

Memorandum

*Making Conservative
a California Way of Life.*

To: CHRIS SCHMIDT
Chief
Division of Transportation
Planning

RIHUI ZHANG
Chief
Division of Local Assistance

Date: December 18, 2017

File: P1591-0133

From: MARSUE MORRILL, CPA
Chief
External Audits – Local Governments
Independent Office of Audits and Investigations

Marsue

Subject: **INDIRECT COST ALLOCATION PLAN AUDIT – SHASTA REGIONAL
TRANSPORTATION AGENCY**

We performed a Indirect Cost Allocation Plan (ICAP) audit of the Shasta Regional Transportation Agency (SRTA) to determine whether SRTA's FY 2014/15 ICAP was presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225 (Superseded by 2 CFR 200) and Caltrans's Local Assistance Program Manual (LAPM) Chapter 5. It was also performed to determine whether SRTA had a financial management system capable of accumulating and segregating costs that are reasonable, allowable, and can be allocated to projects. Audit of the financial management system also included testing of procurement and contract management systems to ensure compliance with state and federal regulations. The final report, along with SRTA's full response, is attached.

Based on audit work performed we determined that SRTA's ICAP for the FY 2014/15 is presented in accordance with 2 CFR Part 225, and LAPM Chapter 5. The approved indirect cost rate for 2014/15 is 35.39 percent of total direct salaries and wages, plus fringe benefits. During the course of the audit we identified weaknesses in SRTA's financial management system's ability to accumulate and segregate reasonable, allowable and allocable project costs.

Please provide our office with a corrective action plan addressing the recommendations in the report, including time lines, by February 1, 2018.

If you have any questions or need additional information, please contact Marsue Morrill, Chief, External Audits – Local Governments, at (916) 323-7105.

Attachment

1. SRTA Indirect Cost Allocation Plan Audit Report

CHRIS SCHMIDT and RIHUI ZHANG

December 18, 2017

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P1591-0133

Shasta Regional Transportation Agency Indirect Cost Allocation Plan Audit



Audit Report
December 2017

PREPARED BY:

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P1591-0133

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SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations (A&I) audited the Shasta Regional Transportation Agency's (SRTA) Indirect Cost Allocation Plan (ICAP) for fiscal year (FY) 2014/15. SRTA's audited indirect cost rate for FY 2014/15 is 35.39 percent of total direct salaries and wages plus fringe benefits. This rate agrees to the rate proposed by SRTA and accepted by A&I on June 30, 2014. We also identified weaknesses in procurement and contract management processes which resulted in non-compliance with Caltrans' agreement provisions and state and federal regulations.

OBJECTIVES

The audit was performed to determine whether SRTA's FY 2014/15 ICAP was presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225 (Superseded by 2 CFR 200), and Caltrans's Local Assistance Program Manual (LAPM) Chapter 5. It was also performed to determine whether SRTA had a financial management system capable of accumulating and segregating costs that are reasonable, allowable, and can be allocated to projects. Audit of the financial management system also included testing of procurement and contract management systems to ensure compliance with state and federal regulations

SCOPE

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP and limited review of SRTA's Overall Work Program (OWP), board approved budget for FY 2014/15, and review of SRTA's single audit reports for FY ended June 30, 2014. The audit also included interviews of SRTA staff necessary to obtain an understanding of the SRTA's financial management system and reviews of SRTA's policies and procedures. Additionally, we performed tests of select accounts and traced them to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs. These transactions tested were based on a risk assessment of the internal control system as related to the ICAP as of June 30, 2015. Additionally, the audit included review and tests of transactions for a more current period related to costs incurred and billed to Caltrans in FY 2013/14 to evaluate compliance with Title 2 CFR Part 225; Title 48 CFR Chapter 1 Part 31; Title 49 CFR Part 18; California Public Contract Code; Caltrans' LAPM; and requirements stipulated in the SRTA's agreements with Caltrans. The audit field work was completed on June 26, 2017. Financial management system changes and transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

SRTA's management is responsible for the fair presentation of the ICAP and for ensuring costs incurred and billed to Caltrans are in compliance with applicable agreement provisions, state and federal regulations. Further SRTA is responsible to ensure the adequacy of its financial management system to accumulate and segregate reasonable, allocable and allowable costs.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

METHODOLOGY

A&I conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that A&I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. A&I believes 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 the SRTA. Therefore, A&I did not audit and is not expressing an opinion on SRTA's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records selected. An audit also includes assessing the accounting principles used and significant estimates made by SRTA, as well as evaluating the overall presentation of the ICAP.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in Title 2 CFR Part 225, and the Caltrans's LAPM Chapter 5, and is not intended to present the results of operations of SRTA in conformity with generally accepted accounting principles.

BACKGROUND

Caltrans A&I conducts ICAP audits on local government agencies that receive state or federal funds and seek indirect cost reimbursement on a risk-based approach to ensure the local government agencies are complying with applicable state and federal requirements. Caltrans requires ICAP audits to be performed as part of Caltrans fiduciary and oversight responsibility.

CONCLUSION

Based on audit work performed we determined that SRTA's ICAP for the FY 2014/15 is presented in accordance with 2 CFR Part 225, and LAPM Chapter 5. The approved indirect cost rate for 2014/15 is 35.39 percent of total direct salaries and wages, plus fringe benefits. The approval is

based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

During the course of the audit we identified weaknesses in SRTA's financial management system's ability to accumulate and segregate reasonable, allowable and allocable project costs. Specifically we found:

- Procurement practices did not always adhere to state and federal regulations and SRTA's own policies.
- Contract management did not comply with state and federal regulations, and agreements with Caltrans.
- Regional Surface Transportation Program (RSTP) funds were not used in accordance with state regulations
- Costs billed were not in accordance with the Planning Programming and Monitoring (PPM) agreement.
- Unallowable indirect costs were billed to Caltrans

VIEWS OF RESPONSIBLE OFFICIALS

Our findings and recommendations considered SRTA's response dated October 25, 2017 to our October 6, 2017 draft report. Our findings and recommendations, SRTA's response, and our analysis of the response are set forth in the Findings and Recommendations section of this report. A copy of the SRTA's full written response is included as Attachment III.

This report is intended as information for Caltrans management, the Federal Highway Administration, the Federal Transit Administration and SRTA. This report is a matter of public record and will be placed on the Caltrans website which can be viewed at:
<www.dot.ca.gov/audits/ICAP.html>.

If you have any questions, please contact Carvin Seals, Auditor, at (916) 323-7965 or Amada Maenpaa, Audit Manager at (916) 323-7868.



MARSUE MORRILL, CPA
Chief
External Audits – Local Government Agency
Independent Office of Audits and Investigations

December 14, 2017

FINDINGS AND RECOMMENDATIONS

FINDING 1 – Improper Procurement Practices

Shasta Regional Transportation Agency’s (SRTA) procurement practices did not support that fair and open competition was performed, or that proper procurement procedures were followed, as required by state and federal regulations, and the California Department of Transportation (Caltrans) agreement provisions. Three consultant procurements were tested and SRTA was unable to provide documentation to support that the selection of the consultants was competitive in accordance with state and federal regulations. Therefore, the \$352,672 in costs related to the contracts billed to Caltrans on the three procurements, are questioned. Title 49 Code of Federal Regulations (CFR) Part 18 requires recipients of federal funds to conduct all procurement transactions in a manner providing full and open competition consistent with the standards of section 18.36. Based on our review of the three procurements SRTA project managers and the executive director did not follow some of the state and federal procurement standards. The project managers acknowledged they were not familiar with some of the state and federal procurement policies and procedures. SRTA also did not appear to follow some of their own written policies.

