



Transmitted via e-mail

May 20, 2016

Mr. William E. Lewis, Assistant Director
Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Dear Mr. Lewis:

Final Report—City of Hesperia, Proposition 1B Project Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Hesperia's (City) Proposition 1B-funded project NCPDL03-5452(009).

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

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

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Luisa Ruvalcaba, Manager, Audits and Investigations, California Department of Transportation
Mr. Mike Podegracz, City Manager, City of Hesperia
Mr. Scott Priestler, Director of Development Services, City of Hesperia
Mr. David Burkett, Project Construction Manager, City of Hesperia

AUDIT REPORT

City of Hesperia Proposition 1B Bond Program Project Number NCPDL03-5452(009)



Ranchero Road Grade Separation and Construction

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

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Supervisor

Staff
Randy Enriquez

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

You can contact our office at:

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

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

The \$1 billion of bond proceeds made available to the State-Local Partnership Program Account (SLPP) finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds. Transportation Impact Fee funds were used to meet the match requirement.²

CTC awarded the City of Hesperia (City) \$1 million to fund a new grade separation and road realignment for an automobile undercrossing connecting Rancho Road bifurcated by the railroad tracks. Although total project cost was \$30.845 million, bond funds were attributed to the construction phase only. The City's Development Services Department is responsible for overseeing all publicly-constructed facilities, submitting claims for reimbursement, and providing and maintaining supporting documents. This project is complete.³

SCOPE

As requested by Caltrans, the Department of Finance, Office of State Audits and Evaluations, audited project NCPDL03-5452(009) for the period March 24, 2011 through July 20, 2013.

The audit objectives were to determine whether:

- Project costs were incurred and reimbursed in compliance with the executed project agreement, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.
- Project deliverables (outputs) were consistent with the project scope and schedule, and project outcomes were consistent with benefits described in the executed project agreement or approved amendments.

Our audit was limited to the construction phase of the project. Additional costs incurred outside the construction phase were not audited.

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

¹ Excerpts were obtained from the bond accountability website. www.bondaccountability.dot.ca.gov/bondacc/

² Excerpts were obtained from the Caltrans website. <http://www.dot.ca.gov/hq/transprog/ibond.htm>

³ Excerpts were obtained from the City's website. www.cityofhesperia.us

The City'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 costs. 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 file, master agreement, program supplement, program guidelines, and applicable policies and procedures.
- Reviewed procurement records to ensure compliance with applicable state and federal procurement requirements.
- Reviewed accounting records, project billing invoices, progress payments, and cancelled checks.
- Selected a sample of claimed costs and reported match to determine if costs were project-related, properly incurred, authorized, and supported by accounting records.
- Reviewed significant contract change orders to ensure they were within the scope of the project, properly approved, and supported.
- Verified the match requirement was met.
- Evaluated whether other revenue sources were used to reimburse costs already reimbursed with bond funds.
- Evaluated whether outputs were completed on schedule as described in the project agreement or amendments.
- Evaluated whether outputs were met by reviewing a sample of supporting documentation and conducting a site visit to verify project existence.
- Evaluated whether project outcomes were consistent with the project scope and determined whether there was a system in place to report project benefits.

In conducting our audit, we obtained an understanding of the City's 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 and implemented. Any deficiencies in internal control that were identified during the conduct of 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.

Project costs were incurred and reimbursed in compliance with the executed project agreement, state and federal regulations, contract provisions, and California Department of Transportation/California Transportation Commission (CTC) program guidelines. Except as noted below, the project deliverables (outputs) were consistent with the project scope described in the executed project agreement or approved amendments.

Schedule of Project Costs

Project Costs	Claimed
Proposition 1B Funds—Construction Phase	\$ 1,000,000
Local Match Funds—Construction Phase	1,000,000
Total Claimed Construction Costs	\$ 2,000,000

Finding 1: Unsupported Project Benefits (Outcomes)

As stated in the Project Programming Request, the project was expected to: 1) improve traffic circulation by reducing traffic congestion on Main Street, and 2) benefit fire, paramedic, and police by improving response times and reduce commuter travel time by creating a second cross-town route where currently one (Main Street) exists. The City of Hesperia's (City) Final Delivery Report stated the following project benefits were achieved:

- City emergency service responders' time reduced by 4.5 minutes.
- Bike rider and pedestrian safety improved with the addition of Class II bike lanes.
- Local school district expects to save about \$1 million annually in fuel costs.

