

Napa Valley Transportation Authority Financial and Management System Audit Report



Audit Report

January 2019

PREPARED BY:

California Department of Transportation
Independent Office of Audits and Investigations – MS 2
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SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The Independent Office of Audits and Investigations (IOAI), California Department of Transportation (Caltrans), audited the Napa Valley Transportation Authority's (NVTA) financial and management system (FMS). We found NVTA's accounting system does accumulate and segregate costs, however, NVTA did not comply with fiscal provisions in the Master Agreement for Federal Aid (Master Agreement), the State Transportation Improvement Program (STIP) Fund Transfer Agreement with Caltrans; and procurement procedure requirements were not always followed.

SCOPE

The audit included the invoice test of two STIP funded projects, PPM16-6429(018), PPM15-6429(015), and two Federal Aid projects, CML-6429(013) and CML-6429(008). The audit also included tests of NVTA's procurement transactions for RFQ 2015-03 (Vine Transit Express Buss Corridor Study) and RFP 2016-01 (Transit Operations Services). Our audit period was July 1, 2015, through July 31, 2018.

As an Active Transportation Program (ATP) grant recipient, we conducted our audit of NVTA's FMS to determine if the FMS, which includes consultant procurement, complied with the requirements in the Master Agreement and supplemental agreements between NVTA and Caltrans and applicable laws and regulations. The scope of the audit was limited to reviewing and testing NVTA's FMS including internal controls and NVTA's ability to accumulate, segregate, and allocate reasonable and allowable project costs. The audit also consisted of inquiries of NVTA's personnel to obtain an understanding of NVTA's FMS and to evaluate compliance with Title 2 Code of Federal Regulations Part 200 and requirements stipulated in NVTA's agreements with Caltrans. The audit was limited to financial and compliance activities. Our field work was completed on November 7, 2018. Changes to the FMS subsequent to November 7, 2018, were not tested and, accordingly, our conclusion does not pertain to changes arising after this date.

NVTA is responsible for the design and maintenance of their FMS. Because of inherent limitations in any system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the FMS and the procurement process to future periods are subject to the risk that the FMS may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe

that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of NVTA. Therefore, we did not audit and are not expressing an opinion on NVTA's financial statements.

BACKGROUND

Caltrans has a legal and fiduciary responsibility to ensure that all state and federal funds passed through Caltrans are expended in compliance with state and federal laws, regulations, and agreements. IOAI performs audits to ensure Caltrans is meeting their legal and fiduciary responsibilities and that state and federal funds are properly expended by local government entities.

IOAI audits projects from the Active Transportation Program (ATP). ATP was created to encourage increased use of active modes of transportation. The ATP consolidated various transportation programs into a single program from a combination of state and federal funds. Most recently, the Road Repair and Accountability Act, Senate Bill 1, added approximately \$100 million per year in available funds for ATP projects.

CONCLUSION

Based on our audit, we determined NVTA's accounting system does accumulate, segregate, and allocate reasonable and allowable project costs, however, we found the following deficiencies:

- Costs were billed prior to being incurred.
- Project costs were not being tracked by activity.
- Procurement requirements did not always follow state and federal laws and regulations.

VIEWS OF RESPONSIBLE OFFICIALS

Our findings and recommendations take into account NVTA's response dated November 29, 2018, to our November 26, 2018, draft report. Our findings and recommendations, NVTA's response, and our analysis of the response are set forth in the Findings and Recommendations section of this report. The report is a matter of public record and will be placed on IOAI's webpage, which can be viewed at <ig.dot.ca.gov>.

If you have questions, please contact Tami Gill, Audit Manager, at (916) 323-7899.