Specifically, we found the following consultant procurement deficiencies charged to the work elements (WE) identified below in Table 1:

Requirement/Criteria	Table 1 Division of Transportation Planning & Local Assistance			
	DKS Associates		Rincon	Vestra Resources
	Travel Demand Model - Modeling Services		Consultants	
Lacked documentation to support the selection of the consultants. { 49 CFR, Part 18.36(b)(8) and (9) }	N/A	X	N/A	X
No publicized Request for Proposal with all evaluation factors and their relative importance identified. { 49 CFR, Part 18.36(d)(3) (1) }	N/A	X	N/A	X
Score sheet evaluation criteria did not match the Request For Proposal (RFP). 1- Relates to interview score sheets { 49 CFR, Part 18.36(c) }	X	NA	X,1	NA
RFP evaluation criteria did not identify weights or values for oral interviews. { 49 CFR, Part 18.36(c)(3)(ii) }	X	NA	X	NA
No independent cost estimate. { 49 CFR, Part 18.36(f)(1) }	X	X	X	X
Scope of work (SOW) was not well defined. 2- No SOW in original RFP and no RFP for 2 nd contract { LAPM Chapter 10.2 }	X	X, 2	N/A	X
No evidence of profit negotiated. { 49 CFR, Part 18.36(f)(2) }	X	X	X	X
No cost analysis on non-competitive bid procurement. { LAPM, Chapter 10.3 and Public Contract Code Part 2, Chapter 2, Article 4, Section 10371 }	N/A	X	N/A	X

X = Deficiency
N/A = Not Applicable

Table 1 - Continued Division of Transportation Planning & Local Assistance					
	DKS Associates Travel Demand Model - Modeling Services		Rincon Consultants	Vestra Resources	
	Contract 1	Contract 2/On-call	Contract 3	Contract 4/Purchase Order	
Funding and Work Elements	FHWA - WE 701.02, 705.05, 701.06 PPM - WE 701.02, 701.07, 701.16 & 705.05		FHWA/PPM WE 701.01	FHWA - WE 701.01, 703.01 & 705.02 PPM- WE 701.07 & 701.16	
	Total				
Total Local Assistance Amount	\$63,460	\$7,479**	\$67,479	\$9,684	\$140,623
Total Planning Amount	\$110,878	\$110,878**	\$30,237	\$70,934	\$212,049
Total Questioned Amounts	\$174,338	\$118,356**	\$97,716	\$80,618	\$352,672

**Contract 2 amounts are included as part of contract 1 amounts. Contract 2 only includes costs paid after 6/26/2012 which is the contract 1 termination date.
***Amounts are also excluded from total \$352,672

We found SRTA utilized the California Multiple Award System list and a purchase order to award a consultant contract to Vestra rather than utilize and publicize a request for proposal. As such, SRTA cannot support that an open competition occurred.

In addition, we found SRTA policies and procedures, adopted on June 25, 2013, contained incorrect criteria, missing procedures as well as conflicting and/or unclear procedures. Specifically SRTA's:

- Procurement policy incorrectly states costs will be used as an evaluation factor for Requests for Qualification.
- Procurement policy did not specify the procedures to follow when the selection of the consultant will be based solely from the proposals.
- Procurement policy did not specify the procedures to follow when interviews will be held for the selection of the consultant.
- Procedures state all amendments must be approved at the same signature authority level as the original document, however the chief financial officer stated the signature authority for amendments is at the discretion of the executive director.
- Procedures did not address the different types of contracts and specifically the appropriate use of an on-call contract.
- Procedures do not include signing conflict of interest forms, as required by LAPM Chapter 10 (see Exhibit 10-T).

Without identifying the relative importance for each evaluation factor, bidders will not know the magnitude of importance SRTA places on each evaluation factor, and bidders may emphasize areas of their proposal that are not as important. Without independent cost estimates and cost and profit negotiations SRTA cannot support that the contract was executed at a fair and reasonable cost. Not providing clear scopes of work, tasks and budgets per the request for proposal (RFP) could be misleading to potential bidders and could potentially result in an unfair competitive procurement. Without proper procurement practices and procurement documentation SRTA cannot support that fair and open competition occurred, and that the most qualified consultant was selected at a fair and reasonable price.

See Attachment II finding 1 for detailed criteria.

RECOMMENDATION

We recommend SRTA ensure compliance with Caltrans' agreements and state and federal regulations regarding proper procurement procedures and documentation. In addition we recommend SRTA revise their Purchasing Policies and Procedures, and train staff accordingly, to ensure compliance with state and federal regulations, and Caltrans Local Assistance Procedures Manual, as well as SRTA's procurement policy, which include:

- Ensure a request for proposal is utilized when required per state and federal regulations.
- Documenting the basis for consultant selection.
- Including the evaluation criteria (i.e. cost proposal and/or interviews) in the RFP and ensuring the score sheets match the RFP.
- Ensuring the evaluation criteria specifies the weighted values and these values match the evaluation criteria listed on the RFP.
- Ensuring profit is negotiated as a separate element of price.
- Performing an independent cost estimate or cost analysis consistent with the method of procurement.
- Ensuring the RFP includes a full and detailed scope of work and associated budget.
- Ensuring the correct type of contract (i.e. project-specific or on-call) and appropriate use.

In addition, we recommend Caltrans, Division of Transportation Planning (Planning) and Division of Local Assistance (DLA) work with the Federal Highway Administration (FHWA) to determine if any of the questioned costs of \$352,672 identified above should be repaid. We also recommend Planning and DLA develop an action plan to monitor SRTA's future procurements to ensure they are in accordance with state and federal regulations.

AUDITEE'S RESPONSE

SRTA agrees that the inclusion of any references to costs as an evaluation factor in the RFQ to be inappropriate and a separate RFP was not issued regarding DKS and disagrees to the remaining findings and recommendations.

P&P's – SRTA indicates their procurement policy (P&P) in effect at the time did not require, nor prohibit the use of interviews as a part of their evaluation process and notes there is no requirement that an RFP disclose the use of, or possibility of oral interviews. SRTA also indicates their P&P does address types of contracts and on-call contracts would not be required to be described separately. Thirdly, SRTA disagrees regarding procedures not including signing a conflict of interest form as SRTA's outside counsel for SRTA may determine in writing that a particular consultant not be required to complete a form.

DKS - SRTA disagrees with the findings and recommendation relating to DKS. SRTA contends that at the time of the procurement, the County's policies did not require the RFP to include evaluation criteria and the oral interviews were only used to seek clarification on the proposer's

submitted. Furthermore, SRTA hired Dowling Associates to assist SRTA in determining the SOW, estimated projects costs and SRTA maintains their procurement process was fair, clear and reasonable.

Additionally, SRTA disagrees that a separate RFP should not have been issued for the on-call DKS contract as the RFP indicates that SRTA was included as part of the RFP for contract 1. The RFP indicates SRTA may enter into an on-call services contract after successful completion of the work described in Contract 1. However, SRTA does acknowledge that an estimated on-call contract amount was not included and should have been included. SRTA also acknowledges that while an independent costs estimate was not documented to Caltrans' desires, the costs were evaluated for reasonableness, based on staff's experience with similar projects.

Rincon – SRTA disagrees that the evaluation criteria were not clear and that oral interview criteria were not specifically represented to bidders. While weight or values are not in the RFP, SRTA indicates they represented to Caltrans and documented that a standard set of questions were used to conduct the interviews and the reference checks of proposers. Furthermore, SRTA acknowledges that while independent cost estimates were not documented to the level Caltrans' desires, the cost was evaluated for reasonableness, based on staff's experience with similar projects.

Vestra – SRTA disagrees with the finding and indicated their process was not used by SRTA staff to avoid a full and open procurement process. SRTA indicated that they thought using CMAS was appropriate. Any qualified firm may submit a bid and be considered as a CMAS contractor with the state. Additionally, SRTA indicated they did consider the hourly billing rates, the wages typically paid to employee's and partners in consulting firms and industry profit rates in the surrounding geographical areas. They further contend that the LAPM does not apply to non-A&E contracts.

See Attachment III for SRTA's full response

ANAYLSIS OF AUDITEE'S RESPONSE

SRTA did not provide additional documentation to dispute the finding or support statements made regarding the additional analyses SRTA indicated was performed.

P&Ps – The issue is not that SRTA's procurement policies did or did not require interviews, the issue was that there were no procedures to follow when interviews were held; and they were held in the procurements we tested.

On-call contracts are distinct and separate types of contracts that are required to be described.

SRTA misinterpreted the finding associated with procedures not including signing conflict of interest forms. The issue does not relate to the *consultant* signing a conflict of interest form, it relates to the requirement of the *panel members*.