During our audit, we requested documentation to support the reported project benefits. The City stated it did not maintain records to validate the reported project benefits as outlined in the Final Delivery Report. Although the City certified that the information in the Final Delivery Report is a true and accurate record, the reported project benefits were not supported with sufficient evidence.

The 2008 State-Local Partnership Program Guidelines, section 14 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 Programming Request. In addition, the implementing agency is held responsible for maintaining documentation of the information reported on the Final Delivery Report.

Recommendation:

Maintain documentation to support the reported project benefits in the Final Delivery Report.



April 28, 2016

Attn: Office of State Audits and Evaluations
CALIFORNIA DEPARTMENT OF FINANCE
915 L Street, 6th Floor
Sacramento, CA 95814

RE: City of Hesperia Draft Audit Report
Proposition 1B Bond Program, Project No. NCPDL03-5452(009)

Dear Sir or Madam:

This letter is in response to Finding 1: Unsupported Project Benefits (Outcomes) contained in the above-referenced audit report. The City was fortunate to secure a \$1.0 million grant through the Proposition 1B Bond Program passed by California voters to be utilized for construction of a new railroad grade separation project on Ranchero Road. The project's Final Report submitted to the California Department of Transportation (Caltrans) at the completion of the project listed the benefits to the community that were expected to be realized as a result of the project. Objective evidence that these benefits were achieved was not available at the time of the audit; the City was only able to provide subjective evidence.

In order to address this matter, the City wishes to provide the following additional information that will further substantiate the City's claims that the proposed benefits have been achieved and that the Proposition 1B funding received by the City was money well spent.

Benefit 1: Improve traffic circulation by reducing traffic congestion on Main Street

The City is divided in half by the Burlington Northern Santa Fe (BNSF) railroad tracks. Prior to construction of the new grade separation, the only major east-west corridor was Main Street. Residents living on the east side of the City had to converge on Main Street in order to access Interstate 15, the primary freeway connecting the high desert to the Inland Empire, where many residents worked. In addition, many county residents living in the eastern half of San Bernardino County would utilize Hesperia's Main Street for the same reason. As a result Main Street was becoming increasingly congested, especially during the morning and evening commute times.



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Construction of the new grade separation on Ranchoero Road has provided much needed relief on Main Street as the City now has a second major east-west corridor for accessing Interstate 15. Attached herewith as Exhibit A are copies of traffic counts taken on Ranchoero Road before and after the construction of the new grade separation, which demonstrate a significant increase in traffic volumes along the Ranchoero Road corridor after completion of the project in 2013. The table below summarizes the Average Daily Traffic (ADT) data at three locations on Ranchoero Road.

	2010	2015	2016
Location 1: Ranchoero & Coriander	11,908	13,835	17,700
Location 2: Ranchoero & Mesa	12,105	12,611	16,417
Location 3: Ranchoero & Danbury	7,799	10,113	11,956

These counts represent total traffic volumes for both east and west bound traffic. As you may note, the ADT increased from 7,799 to 10,113 at Ranchoero and Danbury (the closest intersection to the project) after completion of the project. That is an increase of 29.67% in traffic volume. The following year in 2016 we note a larger increase.

The ADT at Ranchoero and Coriander increased dramatically in 2016 due to the fact that the City also completed construction of a new freeway interchange at Ranchoero providing direct access to Interstate 15. Approximately 4,000 more vehicles per day are taking advantage of the new grade separation and approximately 5,700 more vehicles per day are taking advantage of the new interchange this year over 2010.

The completion of both of these projects has succeeded in improving traffic circulation by providing a secondary east-west corridor within the City that also provides access to Interstate 15 and relieves traffic congestion on Main Street.