MARSUE MORRILL, CPA
Chief
Planning and Modal Office
Independent Office of Audits and Investigations

January 16, 2019

FINDINGS AND RECOMMENDATIONS

FINDING 1 – Non-Compliance with Master and Fund Transfer Agreements

The Napa Valley Transportation Authority (NVTA) did not comply with the Master Agreement for the Federal Aid Project (Master Agreement) and the State Transportation Improvement Program (STIP) Program Planning, Programming and Monitoring (PPM) Fund Transfer Agreement. Specifically, we found the following deficiencies:

- NVTA billed Caltrans for costs on federal project number CML-6429(013) prior to NVTA incurring the costs. NVTA's subrecipient, Napa County Office of Education, performed the work and submitted an expenditure report to NVTA. NVTA billed and received payment from Caltrans based on the expenditure report before reimbursing Napa County Office of Education. NVTA staff were not aware that the costs should be incurred prior to receiving reimbursement from Caltrans.

Caltrans Master Agreement, Article IV Fiscal Provision, states in part, *"payments to Administrating Agency can only be released by State as reimbursement of actual allowable project cost already incurred and paid by the Administrating Agency."*

- Costs were not tracked by activities for STIP funded project. NVTA was not aware of the specific requirements of tracking by activity for the STIP funded projects.

Caltrans' STIP PPM Agreement states in part, *"the Administering Agency agrees to use all state funds paid hereunder only for eligible PPM specific work activities defined in Attachment A to the Agreement.... The agency shall prepare a PPM plan, titled Attachment A.... The details of the plan should be consistent with the proposed activities and funding received."*

Paying for costs prior to being incurred and when not properly identified puts Caltrans at risk for paying for unallowable costs.

RECOMMENDATION

We recommend NVTA:

- Only bill for costs after they are incurred.
- Track STIP funded project costs by activity.
- Train staff on proper billing requirements and STIP project management requirements.

RESPONSE FROM NVTA:

NVTA agrees with the finding and will update their financial policies to reflect Caltrans agreement requirements; customize their project costing module that includes an "Activity ID", and train staff on proper billing requirements for STIP funded projects. For NVTA's complete response, see Attachment I.

FINDING 2 – Non-Compliance with Procurement Procedures

NVTA did not follow required procurement procedures for Request for Qualifications 2015-03 Request for Task Proposal (RFTP) in awarding the Vine Transit Express Bus study contract to the consultant Kimley-Horn. Specifically, we found the following deficiencies:

- Criteria weights used in the evaluations of the proposals were not identified in the RFTP. NVTA was not aware that weights were required in the RFTP.

2 CFR Part 200, Section 320 (d) (1) states in part, *“Requests for proposals must be publicized and identify all evaluation factors and their relative importance.”*

- The contract was not awarded based on the evaluation committee’s scoring. The RFTP included *“the criteria for selection is based on cost, schedule of performance, and expertise.”* Based on the final scoring, Kimley-Horn had the highest scores for schedule of performance and expertise, but the lowest score for cost. NVTA management removed the cost (price) criteria after scoring was complete. This resulted in Kimley-Horn having the highest overall score and, therefore, was awarded the contract. NVTA did not document their arbitrary decision to remove cost from the evaluation.

2 CFR Part 200, Section 318, (i) states in part, *“The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”*

2 CFR Part 200, Section 319, (a)(7) states in part, *“All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of the section... Some of the situations considered to be restrictive of competition include but are not limited to ... “Any arbitrary action in the procurement process.”*

2 CFR Part 200, Section 320 (d)(4) states in part, *“Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.”*

- Final proposal rankings were not communicated to the unsuccessful consultants. Consultants were only notified of which consultant was selected. NVTA staff indicated that notification of rankings to the unsuccessful consultants was not common practice at the time of this procurement.

Local Assistance Procedure Manual Chapter 10.5 states in part, *“All consultants that submitted proposals must be informed about the final ranking of consultants. It is important that all competing consultants receive the same information.”*

By not following required procurement practices, NVTA cannot assure that contracts are procured in an open and fair manner, and that a reasonable cost is obtained.

RECOMMENDATION

We recommend NVTA:

- Include weighted values in their RFTP evaluation criteria.
- Ensure all evaluation factors are considered; or justify and document any deviations.
- Notify all consultants of final consultant rankings.
- Ensure procedures are in place to comply with state and federal procurement requirements, and train staff accordingly.

