

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;

- Environmental mitigation; and
- Contract change orders.

Furthermore, not maximizing Federal reimbursements also costs the City interest revenues. During the course of our audit, the DOT made several improvements to increase the level of Federal funding the city receives for HBRR projects. The DOT's improvements, coupled with City Auditor-recommended improvements, already secured an additional \$2,450,754 in HBRR funding for the City in February 2006. Finally, the DOT improvements and other possible improvements could secure an indeterminate, but potentially significant amount of Federal funding and interest earnings on future HBRR projects that have yet to be funded. To ensure the optimum level of reimbursement on future HBRR projects, the DOT should take steps to ensure that it receives the optimum level of reimbursement for preliminary and construction engineering costs, overhead cost, environmental mitigation costs, and construction contract change order costs. Furthermore, the DOT should seek additional funding from CALTRANS when the contract award is significantly less than the anticipated project costs.

RECOMMENDATIONS

We recommend that the Department of Transportation:

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| 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) |
| Recommendation #2 | Prepare and submit an indirect cost rate proposal to CALTRANS for approval. (Priority 3) |
| Recommendation #3 | Include environmental mitigation costs in its estimates when applying for Federal funds. (Priority 2) |
| Recommendation #4 | Seek guidance from CALTRANS on how best to estimate, account for, and obtain reimbursement for environmental mitigation costs. (Priority 2) |

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)**

We recommend that the Department of Public Works:

Recommendation #8

Establish procedures to bill the Santa Clara Valley Water District for reimbursement of project costs within the timeframe as specified in the cost-sharing agreements. (Priority 2)

Memorandum

TO: Gerald A. Silva

FROM: James R. Helmer

SUBJECT: SEE BELOW

DATE: May 1, 2007

Approved

Ray Winer

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

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contact with Caltrans in establishing an indirect cost rate proposal and is working with the City's Finance Department to obtain the required documentation.

Recommendations #3- Include environmental mitigation costs in its estimates when applying for Federal funds. (Priority 2)

The DOT guidebook instructs project managers to now include cost estimates for environmental mitigation costs in their request for grant funding.

Recommendation #4- Seek guidance from CALTRANS on how best to estimate, account for, and obtain reimbursement for environmental mitigation costs. (Priority 2)

Project managers, with the assistance of the DOT Grants Coordinator, are working directly with Caltrans on optimizing reimbursements for environmental mitigation costs prior to funding authorization.

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

The DOT guidebook instructs project managers to follow the process identified in the Caltrans' manual for obtaining construction contract change orders. Project managers are required to contact Caltrans prior to execution of a change order to obtain funding approval.

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

As recommended by the audit, staff has requested E-76 and finance letter revisions to obtain the maximum allowable reimbursement for the Willow Glen Way Bridge project. This is now the standard procedure for all transportation-related grant funded projects.

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

The DOT guidebook instructs project managers to bill at least quarterly and, if possible, on a monthly basis. In addition, the DOT Grants Coordinator maintains an inventory of grant fund projects and billing dates to ensure that these timelines are met.

Recommendation #8- Establish procedures to bill the Santa Clara Valley Water District for reimbursement of project costs within the timeframe as specified in the cost-sharing agreements. (Priority 2)

The DOT Grants Coordinator is not only responsible for ensuring that project managers bill Caltrans in a timely manner, but that billing of project costs owed by other agencies, such as the Santa Clara Valley Water District, are done in compliance with the cost sharing agreement.

Gerald A. Silva

May 1, 2007

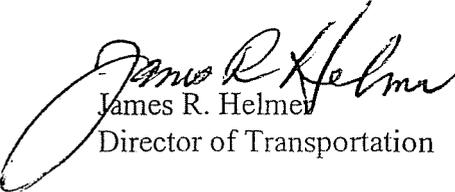
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CONCLUSION

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

