



Transmitted via e-mail

October 11, 2016

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—Los Angeles County Metropolitan Transportation Authority, Proposition 1B
Project Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Los Angeles County Metropolitan Transportation Authority's (Metro) Proposition 1B funded project:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
713000291	P2535-0058	Exposition Light Rail Transit Phase II Project

The enclosed report is for your information and use. Because there were no audit findings requiring a response, we are issuing the report as final. This report will be placed on our website

We appreciate the assistance and cooperation of Metro. If you have any questions regarding this report, please contact Jon Chapple, Manager, or John Ponce, Supervisor, at (916) 322-2985.

Sincerely,

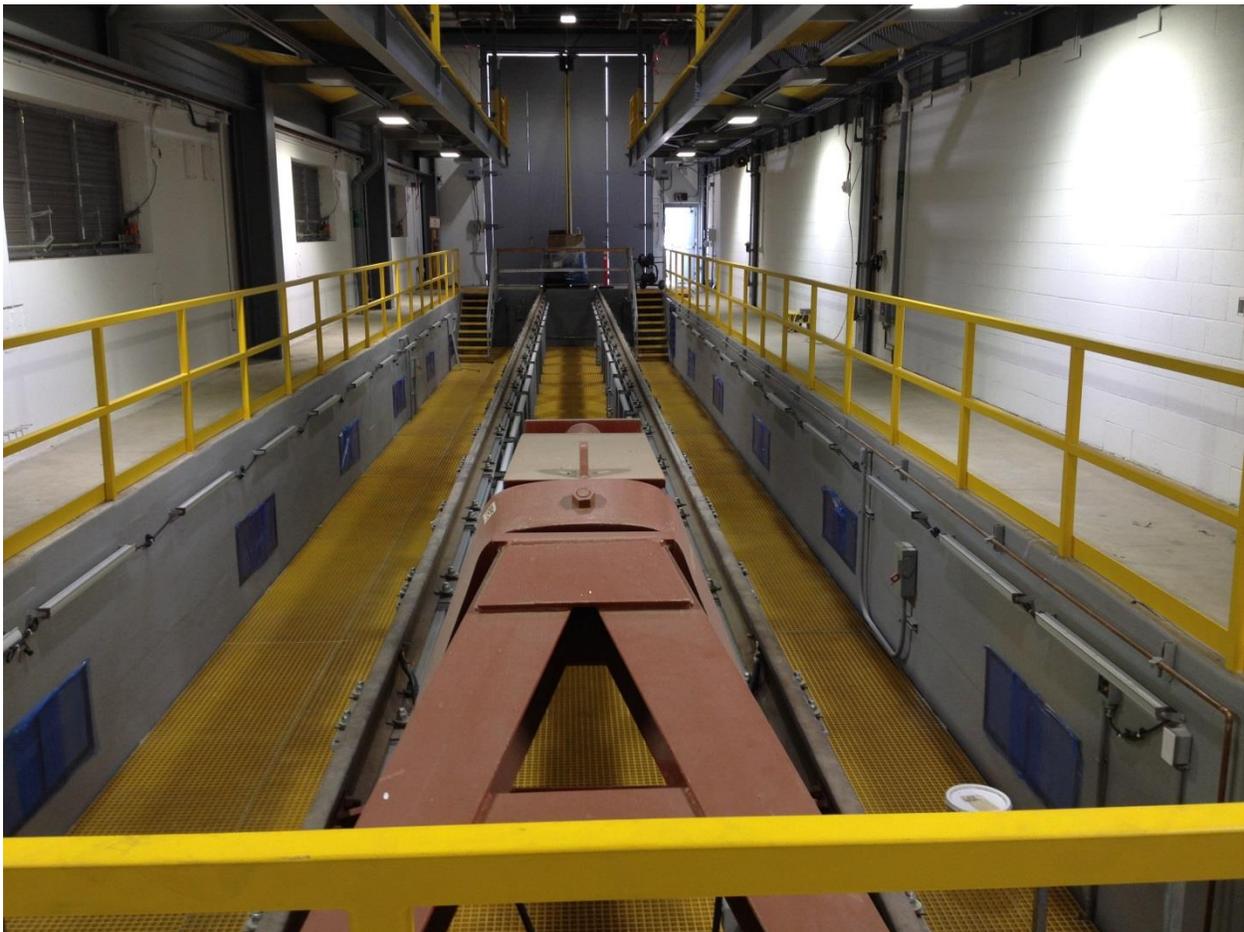
Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Luisa Ruvalcaba, Audit Manager, External Audits - Contracts, Audits and Investigations, California Department of Transportation
Mr. Frank Flores, Executive Officer, Regional Program Management, Los Angeles County Metropolitan Transportation Authority
Mr. James Allen, Transportation Planning Manager—Regional Grants Management, Los Angeles County Metropolitan Transportation Authority