DKS – The requirement to include evaluation criteria in RFPs is a federal requirement. SRTA indicated they hired Dowling Associates to assist SRTA in determining an appropriate scope of work and estimated project costs (cost estimate) for conducting model improvements that SRTA desired, however, no support for this was provided during our field work or with SRTA’s response.

SRTA did not know their budget and did not include SOW for the additional on-call services. Fee/rate schedules submitted were not for the on-call work, again as no SOW was included. SRTA did not use the on-call contract as an evaluation factor.

Rincon – Weights and values of evaluation criteria are required in RFPs.

No support was provided that the cost estimate was done in advance as required by federal regulations.

Vestra - The CMAS instructions indicate: “This is not a competitive bid transaction.” The Master Fund Transfer Agreement (MFTA) entered in between SRTA and Caltrans indicates all MPO’s, contractors and sub-contractors containing federal and state planning funds are required to be competitively bid.

Furthermore, in accordance to 49 CFR Part 18.36 (f) (1) grantees and subgrantees are required to perform a cost or price analysis in connection with every procurement action including contract modifications. SRTA indicated that they compared area wages and industry profits but no support was provided with their response or when we were in the field.

In addition, Chapter 10 of the LAPM does apply to non-A&E contracts. The audit/review process are optional.

Based on our analysis of the responses, the finding remains unchanged.

FINDING 2 –Inadequate Contract Management

SRTA did not maintain a contract administration system to ensure consultant billings to Caltrans were in compliance with state and federal regulations, and Caltrans agreement provisions. SRTA’s contract management procedures did not include proper processes to manage consultant contracts, to review and approve invoices and to appropriately charge Caltrans funds. SRTA billed and was reimbursed for consultant costs on contracts that were not in compliance with state and federal regulations and Caltrans agreement provisions.

Specifically, we tested three (3) consultant contracts, and one (1) purchase order and five (5) consultant invoices for compliance related to management of the contract, contract monitoring contract provisions and consultant billings.

Specifically we found the following deficiencies related to contract management, and contract monitoring:

	Table 2 Division of Transportation Planning & Local Assistance		
	DKS Associates	Rincon Consultants	Vestra Resources
	Loaded labor rate components identified in contract/purchase order	No	No
Evidence of costs analysis on amendment that exceeded SRTA's \$3,000 threshold	No	No	Yes
Amendment executed prior to contract expiration	No	Yes	Yes
Evidence of meeting report delivery date specified within contract	N/A	No	N/A
Unallowable costs excluded from proposal: 1 contingency, 2. Administrative fee.	No, 1	No, 2	N/A
Signature authority level for amendment is at the same level as original contract	Yes	No	Yes

No = Provision missing / Deficiency on contract / Amendments
 Yes = Contract contained provision / No deficiency
 N/A = Not applicable

Additionally our review found all three contracts were missing some Caltrans required contract language. Specifically we found the following missing contract provisions and deficiencies:

Table 3

Required Provisions per the Fund Agreements with Caltrans and Local Assistance Procedures Manual (LAPM)	DKS Assoc.	Rincon	Vestra
Travel reimbursement limited to state DPA rates.	No	No	No
Clear Method of Payment stated (ex. Actual costs plus fixed fee). Per LAPM Chapter 10.2	No	No	No
Maintain accounting system conforming to GAAP.	No	No	No
Fiscal provisions included in contracts.	No	No	No
Contract numbers included on initial contract.**	Yes	No	Yes
Contract numbers included on amendments. **	No	No	Yes

No = Provision missing / Deficiency on contract / Amendments
 Yes = Contract contained provision / No deficiency
 ** = Not required, however, good internal control

Further, during our review of the five consultant invoices, we found that the project managers did not properly review the consultant invoices to ensure compliance with the contracts. Specifically we noted:

- Invoices lacked evidence that clearly defined or distinguished the scope of work or tasks in accordance to the contract. The costs involved total \$14,390 for DKS and \$13,851 for

Vestra. There is no clear audit trail from invoice to the contract. The DKS invoices also did not contain the work element number, although, the DKS contract required the consultant to provide separate invoices by work element for work completed and stated in part that the invoices shall include the work element by number. The project manager assigned to Vestra could not explain or provide documentation to identify what work should be charged to Caltrans and what work should be charged to another organization.

- DKS invoices were paid that included labor billing rates for two staff, training, and ground transportation costs that were not in accordance with the contract/cost proposal.

The SRTA's project managers stated that they lacked training in contract management and were not aware of some of the state and federal requirements or Caltrans' agreement provision requirements. The lack of separate contracts or clear separation of scope of work for different projects and different fund sources can make it difficult for SRTA staff to manage contracts, verify the allowability of invoiced costs, and puts Caltrans at risk for reimbursing for unallowable costs. SRTA's lack of contract management policies and procedures training resulted in \$ 28,241 (\$14,390 + \$13,851) in questioned costs being billed to Caltrans. These questioned costs are included in the questioned costs in finding 1.

See Attachment II finding 2 for detailed criteria.

RECOMMENDATION

We recommend SRTA revise their policies and procedures and ensure staff are trained and follow the procedures, to ensure compliance with state and federal requirements over the administration of consultant contracts. Policies and procedures implemented need to address, but not limited to the following:

- Execution, administration, and approvals of contract and amendments.
- Proper scope development.
- Required contract language and provisions.
- The correct methods of payment and appropriate use.
- Prohibition of contingencies and unsupported general administration fees in cost proposals.
- Specify and verify cost data and elements, including loaded labor rates, before entering into contracts.
- Billing of eligible and allowable costs in accordance with contracts/cost proposals and agreements.
- Subrecipients, contractors and subcontractors invoicing requirements, that include identifying tasks per the cost proposal and contract work elements and tasks numbers.
- Unique contract numbers

We also recommend SRTA include in its future agreements with subrecipients, contractors and subcontractors, the required provisions listed in Table 2, and amend any current agreements with subrecipients, contractors and subcontractors to also include the required provisions.

In addition, we recommend Caltrans Planning, DLA and Federal Highway Administration if necessary, determine if any of the \$28,241 in questioned costs as shown below should be repaid if not repaid as a result of finding 1.

Consultant	Work Element	FHWA- Planning Funds	PPM Funds	Questioned Cost Total
DKS	701.02/702.02	\$12,739	\$1,651	\$14,390
Vestra	705.02	\$13,851		\$13,851
Total		\$26,590	\$1,651	\$28,241

AUDITEE'S RESPONSE

SRTA partially agrees with the finding and recommendations. SRTA disagrees with the following:

1. That they did not identify loaded rates.
2. That their original contract signature level was not consistent with their amendments.
3. That mark-up are eligible.
4. That their "contingencies" were used as set-asides and eligible.
5. That they did not include provisions for access to records.
6. That their contracts did not contain a clear method of payment.
7. That non A&E contracts are not bound to LAPM requirements.
8. That they do not maintain an accounting system that complies with GAAP.
9. That they did have policies and procedures in effect.

See Attachment III for SRTA's full response.

ANAYLSIS OF AUDITEE'S RESPONSE

1. The issue is that SRTA did not identify the components of the loaded rates to determine the reasonableness of the rates.
2. The issue was that SRTA was not following its policies and procedures which indicate that amendments must be approved at the same level as the original contract. During our interviews the chief financial officer indicated in practice it is at the executive director's discretion.
3. Mark-ups are not allowable as they are not considered reasonable or allocable in accordance with 48 CFR Chapter 1 Part 31.204.
4. Contingencies for events that cannot be foretold with certainty are not allowable.
5. We agree with SRTA and have removed the finding related to access to records.
6. On-call contracts are specific and unique contracts that are required by the LAPM to be identified.
7. Contracts with respect to using the audit and review process are the optional portions of the LAPM for non-A&E contracts.
8. SRTA misinterpreted the finding. The issue was that SRTA did not include a requirement to follow GAAP in their consultant contracts.
9. Not all the requirements listed were included in SRTA's policies and procedures. We just wanted to identify all the areas where we noted findings.

We have modified our finding to remove the finding related to access to records.

