

# DRMT Corrective Action Plan

LOSSAN Rail Corridor Agency, P1575-0055

Incurred Cost Audit

Issued: May 4, 2018

CAP Submitted To A&I Date: June 4, 2018

Finding	A & I Recommendation
<p><i>FINDING 1 – Unallowable Expenses Charged</i></p> <p>The Los Angeles – San Diego – San Luis Obispo Rail Corridor Agency (LOSSAN) reported ineligible expenses as follows:</p> <ul style="list-style-type: none"> <li>LOSSAN included \$32,668 of administration expenses incurred in fiscal year (FY) 2014/15 which was prior to the execution of the Interagency Transfer Agreement (Agreement) with the California Department of Transportation (Caltrans). These costs were included in LOSSAN’s FY 2015/16 expenditure report and are ineligible. Subsequent to our audit, LOSSAN resubmitted the expenditure reports and submitted them to Caltrans, Division of Rail and Mass Transportation (DRMT). DRMT is reviewing for accuracy.</li> </ul> <p>Section 1.2.5 of Appendix D of the Agreement states in part, “Only work performed during the term of, and consistent with, the work elements in the approved Annual Business Plan and executed MFTA [Master Fund Transfer Agreement] Supplement may be reimbursed. Section 2.3.1 of Appendix D states in part, “The LOSSAN Agency shall electronically submit MFTA Supplement closeout reports to Department no later than six months (December 31st) from the close of the fiscal year for administration, marketing expenditures, and operations expenditures...”</p> <ul style="list-style-type: none"> <li>LOSSAN charged for services related to the operations of the Pacific Surfliner as administrative expenses in FY 2015/16. Specifically, LOSSAN charged \$2,081 for the cost of using Orange County Transportation Authority (OCTA) buses to transfer Pacific Surfliner passengers to Union Station on June 12, 2016. These costs are ineligible as administration expenses.</li> </ul> <p>Per the Agreement Appendix C, Section 1A, “The administrative budget includes administrative staffing, legal services, travel, insurance premiums and contracted services: audits, safety/security and planning budgets as itemized in the LOSSAN Agency’s Initial Business Plan (Appendix B Table 11.7 LOSSAN Agency FY 2015/16 Budget).”</p> <ul style="list-style-type: none"> <li>In FY 2016/17 LOSSAN received \$3,407 in reimbursement from a sponsoring agency for travel costs to attend conferences in Chicago and Washington, DC. LOSSAN also charged Caltrans for the same travel. The portion of travel costs billed to Caltrans and reimbursed by the sponsoring agency is unallowable.</li> </ul> <p>Per Section 2.3.1 of Appendix D of the Agreement, “...The closeout report shall show actual expenditures for administration, marketing and operations...”</p> <ul style="list-style-type: none"> <li>In FY 2015/16 LOSSAN directly charged Caltrans for marketing staff whose costs were supposed to be recovered through an overhead rate. LOSSAN entered into an agreement with OCTA to act as LOSSAN’s managing agency. The Managing Agency Services (MAS) agreement between LOSSAN and OCTA indicated that shared marketing staff would be billed through an overhead rate to be applied to the labor of dedicated LOSSAN staff, and that a Marketing Manager would be hired and billed directly to LOSSAN. Although some staff did perform general marketing duties and their time was appropriately included in the overhead, the hiring of the Marketing Manager was delayed. To try to remediate the situation, OCTA had a combination of five additional employees performing the Marketing Manager duties and billed this staff time directly to LOSSAN. There was no justification or advanced approval for the change in scope to the MAS agreement. The direct labor, and associated overhead costs, totaling \$174,341 are questioned. Note: This amount includes \$394 of labor and overhead costs incurred in FY 2014/15 and is included in the ineligible amount identified in the first bullet above. The net amount is \$173,947.</li> </ul> <p>Attachment A of the Managing Agency Administrative Support Agreement states in part, “This position [Marketing Manager] will work closely with shared staff in OCTA’s marketing department for all support services...” It further states in part, “In addition to the dedicated positions outlined above, OCTA proposes to use shared positions to provide services in key areas such as...marketing/communications... All shared positions necessary to support the JPA [Joint Powers Authority] are included in OCTA’s overhead rate...”</p>	<p>We recommend that LOSSAN:</p> <ul style="list-style-type: none"> <li>Resubmit the FY 2015/16 closeout report to exclude the \$32,668 and \$2,081 disallowed costs identified above.</li> <li>Exclude the \$3,407 disallowed costs associated with reimbursed travel when reporting the FY 2016/17 expenditures.</li> <li>Implement policies and procedures to ensure advanced justification and approval is obtained when changes are made to agreements.</li> </ul> <p>We recommend that DRMT:</p> <ul style="list-style-type: none"> <li>Work with LOSSAN to determine if value was received for the positions billed directly in place of the marketing manager, and to determine if any of the \$173,947 needs to be repaid to Caltrans.</li> </ul>
<p><i>FINDING 2 – Misreported Expenditures</i></p> <p>LOSSAN misreported expenditures for FY 2015/16 because the expenses were originally reported on a cash basis rather than on an accrual basis. LOSSAN incurred expenditures in FY 2015/16, but paid for and reported them to Caltrans as FY 2016/17 expenses. LOSSAN did not provide a closeout report showing all FY 2015/16 expenditures compared against the FY 2015/16 advanced payments. Based on our testing and analysis, for FY 2015/16 LOSSAN excluded \$223,014 and \$48,132 for administration and marketing, respectively.</p> <p>LOSSAN overpaid a consultant by \$2,685 due to a doubling of billed costs in FY 2016/17, which was not identified by staff reviewing the invoice. We informed LOSSAN of the overpayment and they corrected the error by reducing a subsequent consultant invoice, but in FY 2017/18.</p> <p>Section 2.3.1 of Appendix D of the Agreement states in part, “...The closeout report shall show actual expenditures for administration, marketing and operations as compared to advance payments received by the LOSSAN Agency...”</p>	<p>We recommend that LOSSAN resubmit their FY 2015/16 closeout report to move the \$271,146 expenditures identified above from FY 2016/17 to FY 2015/16. We also recommend that the over and under payments of \$2,685 be correctly reflected in the FY 2016/17 and FY 2017/18 closeout reports.</p>

