



Office of the City Auditor

Report to the City Council
City of San José

**AN AUDIT OF DEPARTMENT
OF TRANSPORTATION'S
EFFORTS TO SECURE FEDERAL
HIGHWAY BRIDGE
REPLACEMENT AND
REHABILITATION (HBRR)
FUNDS**

**The Department Of Transportation
Improvements During The Course Of Our
Audit And Other Possible Improvements
Could Secure An Indeterminate, But
Potentially Significant Amount Of Federal
Funding And Interest Earnings On Future
City Bridge Replacement And Rehabilitation
Projects**

**The Department Of Transportation Can
Improve The Timeliness Of Its Billings To
CALTRANS**

**Report 07-04
May 2007**

PREFACE

Presented herein are the City Auditor's Executive Summary and the Administration's response to *An Audit Of Department Of Transportation's Efforts To Secure Federal Highway Bridge Replacement And Rehabilitation (HBRR) Funds*. This summary is intended to reduce the City's cost of printing and distributing audit reports. If you would like a copy of the full report, please call the City Auditor's Office at (408) 535-1250; we will be happy to send you a complete report.

Executive Summary

In accordance with the City Auditor's 2006-07 Audit Workplan, we reviewed the Department of Transportation's efforts to secure Federal Highway Bridge Replacement and Rehabilitation (HBRR) Program funds to reduce the City of San José's (City) share of costs to build these transportation projects. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Objectives, Scope, and Methodology section of this report.

Finding I

The Department Of Transportation Improvements During The Course Of Our Audit And Other Possible Improvements Could Secure An Indeterminate, But Potentially Significant Amount Of Federal Funding And Interest Earnings On Future City Bridge Replacement And Rehabilitation Projects

The Highway Bridge Replacement and Rehabilitation Program (HBRR) provides Federal funds to rehabilitate or replace bridges that are unsafe because of structural deficiencies, physical deterioration, or functional obsolescence. Deficient highway bridges eligible for replacement or rehabilitation must be over waterways, other topographical barriers, other highways, or railroads. The Federal share of HBRR projects is 80 percent and the local government's share is 20 percent. However, our analysis of four HBRR projects revealed that the City received less than the optimum level of Federal funding. Specifically, we identified opportunities for the City to receive additional reimbursements for the following cost items:

- Preliminary and construction engineering;
- Overhead;

We recommend that the Department of Transportation:

Recommendation #5 Follow CALTRANS' prescribed process for obtaining reimbursement for construction contract change orders. (Priority 2)

Recommendation #6 Submit a revised E-76 form and finance letter to CALTRANS if the award amount is significantly less than the anticipated project costs. (Priority 2)

Finding II **The Department Of Transportation Can Improve The Timeliness Of Its Billings To CALTRANS**

For most Federal- and State-funded transportation projects, the local agency pays for the costs of the projects up-front and then obtains reimbursement for the Federal and State share of the project costs. To obtain reimbursement for Highway Bridge Rehabilitation and Repair (HBRR) projects, the City invoices the California Department of Transportation (CALTRANS) for the Federal and State share of the projects' costs. To maximize cash flow and interest earnings, the Department of Transportation (DOT) should submit billings regularly and in a timely manner. CALTRANS allows the City to submit billings for project costs on a monthly basis. During our review of six HBRR projects, one of which is not complete, we found that the DOT did not submit invoices to CALTRANS in a timely manner. We estimate that the City could earn about \$376,000 on future HBRR projects by improving its billing practices. In addition, we found that the DOT was slow in invoicing the Santa Clara Valley Water District (SCVWD) for its share of the costs of an HBRR project.

RECOMMENDATIONS

We recommend that the Department of Transportation:

Recommendation #7 Establish procedures to bill CALTRANS for reimbursement of project costs on a monthly basis. (Priority 2)



Memorandum

TO: Gerald A. Silva

FROM: James R. Helmer

SUBJECT: SEE BELOW

DATE: May 1, 2007

Approved

Ray Wines

Date

5/1/07

SUBJECT: RESPONSE TO “AUDIT OF DEPARTMENT OF TRANSPORTATION’S EFFORTS TO SECURE FEDERAL HIGHWAY BRIDGE REPLACEMENT AND REHABILITATION (HBRR) FUNDS”

BACKGROUND

The Department of Transportation has reviewed the *Audit of Department of Transportation’s Efforts To Secure Federal Highway Bridge Replacement and Rehabilitation (HBRR) Funds* and we have provided responses to each recommendation.

As we identified in the HBRR Program Accomplishment Memo, DOT has implemented a number of improvements to the HBRR program as a result of organizational and procedural changes made within the last five to six years. Also, as the result of working with the Auditor’s Office over the last two years, additional improvements have been made for which we gratefully thank the Auditor’s staff.

RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation #1– Develop procedures to ensure that its preliminary engineering and construction engineering cost estimates are based on the maximum Federal reimbursement allowed for these cost items. (Priority 2)

Written procedures and policies are in place and have been since at least 2005 to ensure that staff is utilizing the DOT Grant Funded Projects Guidebook, Caltrans’ manuals, and the City Council adopted cost estimating policy to ensure that cost estimates provide for the maximum allowable reimbursements.

Recommendation # 2- Submit an indirect cost rate proposal to CALTRANS for approval. (Priority 2)

The DOT Grant Funded Projects Guidebook instructs project managers to include both indirect and direct overhead costs in their estimates and request for reimbursement. Staff has been in

Gerald A. Silva

May 1, 2007

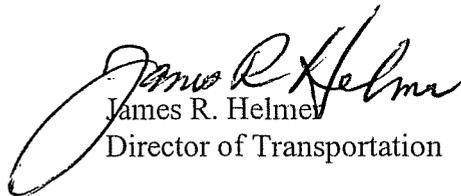
Subject: Response to Audit of DOT's Efforts to Secure Federal HBRR Funds

Page 3

CONCLUSION

For seven of the eight recommendations cited in the Audit, the Department of Transportation has procedures currently in place that we believe address these audit findings. DOT staff is currently working with Caltrans and the City's Finance Department on Recommendation #2 in an attempt to obtain an indirect overhead rate that can be applied toward future grant funded projects. As mentioned before, DOT has taken a number of measures to improve the Department's HBRR grant program process. We greatly appreciate the Auditor's Office acknowledgment of these measures and we appreciate the efforts made by your office in pointing out other recommendations that have helped us to make further improvements and obtain additional funding.

If you have any questions, please feel free to contact me at 535-3830 or Rene Cordero at 975-3235.



James R. Helmer
Director of Transportation

c: Les White
Jim Ortbal
Hans Larsen
Katy Allen