The California State Auditor released the following report today:

California Department of Transportation
Its Capital Outlay Support Program Should Strengthen Budgeting Practices,
Refine its Performance Measures, and Improve Internal Controls

BACKGROUND

Providing support activities—engineering, design, environmental studies, right-of-way, and construction management of state highway projects—for nearly 2,500 capital outlay projects, the California Department of Transportation (Caltrans) and its 12 districts provide the funding and resources through its Capital Outlay Support Program (support program) to develop and deliver the projects to construction as well as to administer and oversee the projects once they are under construction. Support program functions for a project begin after the California Transportation Commission (commission) programs funding for a project and continue until the project is complete. Caltrans has two primary programs that provide funding for capital outlay projects: the State Transportation Improvement Program (STIP), which is a five-year plan of projects, and the State Highway Operation and Protection Program (SHOPP), which is a four-year plan. Each project receives funding through multiple budget acts, and the support program budget reflects the total for the support activities in a given year.

KEY FINDINGS

During our review of the performance, management, efficiency, and budget of Caltrans' support program, we noted the following:

- The capital outlay support costs for 62 percent of the projects that completed construction in fiscal years 2007–08 through 2009–10 exceeded their respective budgets—such overruns totaled more than $305 million of the $1.4 billion in total support costs for these projects.

    ✓ The average support cost overrun for STIP projects we reviewed was about $1.5 million per project and $329,000 for the SHOPP projects, which is more than 25 percent of their respective budgets.

    ✓ Caltrans has done little analysis to determine the frequency or magnitude of support cost budget overruns and has not notified stakeholders of overruns.

    ✓ An increase in the hourly rate for support costs was the primary cause for the cost overruns in the projects we reviewed—one project was about 14,600 hours under budget yet exceeded its budgeted cost by nearly $6.8 million, or 83 percent.

    ✓ Some of the districts' project managers monitor their budgets based primarily on the hours charged and not the dollars spent, while others monitor budgets using a combination of hours and the planned versus actual project schedule.

- Although Caltrans has established a goal of reducing total support costs to 32 percent of total capital costs, it has historically failed to use a consistent method to calculate the ratio over time, and has generally not met its goal for the last three fiscal years.

- Caltrans' time-reporting system does not prevent its employees from charging time to projects to which they are not assigned, and lacks strong internal controls to ensure that its employees charge their time appropriately.

KEY RECOMMENDATIONS

We make numerous recommendations to Caltrans including that it improve accountability internally and with the public such as by creating and incorporating an analysis of support cost budget overruns and reporting it quarterly and annually to the Legislature and governor. Further, we recommend various actions to improve performance metrics related to the support program including developing and publicizing the goals. Moreover, we provide recommendations geared at better developing, managing, and monitoring support budgets for projects.