluations' (Finance) findings as reported in Finance's audit titled, "Audit of Proposition 1B Bond Funds."

In accordance with Finance's bond oversight responsibilities, Finance conducted an audit of the California Transportation Commission's (Commission) and Caltrans' administration of Proposition 1B funding as of June 2010. Finance's audit objectives were to determine if: (1) bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate monitoring processes are in place to ensure projects are within scope and cost. The audit focused on the Corridor Mobility Improvement Program.

Finance concluded that, based on their audit scope, Proposition 1B bond funds awarded and administrative expenditures are reasonable and comply with legislation. However, Finance auditors did note the following observations:

- Caltrans' project status reporting and audit report transparency requirements are not fully met as required by Executive Orders S-02-07 and S-20-09.
- Caltrans' monitoring of follow-up accountability activities could be improved.
- Caltrans has not finalized its plan to measure performance outcomes.

Finance provided audit recommendations to address the observations identified. Finance's recommendations and Caltrans' responses (in bold) are as follows:

Observation 1 – Some Project Reporting Requirements Are Not Met

- A. Clarify the information posted on the Bond Accountability website. A footnote on the Bond Funded Column and the Cost to Date Column could be inserted to clarify the true representation of the figures.

Caltrans agrees with the recommendation and will clarify the information on the Bond Accountability Website by adding a footnote to indicate that “Cost to Date” includes all funds programmed, and a footnote that states “Total Bond Funding” is the programmed/budgeted amount. This information is reported for the public and is the same as is in the quarterly reports submitted to the Commission, but is presented in a less technical, more readable format for the public.

- B. Post the quarterly reports or other information to provide the total amounts expended for each project.

Caltrans agrees with the recommendation and will add a link on the Bond Accountability Website to the quarterly reports submitted to the Commission.

- C. Post audit reports within 5 business days of finalization and distribute to parties charged with governance such as the Commission.

Caltrans agrees with and will implement the above recommendation. Effective immediately, Caltrans will post all Proposition 1B audit reports to the Reporting Transparency in Government Website in compliance with Executive Order S-20-09, and will distribute audit reports to the parties charged with governance.

Observation 2 – Follow-up Accountability Activities Can Be Improved

The interagency agreement between SCO and Caltrans requires a clear understanding of expectations and deliverables. Specifically, Caltrans should:

- A. Develop a long-term strategy, including specificity in roles and responsibilities of Caltrans, SCO and other stakeholders. The strategy should be assessed on a periodic basis to ensure the interagency agreement’s objectives will be accomplished. This can be done via an annual engagement letter.
- B. Reassess the current audit approach by considering audit results and areas of risk.
- C. Employ enhanced project monitoring practices to ensure effective and efficient use of audit resources.
- D. Implement a more timely and rigorous QCR process to ensure audit documentation is complete, accurate, and fully supported.

Caltrans agrees with and will implement the above recommendations. A new project monitoring system was implemented in May 2011 as part of our goal for more effective and efficient use of audit resources. In addition, the overall

audit program, strategy, and approach will be improved to ensure that adequate follow-up accountability is achieved.

Observation 3 – Lack of Finalized Plan to Measure Performance Outcomes

- A. The Commission should clearly define and communicate its expectations to Caltrans for reporting and measuring performance outcomes.

As this recommendation is directed to the Commission, Caltrans will defer to the Commission for a response.

- B. Caltrans should finalize its process to measure performance outcomes. A finalized process would facilitate the development of audit procedures for assessing these outcomes.

Caltrans agrees with this recommendation. Caltrans will develop and finalize procedures by March 30, 2012, to measure the performance outcomes of projects funded by the Corridor Mobility Improvement Account (CMIA) to ensure compliance with the Governor's Executive Order, the California Transportation Commission's Accountability Implementation Plan, and Caltrans' Follow-up Accountability Plan.

- C. Caltrans should communicate its expectations and responsibilities to the appropriate stakeholders regarding the performance measurement process.

Caltrans agrees with this recommendation and is working on a system to communicate and document this process. Written guidance documenting procedures, roles, responsibilities, and expectations are drafted. Caltrans has made changes to its Bond Accountability Website to reflect these changes. Initial training is scheduled for later in June. Planning and implementation should be complete for this task by July 1, 2011.

If you have any questions, please contact Susan Bransen, Assistant Director, Audits and Investigations, at (916) 323-7122.

Sincerely,

Original signed by:

MALCOLM DOUGHERTY
Acting Director

Mr. David Botelho

June 17, 2011

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- c: Traci Stevens, Acting Secretary, Business, Transportation and Housing Agency
- Michael Tritz, Deputy Secretary, Audits and Performance Improvement,
Business, Transportation and Housing Agency
- Bimla Rhinehart, Executive Director, California Transportation Commission
- Maura Twomey, Deputy Director, California Transportation Commission
- Rick Land, Acting Chief Deputy Director, Caltrans
- Norma Ortega, Deputy Director, Finance, Caltrans
- Steve Takigawa, Deputy Director, Maintenance and Operations, Caltrans
- Susan Bransen, Assistant Director, Audits and Investigations, Caltrans
- Martin Tuttle, Deputy Director, Planning and Modal, Caltrans
- Clark Paulsen, Chief, Division of Accounting, Caltrans
- Rachel Falsetti, Chief, Division of Programming, Caltrans
- Robert Copp, Chief, Division of Traffic Operations, Caltrans
- Sharon Scherzinger, Chief, Division of Transportation Planning
- Steven Keck, Chief, Division of Budgets, Caltrans