FINDING 3 – Regional Surface Transportation Program Not Adequately Administered

SRTA did not adequately administer the Regional Surface Transportation Program (RSTP) funds. We found SRTA did not ensure the RSTP exchange funds allocated to subrecipients were expended for projects as required by the Streets and Highway Code (SHC) Section 182.6 (d) (1). The Agreement between SRTA and Caltrans in part states RPTA agrees to allocate these funds only for those projects as are authorized under Article XIX of the California State Constitution in accordance with the requirements of section 182.6 (d) (1) of the SHC. Specifically we found the following:

- City of Anderson expended their RSTP exchange funds on general maintenance work, not on project work as required by SHC 182.6 and thus are ineligible. The expenses were charged to supplies, utilities, uniform services, landscape materials and fleet maintenance. The City of Anderson was unaware that these cost were not eligible RSTP expenses. The City of Anderson indicated the work performed was preventative maintenance and thought the costs were eligible. In addition, the City of Anderson did not provide any documentation or evidence detailing the actual work performed, and instead they provided a maintenance agreement and an encroachment permit between the City of Anderson and Caltrans. We determined that the general maintenance costs charged to RSTP exchange funds totaling \$127,730 are disallowed.
- City of Shasta Lake also expended their RSTP exchange funds for general street maintenance, not on project work and thus are ineligible. The City of Shasta Lake's certification clearly stated that the exchange funds were used for general street maintenance activities as pothole patching, culvert replacement, and traffic marking. Additionally, they indicated work performed was for general street maintenance, not for projects. We determined that the general street maintenance costs charged to RSTP exchange funds totaling \$143,497 are disallowed.

SRTA stated they did not appropriately monitor the use of the RSTP funds as they relied on the subrecipient certifications that RSTP exchange funds were used in accordance with regulations. We found the agreement cited compliance to SHC 182.6. SRTA's policies and procedures and sub-recipient certifications do not cite compliance to SHC 182.6(d) which in part states "The applicable metropolitan planning organization, shall annually apportion the RSTP funds for projects in each county.... These funds shall be apportioned for projects implemented by cities, counties, and other transportation agencies on a fair and equitable basis. Projects shall be nominated by cities, and other public transportation agencies through a process that directly involves local government representatives."

In addition, SRTA did not enter into formal contractual agreements with the RSTP subrecipients. A contractual agreement is required to ensure both parties agree to the scope of work and terms of the contract as well as the time frame of the contracts. As a result of the lack of contractual agreements, the subrecipients were not required to comply with critical clauses such as, eligibility requirements, applicable cost principles, requirements for travel and subsistence, third party

contracting, record retention requirements, Caltrans' right to audit, and accounting system requirements. See Attachment I for the required provisions. This poses a risk to SRTA and to Caltrans as Caltrans could be reimbursing ineligible expenditures.

See Attachment II finding 3 for detailed criteria.

RECOMMENDATION

We recommend SRTA:

- Reimburse Caltrans \$271,227 (\$127,730 + \$143,497) for the disallowed costs identified above.
- Establish written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements, conditions and specifications.
- Develop and implement RSTP Exchange Fund policies and procedures which would strengthen the contract management and oversight of the program funds.
- Ensure that future fund recipients are aware of fund requirements and provide evidence to substantiate the project costs incurred by the fund recipients are authorized under Article XIX of the California State Constitution and in accordance with requirements of Section 182.6 (d) (1) of the SHC.

AUDITEE'S RESPONSE

The SRTA agrees there should be established written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements and should develop and implement RSTP Exchange Fund policies and procedures which would strengthen the contract management and oversight of the program funds.

SRTA respectfully disagrees with the finding and recommendation relating to the disallowed costs. SRTA disagrees with our interpretation of "project" and contends that RSTP exchange funds used for general maintenance costs are allowable and the California Streets and Highway Code (SHC) Section 182.6(d)(1) does not define eligible projects.

See Attachment III for SRTA's full response.

ANAYLSIS OF AUDITEE'S RESPONSE

SRTA makes note that the California Streets and Highways Code (SHC) Section 182.6(d)(1) does not define eligible projects. However, Article XIX, Section 1 of the California Constitution does cite: "Revenues from taxes imposed by the State on motor vehicle fuels for use in motor vehicles upon public streets and highways, over and above the costs of collection and any refunds authorized by law, shall be used for the following purposes:

- A. The research, planning, construction, improvement, maintenance, and operation of public streets and highways

Per the California Streets and Highways Code (SHC) Section 182.6 (d) (1), "...These funds shall be apportioned for projects implemented by cities, counties, and other transportation agencies on a fair and equitable basis. Projects shall be nominated by cities, and other public transportation agencies through a process that directly involves local government representatives." As funds are apportioned for *projects* that must be nominated, we do not agree that general maintenance costs apply.

Based on our analysis of the responses, the finding remains unchanged.

FINDING 4 – Costs Billed Were Not In Agreement With the Planning Programming and Monitoring Agreement

We found work elements on DKS invoices billed to Planning Programming and Monitoring (PPM) funds that were not in accordance with the FY 2012/13 State Transportation Improvement Program- Planning Programming & Monitoring (PPM) Agreement number PPM 12-6093(34) between SRTA and Caltrans. The agreement in part states "Administering agency agrees: to use state funds only for eligible PPM project specific work activities as defined in Attachment A of this agreement." We reviewed the fourth Caltrans billing for the period October 1, 2013, through December 31, 2013, and associated DKS invoice. We found SRTA did not bill for the project specific work activities in Attachment A, which identifies six specific work elements. We initially found DKS billed for work element 701.07 for Sustainable Community Strategy (SCS), and Attachment A identified work element 701.05 for SCS, however, while the titles of these work elements were the same the tasks under these work elements were different. Upon further review of all work elements charged on the Caltrans billing, and an excel schedule of costs provided by SRTA, we found SRTA billed PPM funds for work activities that were identified in the OWP for the year the work was performed, rather than the work activities in the OWP for the time period that related to the Attachment A as required per the agreement. The differences between the work elements per the agreement Attachment A and the work elements that were billed are shown in Table 4 below:

Table 4

Allowable Per Agreement		Actual Billed	
701.05	Sustainable Community strategy (OWP states obtain funding for SCS)	Sustainable Community strategy (OWP states develop & obtain regional approval)	701.07
702.02.	OWP Development	Development of RTIP	701.01
704.01	Meeting & Jurisdictional Coordination	Regional Travel Demand Model	701.02
705.03	ITS Study	Freight & Goods Movement	701.08
706.02	Transit Planning	Public Participation & Information Dissemination	704.04
707.01	Corridor Studies & Development Review	ITS Planning & Development	705.01
Carry-over to FY 13/14	N/A	RABA Short Range Transit Plan	706.03
		SRTA Board & TAC Mtgs.*	704.01
		Review Corridor Studies & Projects*	707.01

*This activity appears to be in line with the Agreement work elements 704.01 and 707.01

Billing for costs not in accordance to the PPM agreement are disallowed. Based on our review of the fourth billing, A&I determined a total of \$76,569 of ineligible PPM funds were used for work elements that were not in line with the FY 2012/13 PPM Agreement.

RECOMMENDATION

We recommend SRTA:

- Reimburse Caltrans \$76,569 for disallowed costs. Of the \$76,569, it should be noted \$1,805 (Vestra \$618 + DKS \$1,077 + \$110) is included in finding 1 above.
- Develop and implement PPM Fund policies and procedures which would strengthen the contract management and oversight of the program funds.
- Ensure that future subconsultants substantiate the project costs incurred by the fund recipients are in compliance with the PPM agreement.
- Comply with Caltrans PPM Agreement:
 - ✓ The agency shall prepare a PPM plan, which will become a part of the Fund Transfer Agreement, titled Attachment A.
 - ✓ This plan is a one or two page summary outline of the major activities and, where appropriate, sub activities that will be accomplished with the current year PPM fund allocation. The plan shall outline the specific activities the agency plans to implement. Indicate the approximate time period and cost for each major agency.

- ✓ Indicate a single or multi-year plan for this specific allocation and the anticipated date of completion of all expenditures.
- ✓ Fund allocations for future years should not be requested until this plan's expenditures are near completion.
- ✓ Expenditures must be completed no later than two years after the fiscal year of allocation.
- ✓ Details of a plan should be consistent with the activities proposed and funding received.