Benefit 2: Improve police, fire, and paramedic services by reducing emergency response times

Reducing the response times of the City's public safety departments is somewhat harder to quantify or demonstrate to any particular specific metric. While the Final Report posited that response times would be reduced approximately 4-1/2 minutes, there are many real-life variables that affect that goal. The City's Fire Department provided a sample scenario that indicates a reduction in response time of 5:12 minutes for Unit ME40, from 17:20 minutes to 12:08 minutes when responding to a



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Traffic Incident at the Hesperia Airport. Please note Exhibit B attached. Of course Units MA302 and ME302 have no reduction because Fire Station 302 is already on the east side of the railroad tracks, so the grade separation had no effect on response times from this station. If however the units from Station 302 were handling an emergency and a new call came in at the same time on the east side of the tracks near the airport, then the response time from Unit ME40 would now be reduced by just over 5 minutes. When dealing with matters of life and death, 5 minutes could mean the difference.

While an emphatic statement cannot be made that response times for all fire units from every station have been universally reduced by 4-1/2 minutes due to many variables, it has been demonstrated that there are instances where the construction of the grade separation has met the benefit of reducing response time.

Benefit 3: The local school district is expected to save approximately \$1.0 million annually on fuel costs

This message was conveyed verbally to City staff by the Hesperia Unified School District (HUSD) at the opening ceremonies for the new grade separation. It appears this statement may have been somewhat hyperbolic. Indeed, the HUSD has recognized savings in fuel costs, but not nearly as much as was initially claimed. Please note Exhibit C attached herewith. The total distance that HUSD buses had to travel prior to completion of the grade separation project was approximately 6.97 miles in order to get over the railroad tracks. Buses had to drive from Rancho Road down to Main Street, then over to C Avenue and south on C Avenue back to Rancho Road again. With the new grade separation completed, that travel distance is now approximately 1.28 miles, a reduction of 5.69 miles.

The HUSD has indicated that 13 buses and several special education buses take advantage of the shorter route. These buses travel this route twice a day, so the total reduction in miles each day is 182.02 miles, as noted below:

13 buses + 3 special education buses = 16 buses per day
Each bus makes 2 trips per day – $2 \times 16 = 32$ trips
Each trip reduces total miles traveled by 5.69 miles per trip
Therefore $32 \text{ trips} \times 5.69 \text{ miles} = 182.08 \text{ miles per day}$



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9 months of school at 20 days per month = 180 total days of school per year
180 total days x 182.08 miles per day = 32,774.40 miles per year

Estimate buses average 8 miles per gallon
32,774.40 miles per year / 8 mpg = 4,096 gallons of gas saved each year
At an average price of \$2.65 per gallon for gas
4,096 gallons x \$2.65 = \$10,856.52 saved each school year

It appears the actual savings in fuel realized by the HUSD is closer to \$10,000 per year as opposed to the claimed \$1.0 million per year. An added benefit is the savings in time for transporting student to and from school. I traveled the old route in my vehicle and the new route utilizing the new grade separation. The old route took me just over 13 minutes while utilizing the grade separation only took me about 2 minutes. The new grade separation has succeeded in reducing travel time for students by about 11 minutes each in the morning and afternoon, a total of about 22 minutes less time sitting on a school bus. The greater benefit to the HUSD seems to be one of time and not money.

The City of Hesperia appreciates being given the opportunity to provide additional information that substantiates the claimed community benefits of the grade separation project rather than relying on anecdotal evidence. We trust this information will be sufficient to eliminate the need to issue a finding in the audit report and respectfully request that the report be modified to remove any such findings.

If you have any questions or require any additional information, please contact me during working hours at (760) 947-1202.

Sincerely,

Original Signed By

DAVID R. BURKETT

Project Construction Manager

EVALUATION OF RESPONSE

The City of Hesperia's (City) response to the draft audit report has been reviewed and incorporated into the final report. In the interest of brevity, the attachments referenced in the City's response were omitted.

The City generally agreed with our finding and stated evidence that the benefits were achieved was not available at the time of our audit. The City is only able to provide subjective evidence. As a result, our finding remains unchanged.