

DEPARTMENT OF TRANSPORTATION

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December 12, 2014

Ms. Debra Hale
Executive Director
Transportation Agency for Monterey County
55-B Plaza Circle
Salinas, CA 93901-2902

Dear Ms. Hale:

This letter is to notify the Transportation Agency for Monterey County (TAMC) of the California Department of Transportation's (Caltrans) determination of corrective actions regarding deficiencies identified in the *Caltrans Incurred Cost Audit: Transportation Agency for Monterey County*, attached, dated, January 15, 2014. The audit was performed to determine whether or not costs were adequately supported and in compliance with Caltrans Master Agreements, Master Fund Transfer Agreements (MFTA), Program Supplements, TAMC's interagency agreements, and with federal and State regulations.

The audit identified a total of \$9,460,292 in reimbursed costs that were not adequately supported and were not in compliance with respective Agreement provisions, and federal and State regulations. The audit has also identified deficiencies in TAMC's policies and procedures, billing processes, and administration of Regional Surface Transportation Program (RSTP) funds.

In response to the audit findings, Caltrans Division of Transportation Planning, Division of Rail and Mass Transportation (DRMT), and Division of Local Assistance (DLA) have developed the corrective action plan below. TAMC must implement **all** of the corrective actions or a plan to address the findings by June 30, 2015, and all funds specified in this letter must be repaid by November 2024 in order to ensure the continued allocation of federal and State transportation funds.

Caltrans Final Incurred Cost Audit Report Corrective Actions:

Finding # 1—Lack of Policies and Procedures

TAMC lacks adequate policies and procedures detailing appropriate processes to ensure TAMC assets are safeguarded and are in compliance with Federal and State regulations.

Corrective Action:

TAMC must take the following actions:

- Develop a written accounting manual detailing all policies and procedures governing the financial management system that is approved by TAMC's Board of Directors (Board).
- Review and revise the procurement and contract management policies and procedures to ensure compliance with all applicable Federal and State regulations.
- Develop policies and procedures over the administration of construction projects including proper Contract Change Order (CCO) practices to ensure compliance with all applicable federal and State regulations.
- Develop written policies and procedures to properly manage and administer the Regional Surface Transportation Program (RSTP) exchange funds.
- Implement staff training on revised policies and procedures and create a training schedule.

All of the products listed above or a plan to address the findings must be forwarded to Caltrans upon completion, no later than June 30, 2015.

Finding # 2—Improper Procurement Practices

TAMC violated Caltrans' Master Agreement provisions and federal and State regulations regarding procurement in all four of the contracts that were tested in the July 2011 to May 31, 2013 time frame. TAMC was unable to demonstrate that full and open competition was achieved due to improper procurement practices, thus the scope of the audit was expanded to include the entire term of each contract. TAMC billed Caltrans a total of \$9,460,292 on the four consultant contracts.

Corrective Action:

TAMC must reimburse a total of \$29,786 to Caltrans' DLA for the Harris & Associates contract for the Carmel Hill project. This repayment must be made by January 31, 2015. The Harris contract exceeded the total contract amount and used a disallowed contract amendment to provide services for another project that was under a separate contract. Additionally, TAMC processed amendments after the Beach Range contract had expired.

TAMC must reimburse a total of \$821,858.90 to Caltrans' DRMT for the commuter rail extension project under the Parsons and Harris and Associates contracts. This repayment must be made by November 30, 2024. The Parsons contract used improper consultant

procurement procedures and lacked documentation while the Harris contract was deemed a non-competitive procurement and involved an apparent conflict of interest violation.

TAMC must reimburse a total of \$851,644.90 to Caltrans. In addition, TAMC must revise their Administrative Procedure Manual, giving Caltrans an opportunity to review and ensure that it includes proper procurement and documentation processes, and also certify that TAMC management and staff receive training in proper procurement procedures.

Finding # 3–Inadequate Contract Administration

TAMC lacked an adequate contract administration process in compliance with Caltrans' Agreement provisions and federal and State regulations. Deficiencies were found in the areas of construction contract management and consultant contract management.

Corrective Action:

TAMC must take measures to ensure that all federal and State requirements for contract administration are met, staff receives contract management training, contracts contain all provisions that are required by federal and State law, and contracts do not contain unallowable contingencies. TAMC must submit documentation that shows that these requirements have been met.