AUDITEE'S RESPONSE

SRTA partially agrees with the finding and recommendations and respectfully disagrees with reimbursing Caltrans disallowed costs of \$76,569. SRTA agrees SRTA should comply with Caltrans PPM Agreements and the agency shall prepare a PPM plan that outlines the specific activities the agency plans to implement that indicates the approximate period and costs.

SRTA's stated, "according to FY 12/13 OWP and FY 13/14 OWP, work activities listed in 2011/2012 PPM Agreement PPM 12-6093(34) Attachment A have either been fully spent in FY 12/13 or have been incorporated into the FY 13/14 OWP work elements with similar products and tasks, but different work element numbers."

SRTA agrees the distribution of work from 2011/2012 PPM Agreement PPM 12-6093(034) Attachment A, FY OWP 12/13 and FY OWP 13/14 was not clearly identified throughout the three documents. But, contends the work was carried through in all documents and agreements with original identified planning work being completed.

See Attachment III for SRTA's full response.

ANAYLSIS OF AUDITEE'S RESPONSE

We disagree as noted above in the finding that details the deficiencies and the justification for the disallowed costs. The PPM 12-6093(034) agreement includes specific WE's that SRTA indicated they would use the PPM funds for. Per our review of the tasks and scope of work (SOW) per SRTA's FY 2012-13 and FY 2013-14, we determined the SOW associated to FY 2013-14 was not in line with the PPM 12-6093(034) agreement.

Based on our analysis of the responses, the finding remains unchanged.

FINDING 5 – Unallowable Indirect Costs Billed to Caltrans

SRTA improperly billed and was reimbursed by Caltrans for indirect costs on work SRTA performed for Department of Conservation (DOC). In our review of SRTA's fourth billing we identified \$3,542 of indirect costs on work SRTA performed for DOC. Upon further review of the schedule of costs provided by SRTA we found that SRTA also billed Caltrans for indirect costs in

the amount of \$27,556 for the time period from December 31, 2012, through June 30, 2015 for work SRTA performed for DOC. These indirect costs are disallowed.

Per discussions with SRTA staff, the DOC does not allow indirect costs to be billed to the DOC grant. To re-coup the indirect costs, SRTA billed the Division of Local Assistance (DLA) PPM funds for the indirect costs which is in violation of Caltrans' Agreements and 2 CFR 225. The ICAP certifications signed by SRTA state in part "all costs included in this proposal are properly allocable to federal and state awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements". Further, 2 CFR part 225 Appendix A, Section C.3.c states, "Any cost allocable to a particular federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons."

RECOMMENDATION

We recommend SRTA:

- Reimburse Caltrans \$31,098 (\$3,542 + \$27,556) for disallowed costs identified above. It should be noted that \$3,542 of the \$31,098 identified above is also included in the \$76,569 of disallowed costs identified in finding 4.
- Develop and implement PPM Fund policies and procedures which would strengthen the contract management and oversight of the program funds and in accordance with the Caltrans Agreement.

AUDITEE'S RESPONSE

SRTA disagrees with the finding and recommendations and respectfully disagrees with reimbursing Caltrans disallowed costs of \$31,098. SRTA contends that Caltrans PPM funds are allowed to be used for DOC (other) grant fund expenditures, and further contends that the 2 CFR 225 federal requirements do not apply to state funds.

SRTA also noted that the costs in question are Caltrans (STIP) funds and that federal requirements will be met unless state only funding has been approved.

See Attachment III for SRTA's full response.

ANAYLSIS OF AUDITEE'S RESPONSE

Non-Caltrans labor was included as part of SRTA's Indirect Cost Allocation Plan. As such this required the plan to be prepared in accordance to 2 CFR 225 that applies to both state and federal funds. Per 2 CFR 225 costs must be identified as direct, indirect and unallowable in which the non-Caltrans labor were identified as direct cost per SRTA's Indirect Costs Allocation Plan.

SRTA is correct, the costs in question are Caltrans funds, not DOC (other) grant funds. Federal funds were additionally approved on the projects tested which would also require adherence to 2 CFR 225. Also per 2 CFR 225 Appendix A C. 3. costs must be assigned in accordance with benefits received. Caltrans did not receive the benefits for these costs.

Based on our analysis of the responses, the finding remains unchanged.

ATTACHMENT I

**Provisions Required By Agreement Number X13-6496 (002)
FY 2012/13 between Caltrans and SRTA**

1. RTPA agrees to comply with, and require all project sponsors to comply with 2 CFR Part 225 (Superseded by 2 CFR 200), Cost Principles for State, Local, and Indian Tribal Governments, and 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.
2. RTPA will assure that its Fund recipients will be obligated to agree that (a) Contract Cost Principles and Procedures, 48 CFR, Federal Acquisition Regulations System, Chapter 1, Part 31, et seq., shall be used to determine the allowability of individual Project cost items and (b) those parties shall comply with Federal administrative procedures in accordance with 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments. Every subrecipient receiving Funds as a contractor or sub-contractor under this Agreement shall comply with Federal administrative procedures in accordance with 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.
3. Any subcontract or agreement entered into by RTPA as a result of disbursing Funds received pursuant to this Agreement shall contain all of the fiscal provisions of this Agreement; and shall mandate that travel and per diem reimbursements and third-party contract reimbursements to subcontractors will be allowable as project costs only after those costs are incurred and paid for by the subcontractors.
4. The preaward requirements of third party contractor/consultants with RTPA should be consistent with Local Program Procedures as published by State.
5. RTPA, its contractors and subcontractors shall establish and maintain an accounting system and records that properly accumulate and segregate Fund expenditures by line item. The accounting system of RTPA, contractors and subcontractors shall conform to Generally Accepted Accounting Principles (GAAP), enable the determination of incurred costs at interim points of completion, and provide support for reimbursement payment vouchers or invoices.
6. For the purpose of determining compliance with this agreement and other matters connected with the performance of RTPA's contracts with third parties RTPA, RTPA's contractors and subcontractors and State shall each maintain, and make available for inspection all books, documents, papers, accounting and other evidence pertaining to the performance of such contracts, but not limited, to the costs of administering those various contracts. All of the above referenced parties shall make such materials available at their respective offices at all reasonable times for three years from the date of final payment of funds to RTPA. STATE, the California State Auditor, or any duly authorized representative of STATE or the United States Department of Transportation, shall each have access to any books, records, and

ATTACHMENT I

**Provisions Required By Agreement Number X13-6496 (002)
FY 2012/13 between Caltrans and SRTA**

documents that are pertinent for audits, examinations, excerpts, and transactions, and RTPA shall furnish copies thereof if requested.

7. Payments to only RTPA for travel and subsistent expenses of RTPA forces and its subcontractors claimed for reimbursement or applied as local match credit shall not exceed rates authorized to be paid exempt non-represented State employees under current State Department of Personnel Administration rules. If the rates invoiced are in excess of those authorized DPA rates, then RTPA is responsible for the cost difference any overpayments shall be reimbursed to State on demand.
8. "Subrecipient agrees, in the event a project sponsor fails to use Funds received hereunder in accordance with the terms of RSTP Agreement, to require that project sponsor to return those exchange Funds to SRTA for credit to the account established under the special account established. In the event of any such requirement by State, SRTA shall provide written verification to State that the requested corrective action has been taken."

ATTACHMENT II CRITERIA

Finding 1 - Improper Procurement Practices

SRTA's Master Agreement 02-6093R and Master Fund Transfer Agreement 74A0142 states, "Administering Agency agrees to comply with Federal procedures in accordance with Office of Management and Budget Circular A-87, Cost Principles for State, Local and Tribal Governments, and 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments."

SRTA's Master Fund Transfer Agreement 74A0142, Section 5, Contract Award states, "In accordance with Title 49, CFR, Part 18, Section 18.37 and state law and procedures, all MPO, contractor, subcontractor and subrecipient contracts containing Federal and State planning funds are required to be competitively bid and awarded consistent with LPP-005 or successors thereto."