Los Angeles County Metropolitan Transportation Authority
Proposition 1B Bond Program
Project Number 713000291



Inside Expo Line Operations and Maintenance Facility

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>

You can contact our office at:

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BACKGROUND, SCOPE, METHODOLOGY AND RESULTS

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 \$28.259 million of State-Local Partnership Program Account (SLPP) funds to the Los Angeles County Metropolitan Transportation Authority (Metro) to partially fund the Exposition Light Rail Transit Phase II Project (Project). Specifically, the portion of the Project subject to audit was the Operations and Maintenance Facility (OMF). Metro is a regional transportation planning agency.

The Exposition Metro Line Construction Authority (Expo) is an independent transportation planning, design, and construction agency created by state legislation in 2003.

Expo is responsible for awarding and overseeing the final design and construction contracts for the Project. Once the Project is completed, the line will be operated by Metro as part of the countywide rail network.²

PROGRAM DESCRIPTION¹

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

SCOPE

As requested by Caltrans, the Department of Finance, Office of State Audits and Evaluations, audited the OMF. The audit period for the OMF is March 5, 2013 through June 30, 2015.

The audit objectives were to determine whether:

- Proposition 1B expenditures 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.

¹ Excerpts were obtained from the Bond Accountability website. www.bondaccountability.dot.ca.gov/bondacc/

² Excerpts were obtained from the Expo website. <http://www.buildexpo.org/about-expo/>

An interim audit was conducted through the service period end date of the last reimbursement claim submitted to Caltrans. Because this is an interim audit, we only evaluated whether project deliverables (outputs) were consistent with the project scope and schedule milestones described in the executed project agreement or approved amendments. Since the Project as a whole is still in progress, we did not evaluate whether project outcomes were consistent with expected benefits. We also did not evaluate whether there was a system in place to measure project outcomes and benefits.

Additionally, we did not assess the efficiency or effectiveness of program operations.

Metro 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 SLPP.

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 bank statements.
- Selected a sample of claimed expenditures and match to determine if they were project-related, properly incurred, authorized, and supported by accounting records.
- Selected a sample of 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 expenditures already reimbursed with bond funds.
- Verify that the construction contract was awarded after the SLPP funds were allocated.
- Evaluated whether project deliverables (outputs) were consistent with the project scope by reviewing a sample of supporting documentation and conducting a site visit.
- Evaluated whether interim project deliverables (outputs) were completed on schedule as described in the project agreement or amendments.

In conducting our audit, we obtained an understanding of Metro’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 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.

RESULTS

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreement, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines. In addition, the match requirement was met.

We also determined the construction contract was executed on May 3, 2013, which was after the SLPP allocation of funds on March 5, 2013. Metro indicated substantial completion for the OMF as of February 22, 2016. At the time of our site visit in October 2015, the interim project deliverables (outputs) were consistent with the project scope and schedule as described in the executed project agreement or approved amendments.

Schedule of Expenditures

Expenditures	Claimed
Proposition 1B Funds—Construction ³	\$28,259,000
Match Funds—Construction	28,259,000
Total Claimed Expenditures	\$56,518,000

³ \$107,240 has been claimed by Metro but not yet reimbursed by Caltrans.