LOSSAN's Responses Not Included in May 2018 Report	Responsible Program(s)/Division(s)	DRMT Corrective Action Plan (Include Time Lines)
<p>On page 4 of the final audit report, it states that "LOSSAN received services for positions billed contrary to contract terms."</p> <p><b>LOSSAN Agency Response:</b> The LOSSAN Agency does not agree with the statement "billed contrary to contract terms". The administrative services agreement between the Orange County Transportation Authority (OCTA) and the LOSSAN Rail Corridor Agency states that managing agency invoices "shall include all of the Managing Agency's charges relating to its services to the LOSSAN Agency. Such invoices shall indicate the Managing Agency's rates, costs, and reimbursable expenses for services performed." It is the LOSSAN Agency's position, and OCTA concurs, that the amount billed by OCTA for marketing staff is fully compliant and within scope of the administrative services agreement.</p> <p>On page 6 of the final audit report, within the first paragraph, it states "There was no justification or advance approval for the change in scope to the MAS agreement." In the recommendation section it states "Implement policies and procedures to ensure advanced justification and approval is obtained when changes are made to agreements."</p> <p><b>LOSSAN Agency Response:</b> The LOSSAN Agency does not agree with the statement and recommendation. The administrative services agreement between OCTA and the LOSSAN Agency provides for the full administrative staffing and support services to be provided to LOSSAN. The amounts billed by OCTA for marketing staff are fully compliant and within scope of the administrative services agreement. In addition, the LOSSAN Agency has a robust contracting and procurement policy in place that sets forth procedures and approval levels needed for contract amendments. In this case, there was no change to the administrative services agreement that was made or needed, because the agreement allows for OCTA to provide all administrative staffing and support services necessary for the administration of the LOSSAN Agency.</p>	<p>Division of Rail and Mass Transportation (DRMT)</p>	<p>1) LOSSAN has complied with corrective actions and resubmitted FY 2015/16 Closeout Report to DRMT excluding \$32,668 from disallowed costs.</p> <p>2) LOSSAN will resubmit FY 2015/16 Closeout Report to DRMT and exclude \$2,081 in emergency bus bridge costs from Administration charges and include \$2,081 as Operations costs by <b>July 31, 2018</b>.</p> <p>3) LOSSAN has excluded \$3,407 in reimbursed travel from FY 2016/17 Closeout report.</p> <p>4) DRMT has determined that \$173,947 for marketing services are reasonable. DRMT has determined that the LOSSAN Agency already follows a contracting and procurement policy that sets forth procedures and approval levels needed for contract amendments and that the billings for OCTA marketing staff were compliant with their existing administrative services agreement.</p> <p>5) LOSSAN to reimburse DRMT \$394 for marketing labor and overhead costs incurred in FY 2014/15 by <b>July 31, 2018</b>.</p>
	<p>Division of Rail and Mass Transportation (DRMT)</p>	<p>6) LOSSAN has complied with corrective actions and resubmitted FY 2015/16 Closeout Report to DRMT and reflect the move of \$271,146 in expenditures from FY 2016/17 to FY 2015/16, which shows the administration and marketing expenses reported in the FY incurred rather than when a check was issued.</p> <p>7) LOSSAN to report credit for overpayment to consultant on FY 17/18 Closeout Report. LOSSAN has established new invoice review procedures to ensure tasks are billed accurately. <b>Due: December 31, 2018</b></p>

# Corrective Action Plan

*Audited Entity, Audit #*

C.

Finding	Recommendation	Proposed Corrective Action (Include Time Lines)	Administering Program(s)/Division(s)
<i>A&amp;I Populates</i>	<i>A&amp;I Populates</i>	<i>Program/Division Populates</i>	<i>A&amp;I Populates</i>

**Propose that the Programs/Divisions fill out columns C. as their CAP.**