49 CFR Part 18.36 (c) (1) states in part, "All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Sec. 18.36..."

49 CFR Part 18.36 (c) (3) states in part, "Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations: (i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured...and (ii) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals."

49 CFR Part 18.36 (b) (8) states, "Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources."

49 CFR Part 18.36 (b) (9) states, "Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following rationale: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

Public Contract Code Part 2, Chapter 2, Article 4, Section 10344 (a) states, "Contracts subject to the provisions of this article may be awarded under a procedure that makes use of a request for proposal. State agencies that use this procedure shall include in the request for proposal a clear, precise description of the work to be performed or services to be provided, a description of the format that proposals shall follow and the elements they shall contain, the standards the agency will use in evaluating proposals, the date on which proposals are due and the timetable the agency will follow in reviewing and evaluating them. State agencies that use a procedure that

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makes use of a request for proposal shall evaluate proposals and award contracts in accordance with the provisions of subdivision (b) or (c).”

49 CFR Part 18.36 (d) (3) (i) states in part, “Requests for proposals will be publicized and identify all evaluation factors and their relative importance.”

49 CFR Part 18.36 (f)(1) states, “Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.”

49 CFR Part 18.36 (f) (2) states, “Grantees and subgrantees will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration will be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.”

(LAPM), Chapter 10, Section 10.2 states in part “... An independent cost estimate is needed to ensure that consultant services are obtained at a fair and reasonable price. ... The estimate must include a break-down of (1) Direct labor costs, (2) Indirect costs, (3) General and administrative cost, (4) Other direct costs, (5) Subconsultant costs and (6) Net fee ...”

(LAPM), Chapter 10, Section 10.3 states in part “...A non-competitive, negotiated contract may be developed when special conditions arise. FHWA considers these types as “Sole Source” agreements. A public Interest Finding prepared by the local agency and approved by Caltrans is required before establishing these services....Conditions include....only one organization is qualifies to do the work (2) An emergency exists....(3) Competition is determined to be inadequate....”

Public Contract Code Part 2, Chapter 2, Article 4, Section 10371 (c) states, “Each state agency shall, prior to signing a consulting services contract totaling five thousand dollars (\$5,000) or more, prepare detailed criteria and a mandatory progress schedule for the performance of the

ATTACHMENT II CRITERIA

contract and shall require each selected contractor to provide a detailed analysis of the costs of performing the contract.”

California Multiple Award Schedules Local Government Agency Guide, Section 2 states in part “...Do not refer to the CMAS transaction as a bid. This is not a competitive bid transaction...”

49 CFR Part 18.36 (d) (4) (ii) states, “Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.”

49 CFR Part 18.36 (b) (10) Grantees and subgrantees will use time and material type contracts only—(i) After a determination that no other contract is suitable, and (ii) If the contract includes a ceiling price that the contractor exceeds at its own risk.

49 CFR Part 18.36 (f) states in part, “a cost analysis is necessary for sole source procurements and grantees will negotiate profit as a separate element in all cases where cost analysis is performed.”

Finding 2 – Inadequate Contract Management

49 CFR Part 18.36 (b) (2) states, “Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.”

Public Contract Code Part 2, Chapter 2, Article 4, Section 10348.5 states, “Each state agency shall designate at least one currently existing person or position within the state agency as a contract manager. Every contract manager shall have knowledge of legal contractual arrangements.”

SRTA’s Master Agreement 02-6093R and Master Fund Transfer Agreement 74A0142 states, “Administering Agency agrees to comply with Federal procedures in accordance with Office of Management and Budget Circular A-87, Cost Principles for State, Local and Tribal Governments, and 49 CFR, Part 18, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.”

SRTA’s Master Agreement 02-6093R states in part, “Any subcontract entered into by Administering Agency as a result of this Agreement shall contain all the provisions of Article IV, Fiscal Provisions, and this Article V, Audits, Third Party Contracting Records Retention and Reports, ...”

The Federal Master Agreement 02-6093R and Master Fund Transfer Agreement 74A0142 states, in general, that MPO agrees, and shall require all of its contractors, subcontractors, and subrecipients to agree, to the following: (a) the Contract Cost Principles and Procedures, 48 CFR,

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Federal Acquisition Regulations Systems, Chapter 1, Part 31... (b) these parties shall comply with Federal administrative procedures in accordance with 49 CFR, Part 18.”

48 CFR Chapter 1 Part 31.204 (a) states, “Costs shall be allowed to the extent they are reasonable, allocable, and determined to be allowed under 31.202 (Direct costs).”

LAPM Chapter 10 states in part, "The type of contract must be specified. Four types are permitted depending on the scope of services to be performed, Actual Cost-Plus-Fixed Fee, Cost Per Unit of Work.....”

2 CFR 225, Appendix A, Section C.1 states in part, “Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: ... a. Be necessary and reasonable... j. Be adequately documented.”

49 CFR Part 18.20 (b) (6) states, “Source Documentation. Accounting records must be supported by such documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

LAPM Chapter 10 states in part, “All contract amendments must be fully executed before the ending date of the contract...and all contract amendments must be in writing and fully executed by the consultant and local agency before reimbursable work begins on the amendment.”

Public Contract Code Part 2, Chapter 2, Article 4, Section 10335 (b) states, “All contracts subject to this article are of no effect unless and until approved by the department. Each contract shall be transmitted with all papers, estimates, and recommendations concerning it to the department and, if approved by the department, shall be effective from the date of approval.”

49 CFR Part 18.36 (d) (4) (ii) states, “Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.”

49 CFR Part 18.36 (f) states in part, “a cost analysis is necessary for sole source procurements and grantees will negotiate profit as a separate element in all cases where cost analysis is performed.”

SRTA’s Financial and Accounting P&P’s Section 8, Purchasing and Contraction, Section 807.4, states, “ The following areas must be considered in sole source determinations: A contract amendment or change order that is not within the scope of the original contract is considered a sole source procurement.....” and Section 807.5, states, “The board must approve all sole source contracts over \$3,000....”

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Section 8, Purchasing and Contraction, Section 809, Addenda and Change Orders, states, “Addenda are formal changes that must be approved at the same signature authority level as the original document.”

48 CFR, Part 31.205-7(a) and (b) states, in part, “Contingency, ...means a possible future event or condition arising from presently known or unknown causes, the outcome of which is indeterminable at the present time. Costs for contingencies are generally unallowable...”

2 CFR, Part 225, Appendix B, Section 9, Contingency provision, states in part, “Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty ... are unallowable...”

Finding 3– Regional Surface Transportation Program Not Adequately Administered

According to the RSTP Exchange Agreement, X13-6496(002) between SRTA and Caltrans, Item 4 states, “RTPA agrees to allocate all of these Funds only for those projects implemented by cities, counties, and other agencies as are authorized under Article XIX of the California State Constitution, in accordance with the requirements of Section 182.6(d)(1) of the Streets and Highways Code. (SHC)”

SHC182.6 (d) (1) in part states “The applicable metropolitan planning organization, shall annually apportion the RSTP funds for projects in each county.... These funds shall be apportioned for projects implemented by cities, counties, and other transportation agencies on a fair and equitable basis. Projects shall be nominated by cities, and other public transportation agencies through a process that directly involves local government representatives.”

49 CFR Part 18.36(b)(2) states, grantees and subgrantees will maintain a contract administration which ensures that contractors perform in accordance to the terms, conditions, and specifications in their contracts or purchase orders.

49 CFR, Part 18.20(b)(3) states, in part, effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Local Assistance Program Guidelines (LAPG) 18.2 Eligible Uses for Exchange and Match Funds, only direct project related costs are eligible



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Daniel S. Little, Executive Director

October 25, 2017 (Revised from October 24, 2017)

Carvin Seals, Jr.
California Department of Transportation
Audits & Investigations, MS 2
PO Box 942874
Sacramento, CA, 94274-0001

Subject: Auditee Responses

Dear Carvin:

The Shasta Regional Transportation Agency (SRTA) has completed the auditee's responses to your October 2017 Indirect Cost Rate Proposal Audit. SRTA would appreciate the responses be incorporated into your final report. Please contact us should you have any questions on our responses.