Finding #4–Inadequate administration of RSTP exchange funds

There were several issues that affected TAMC's administration of RSTP exchange funds. The lack of a documented process outlining the proper administration of RSTP funds contributed to inappropriate fund transfers, reimbursements without proper agreements, and the use of interest earned on RSTP fund balances for potentially unallowable uses.

Corrective Action:

TAMC must discontinue their current practice of loaning RSTP Exchange funds to member agencies. TAMC also must execute contracts/agreements with member agencies outlining such items as RSTP requirements, method of reimbursement, eligibility, and repayment of funds for ineligible costs. These actions will improve TAMC's internal and accounting controls to manage subvented funds.

Finding #5–Improper Billing Processes

TAMC's billings to Caltrans and to Association of Monterey County Bay Area Governments (AMBAG) were improperly prepared and did not include support for costs billed. In billings to Caltrans, TAMC's support documentation did not match the recorded costs for the period shown. In billings to AMBAG, the reimbursed amounts were based on

budgeted costs rather than actual costs incurred. In these cases, TAMC had support for actual costs incurred that matched or exceeded the billings to AMBAG. In general, TAMC's billings did not provide information sufficient to determine the allowability of costs billed.

Corrective Action:

TAMC must begin billing to Caltrans and AMBAG based on actual hours worked in a specific month to ensure that each request for reimbursement can be supported with information from the financial management system. This information must be submitted with each billing and accompanied by descriptions of activities which allow Caltrans and AMBAG staff to determine whether or not the claimed costs are allowable.

Conclusion:

Caltrans Final Incurred Cost Audit Report for TAMC, dated January 15, 2014, has identified a total of \$9,460,292 in disallowed costs from the period from July 1, 2011 to May 31, 2013, which included the four procurements tested in finding #2. Caltrans has reduced the disallowed costs to \$851,644.90.

Please prepare a corrective action plan that outlines the actions TAMC will take to resolve the audit findings and provide it to Garth Hopkins, Chief, Office of Regional Planning by February 27, 2015. After the proper course of action has been decided upon, TAMC must repay Caltrans a total of \$851,644.90 for the disallowed costs according to a mutually-determined repayment schedule. Of the total of \$851,644.90 TAMC must reimburse \$29,786 to Caltrans' DLA by January 31, 2015.

Failure by TAMC to develop a plan to address the administrative related findings by June 30, 2015, will result in Caltrans not approving TAMC's FY 2015-2016 OWP and an increase in the potential liability for future disallowed costs. No future federal and State expenditures will be approved by Caltrans, Federal Highway Administration (FHWA), or Federal Transit Administration (FTA) unless a satisfactory resolution to all findings has been made. Caltrans has consulted with FHWA and FTA regarding the above course of action.

Caltrans Audits and Investigations will perform a follow-up audit in FY 2015-16, which will determine if TAMC has implemented adequate corrective measures for each audit finding and to ensure compliance with Caltrans agreements and federal and State rules and regulations. TAMC's progress with regards to the corrective actions and final resolutions will be closely monitored by Caltrans staff through this follow-up audit. All support documentation and corrective actions provided by TAMC will be reviewed when focused follow-up audit is performed.

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We appreciate TAMC's cooperation and coordination during this process. If you have any questions, please contact Garth Hopkins, at (916) 654-8175.

Sincerely,



Bill Figge
Acting Deputy Director
Planning and Modal Programs

Attachments:

1. TAMC Response
 2. Calculation Worksheet
 3. Incurred Cost Audit–Transportation Agency for Monterey County, January 2014
- c:
- Vince Mammano, Division Administrator, CA Division, Federal Highway
 - Leslie Rogers, Regional Administrator, Region IX, Federal Transit Administration
 - Tim Gubbins, Director, District 5, Caltrans
 - Rihui (Ray) Zhang, Chief, Division of Local Assistance, Caltrans
 - Katie Benouar, Chief, Division of Transportation Planning, Caltrans
 - Bruce Roberts, Chief, Division of Rail and Mass Transportation, Caltrans
 - Garth Hopkins, Chief, Office of Regional and Interagency Planning, Caltrans
 - Aileen Loe, Deputy Director for Planning and Local Assistance, District 5, Caltrans
 - Mark Samuelson, Chief, Office of Policy Development and Quality Assurance, Division of Local Assistance, Caltrans
 - Jila Priebe, Chief, Office of State Transit Programs, Caltrans
 - Brandy Rider, Chief, Regional Planning Branch, District 5, Caltrans
 - Garin Schneider, Local Assistance Engineer, District 5, Caltrans
 - Jane Parker, Chair, Transportation Agency for Monterey County