RESPONSE FROM NVTA:

NVTA agrees with the finding and has revised its procurement practices to ensure every competitive bid is consistent and transparent. The NVTA will update its procurement policies to include a requirement to inform interested parties of the selection criteria with weighting; final proposal rankings are communicated to the consultants; and review and/or revise its procurement policies to document any deviations. Additional training will also be given to those associated with procurement. For NVTA's complete response, see Attachment I.

ATTACHMENT I



November 29, 2018

Ms. Marsue Morrill, CPA
Chief, External Audits – Local Governments
Independent Office of Audits and Investigations – MS2
Post Office Box 942874
Sacramento, CA 94274-0001

RE: Napa Valley Transportation Authority Financial and Management System Audit Report

Dear Ms. Morrill:

The letter is in response to the findings in the Napa Valley Transportation Authority (NVTA) Financial and Management System Audit Report. The Audit report notes that NVTA's accounting system adequately accumulates and segregate costs, but found a few areas in need of review. To address these issues, NVTA is committed to assuring that actions will be taken to comply with the fiscal provisions in the Master Agreements with Caltrans.

Response: Finding 1, Non-Compliance with Master and Fund Transfer Agreements

We agree with the auditors' comments. NVTA does not have general fund revenues to ensure an adequate fund balance to meet operating costs. Given frequent and long delays for reimbursement from funding agencies, it is a challenge to balance meeting operational demand with timely payments to vendors and contractors. NVTA reached an agreement with the Napa County Office of Education (NCOE), the sub-recipient, to delay reimbursement until NVTA received reimbursements from Caltrans. The auditors brought to staff's attention that this arrangement with NCOE was counter to Caltrans' procurement policies. NVTA acknowledges that this is in contrary to the Master Agreement with Caltrans for grant CML-6429(013) and is taking corrective action.

Specifically, NVTA's financial policies will be updated to reflect that Caltrans' funded projects will be billed to Caltrans after incurring the cost and the sub-recipient has been paid. Additionally, the third party contractor for the general ledger will customize the project costing module to include an "Activity ID" level to link the payroll reports to the accounting system. Lastly, staff will be re-trained on the proper billing requirements and on STIP project management requirements.



Response: Finding 2, Non-Compliance with Procurement Procedures

We agree with the auditors' comments. NVTA acknowledges that the agency deviated from protocol and procurement policies in Request for Qualifications 2015-03 Request for Task Proposals by not following 2 CFR Part 200, Section 320 (d)(1). This was a single event and was not repeated after this specific procurement. The issue was that pricing was a consideration that brought the overall score of the successful bid down. The substantive difference between the quality of the bid (and the elements lacking in other bids) compelled NVTA staff to select the preferred, higher priced bid but did not document and support the reason for this decision. NVTA has since revised its procurement practices to ensure that every competitive bid process is consistent and transparent and that vendors are procured using an open and fair method.

In this endeavor, NVTA will update its procurement policies and will include a requirement to inform all interested parties of the selection criteria with the weighting relative to the category and that final proposal rankings are communicated to the consultants for all competitive procurements. NVTA will also review and/or revise its procurement policies to document the procurement history noting any deviations, should they occur. Furthermore, staff will also document its rationale for awarding the contract to the successful proposer. Additionally, the Contracts Administrator and finance staff responsible for the tasks associated with the procurement will receive additional training.

NVTA would like to thank the Audit staff that was assigned to our Agency with regard to their courtesy and professionalism exhibited during the audit. If you would like to discuss this matter further, please contact me at 707-259-8634 or kmiller@nvta.ca.gov or NVTA Director of Finance, Antonio Onorato (707-259-8779 or anonorato@nvta.ca.gov).

Sincerely,

Original Signed By:

Kate Miller
Executive Director

cc: Antonio Onorato, NVTA
Danielle Schmitz, NVTA
Tami Gill, Caltrans IOAI
Yung-Jo Roo, Caltrans IOAI
Welmond Chow, Caltrans IOAI
Sheron Dikousman, Caltrans IOAI