• SUMMARY, OBJECTIVES, SCOPE, METHODOLOGY, BACKGROUND, AND CONCLUSION

SUMMARY

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations (A&I) audited the Shasta Regional Transportation Agency's (SRTA) Indirect Cost Allocation Plan (ICAP) for fiscal year (FY) 2014/15. SRTA's audited indirect cost rate for FY 2014/15 is 35.39 percent of total direct salaries and wages plus fringe benefits. This rate agrees to the rate proposed by SRTA and accepted by A&I on June 30, 2014. We also identified weaknesses in procurement and contract management processes which resulted in non-compliance with Caltrans' agreement provisions and state and federal regulations.

OBJECTIVES

The audit was performed to determine whether SRTA's FY 2014/15 ICAP was presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225 (Superseded by 2 CFR 200), and Caltrans's Local Assistance Program Manual (LAPM) Chapter 5. It was also performed to determine whether SRTA had an adequate financial management system capable of accumulating and segregating costs that are reasonable, allowable, and can be allocated to projects. Audit of the financial management system also included testing of procurement and contract management systems to ensure compliance with state and federal regulations

SCOPE

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP and limited review of SRTA's Overall Work Program (OWP), board approved budget for FY 2014/15, and review of SRTA's single audit reports for FY ended June 30, 2014. The audit also included interviews of SRTA staff necessary to obtain an understanding of the SRTA's financial management system and reviews of SRTA's policies and procedures. Additionally, we performed tests of select accounts and traced them to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs. These transactions tested were based on a risk assessment of the internal control system as related to the ICAP as of June 30, 2015. Additionally, the audit included review and tests of transactions for a more current period related to costs incurred and billed to Caltrans in FY 2013/14 to evaluate compliance with Title 2 CFR Part 225; Title 48 CFR Chapter 1 Part 31; Title 49 CFR Part 18; California Public Contract Code; Caltrans' LAPM; and requirements stipulated in the SRTA's agreements with Caltrans.. The audit field work was completed on June 26, 2017. Financial management system changes and transactions occurring subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

SRTA's management is responsible for the fair presentation of the ICAP and for ensuring costs incurred and billed to Caltrans are in compliance with applicable agreement provisions, state and federal regulations. Further SRTA is responsible to ensure the adequacy of its financial management system to accumulate and segregate reasonable, allocable and allowable costs.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

METHODOLOGY

A&I conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that A&I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. A&I believes 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 the SRTA. Therefore, A&I did not audit and is not expressing an opinion on SRTA's financial statements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records selected. An audit also includes assessing the accounting principles used and significant estimates made by SRTA, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in Title 2 CFR Part 225, and the Caltrans's LAPM Chapter 5, and is not intended to present the results of operations of SRTA in conformity with generally accepted accounting principles.

BACKGROUND

Caltrans A&I conducts ICAP audits on local government agencies that receive state or federal funds and seek indirect cost reimbursement on a risk-based approach to ensure they are complying with applicable state and federal requirements. Caltrans requires ICAP audits to be performed as part of Caltrans fiduciary and oversight responsibility.

CONCLUSION

Based on audit work performed we determined that SRTA's ICAP for the FY 2014/15 is presented in accordance with 2 CFR Part 225, and LAPM Chapter 5. The approved indirect cost rate for 2014/15 is 35.39 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

During the course of the audit we identified weaknesses in SRTA's financial management system's ability to accumulate and segregate reasonable, allowable and allocable project costs. Specifically we found:

- Procurement practices did not always adhere to state and federal regulations and SRTA's own policies.
- Contract management did not comply with state and federal regulations, and agreements with Caltrans.
- Regional Surface Transportation Program (RSTP) funds were not used in accordance with state regulations
- Costs billed were not in accordance with the Planning Programming and Monitoring (PPM) agreement.
- Unallowable indirect costs were billed to Caltrans

VIEWS OF RESPONSIBLE OFFICIALS

Our findings and recommendations considered SRTA's response dated (Month XX, 2017) to our XXXXX draft report. Our findings and recommendations, SRTA's response, and our

analysis of the response are set forth in the Findings and Recommendations section of this report. A copy of the SRTA’s full written response is included as Attachment III.

This report is intended as information for Caltrans management, the Federal Highway Administration, the Federal Transit Administration and SRTA. This report is a matter of public record and will be placed on the Caltrans website which can be viewed at: <www.dot.ca.gov/ /audits/ICAP.html>.

If you have any questions, please contact Carvin Seals, Auditor, at (916) 323-7965 or Amada Maenpaa, Audit Manager at (916) 323-7868.

MARSUE MORRILL, CPA
 Chief
 External Audits – Local Government Agency
 Independent Office of Audits and Investigations

DATE

FINDINGS AND RECOMMENDATIONS

[Field][Field]

FINDING 1 – Improper Procurement Practices

Shasta Regional Transportation Agency’s (SRTA) procurement practices did not support that fair and open competition was performed, or that proper procurement procedures were followed, as required by state and federal regulations, and the California Department of Transportation (Caltrans) agreement provisions. Three consultant procurements were tested and SRTA was unable to provide documentation to support that the selection of the consultants was competitive in accordance with state and federal regulations. Therefore, the \$352,672 in costs related to the contracts billed to Caltrans on the three procurements, are questioned. Title 49 Code of Federal Regulations (CFR) Part 18 requires recipients of federal funds to conduct all procurement transactions in a manner providing full and open competition consistent with the standards of section 18.36. Based on our review of the three procurements SRTA project managers and the executive director did not follow some of the state and federal procurement standards. The project managers acknowledged they were not familiar with some of the state and federal procurement policies and procedures. SRTA also did not appear to follow some of their own written policies.

Specifically, we found the following consultant procurement deficiencies charged to the work elements (WE) identified below in Table 1:

Requirement/Criteria	Table 1 Division of Transportation Planning & Local Assistance			
	DKS Associates Travel Demand Model - Modeling Services		Rincon Consultants	Vestra Resources
Lacked documentation to support the selection of the consultants. (49 CFR, Part 18.36(b)(8) and (9))	N/A	X	N/A	X

No publicized Request for Proposal with all evaluation factors and their relative importance identified. (49 CFR, Part 18.36(d)(3) (1))	N/A	X	N/A	X	
Score sheet evaluation criteria did not match the Request For Proposal (RFP). 1- Relates to interview score sheets { 49 CFR, Part 18.36(f)(1) }	X	NA	X,1	NA	
RFP evaluation criteria did not identify weights or values for oral interviews. (49 CFR, Part 18.36(c)(3)(ii))	X	NA	X	NA	
No independent cost estimate. (49 CFR, Part 18.36(f)(1))	X	X	X	X	
Scope of work (SOW) was not well defined. 2- No SOW in original RFP and no RFP for 2 nd contract (LAPM Chapter 10.2)	X	X, 2	N/A	X	
No evidence of profit negotiated. (49 CFR, Part 18.36(f)(2))	X	X	X	X	
No cost analysis on non-competitive bid procurement. { LAPM, Chapter 10.3 and Public Contract Code Part 2, Chapter 2, Article 4, Section 10371 }	N/A	X	N/A	X	
X = Deficiency N/A = Not Applicable					

Table 1 - Continued Division of Transportation Planning & Local Assistance					
	DKS Associates Travel Demand Model - Modeling Services		Rincon Consultants	Vestra Resources	
	Contract 1	Contract 2/On-call	Contract 3	Contract 4/Purchase Order	
Funding and Work Elements	FHWA - WE 701.02, 705.05, 701.06 PPM - WE 701.02, 701.07, 701.16 & 705.05		FHWA/PPM WE 701.01	FHWA - WE 701.01, 703.01 & 705.02 PPM- WE 701.07 & 701.16	
	Total				
Total Local Assistance Amount	\$63,460	\$7,479**	\$67,479	\$9,684	\$140,623
Total Planning Amount	\$110,878	\$110,878**	\$30,237	\$70,934	\$212,049
Total Questioned Amounts	\$174,338	\$118,356**	\$97,716	\$80,618	\$352,672
**Contract 2 amounts are included as part of contract 1 amounts. Contract 2 only includes costs paid after 6/26/2012 which is the contract 1 termination date.					
**Amounts are also excluded from total \$352,672					

We found SRTA utilized the California Multiple Award System list and a purchase order to award a consultant contract to Vestra rather than utilize and publicize a request for proposal. As such, SRTA cannot support that an open competition occurred.

In addition, we found SRTA policies and procedures, adopted on June 25, 2013, contained incorrect criteria, missing procedures as well as conflicting and/or unclear procedures. Specifically SRTA's:

- Procurement policy incorrectly states costs will be used as an evaluation factor for Architecture and Engineering contract Requests for Qualification.
- Procurement policy did not specify the procedures to follow when the selection of the consultant will be based solely from the proposals.

- Procurement policy did not specify the procedures to follow when interviews will be held for the selection of the consultant.
- Procedures state all amendments must be approved at the same signature authority level as the original document, however the chief financial officer stated the signature authority for amendments is at the discretion of the executive director.
- Procedures did not address the different types of contracts and specifically the appropriate use of an on-call contract.
- Procedures do not include signing conflict of interest forms, as required by LAPM Chapter 10 (see Exhibit 10-T).

Without identifying the relative importance for each evaluation factor, bidders will not know the magnitude of importance SRTA places on each evaluation factor, and bidders may emphasize areas of their proposal that are not as important. Without independent cost estimates and cost and profit negotiations SRTA cannot support that the contract was executed at a fair and reasonable cost. Not providing clear scopes of work, tasks and budgets per the request for proposal (RFP) could be misleading to potential bidders and could potentially result in an unfair competitive procurement. Without proper procurement practices and procurement documentation SRTA cannot support that fair and open competition occurred, and that the most qualified consultant was selected at a fair and reasonable price.

See Attachment II finding 1 for detailed criteria.

RECOMMENDATION

We recommend SRTA ensure compliance with Caltrans' agreements and state and federal regulations regarding proper procurement procedures and documentation. In addition we recommend SRTA revise their Purchasing Policies and Procedures, and train staff accordingly, to ensure compliance with state and federal regulations, and Caltrans Local Assistance Procedures Manual, as well as SRTA's procurement policy, which include:

- Ensure a request for proposal is utilized when required per state and federal regulations.
- Documenting the basis for consultant selection.
- Including the evaluation criteria (i.e. cost proposal and/or interviews) in the RFP and ensuring the score sheets match the RFP.
- Ensuring the evaluation criteria specifies the weighted values and these values match the evaluation criteria listed on the RFP.
- Ensuring profit is negotiated as a separate element of price.
- Performing an independent cost estimate or cost analysis consistent with the method of procurement.
- Ensuring the RFP includes a full and detailed scope of work and associated budget.
- Ensuring the correct type of contract (i.e. project-specific or on-call) and appropriate use.

In addition, we recommend Caltrans, Division of Transportation Planning (Planning) and Division of Local Assistance (DLA) work with the Federal Highway Administration (FHWA) to determine if any of the questioned costs of \$352,672 identified above should be repaid. We also recommend Planning and DLA develop an action plan to monitor SRTA's future procurements to ensure they are in accordance with state and federal regulations.

AUDITEE'S RESPONSE

Findings

- *Procurement policy incorrectly states costs will be used as an evaluation factor for Architecture and Engineering Contract Requests for Qualification.* SRTA agrees that the inclusion of any reference to costs as an evaluation factor in an RFQ to be inappropriate. RFPs do not include costs as a factor. Caltrans did not, to the best of SRTA's knowledge, examine any RFQ engagements.
- *Procurement policy did not specify the procedures to follow when the selection of the consultant will be based solely from the proposals.* This finding is addressed in the next bullet.
- *Procurement policy did not specify the procedures to follow when interviews will be held for the selection of the consultant.* The policies in effect at the time did not require, nor prohibit, the use of interviews a part of the evaluation process. Interviews were part of the evaluation process and did not require separate disclosure in an RFP. There is no requirement that an RFP disclose the use of, or possibility of, oral interviews. The inclusion of interview information in the policies could provide useful guidance, but there is no formal requirement that the guidance be included.
- *Procedures state all amendments must be approved at the same signature authority level as the original document, however the chief financial officer stated the signature authority for amendments is at the discretion of the executive director.* This statement is incomplete. The Board can authorize the Executive Director to approve contracts amendments but also permits the Executive Director, at his discretion, to go back to the Board for approval of any amendments.
- *Procedures did not address the different types of contracts and specifically the appropriate use of an on-call contract.* This finding is incorrect. Section 801.5 of SRTA's procurement policies address types of contracts. In addition, an on-call contract would not be required to be described separately as an on-call contract can fit under the descriptions found in SRTA's Policies.
- *Procedures do not include signing conflict of interest forms, as required by LAPM Chapter 10 (see Exhibit 10-T).* This finding is incorrect. Consultants are required under Section 205.3 of the Financial Policies and Procedures to complete a conflict of interest form. However, outside counsel for SRTA may determine in writing that a particular consultant not be required to complete a form.

SRTA has reviewed the documentation and recommendations listed for Finding 1. The following responses are provided individually for each contract described above:

DKS Associates Travel Demand Model Contract (Contract 1):

- SRTA included, in Section IX of the RFP, a general description of the evaluation criteria to be used. The policies of Shasta County were in effect at the time of the RFP. The County's policies did not require the use of specific criteria. SRTA's policies for the

period under audit were not in effect at the time of the RFP. SRTA did use a uniform set of evaluation criteria to fairly evaluate all submitted proposals.

- SRTA acknowledges that it did not use the general criteria from the RFP in the oral interviews. The oral interviews were performed to seek clarification on the proposer's submittals and determine which proposal best met the needs of SRTA. At no time was additional criteria used to evaluate proposers.
- Caltrans indicates that no independent cost estimate was conducted for the project and RFP. SRTA disagrees with this finding. As part of SRTA's grant application process for requesting Prop 84 grant funding, SRTA hired Dowling Associates to assist SRTA in determining an appropriate scope of work and estimated project costs for conducting model improvements that SRTA desired. The grant funded scope of work was also used as a guide for the RFP scope of work.
- SRTA would like to highlight that this contract accomplished the goals and objectives of SRTA's grant application for Prop 84 modeling enhancement funding and project deliverables were provided. SRTA received a vastly updated travel model that better supports regional transportation planning activities; could update key regional transportation, land use and parcel datasets or fill in gaps; provided modeling training for SRTA staff; and SRTA is better prepared to address regional transportation planning needs under Senate Bill (SB) 375. SRTA maintains that the procurement process was fair, clear and reasonable.
- SRTA did maintain, and continues to maintain, that despite documentation problems no amounts paid to consultants were unreasonable, wasted taxpayer dollars or were absent. At no point has it been determined by SRTA or Caltrans that unreasonable or excess amounts were paid on these contracts.

DKS Associates Modeling Contract (Contract 2/on call):

- Caltrans is correct that a separate RFP was not issued for the on-call contract. Instead it was included as part of the RFP for Contract 1. No separate contract was required. See more discussion below.
- Caltrans indicates that documentation to support consultant selection is missing. SRTA disagrees with this conclusion. SRTA indicated to Caltrans that the consultants were aware that SRTA may enter into an on-call services contract after successful completion of the work described in Contract 1. Section V(L) of the RFP for Contract 1 included a clause that states consultants bidding on the model development project must also be willing and able to continue support for the model after development through an on-call services contract. Caltrans was made aware that the consultants were also required to provide an on-call fee/rate schedule with their proposals. Proposals were responsive to this request. SRTA acknowledges that an estimated on-call contract amount was not included in this section and should have been included.
- Caltrans states that an independent cost estimate, although done were not documented to the expectations of Caltrans. This was a 3-year contract for on-call contract services, as needed and requested by SRTA. SRTA believes an independent cost estimate for an on-

call contract consist of determining the reasonableness of the hourly fee as well as the estimated time to complete an individual task in an on-call contract. On-call contracts are unique in that the hourly fee sets the costs and the contract usually sets the maximum amount of services SRTA can request. This practice is typical in most governments who wish to obtain professional services on an intermittent basis. SRTA acknowledges that while independent cost estimates were not documented to the level Caltrans' desires, the cost was evaluated for reasonableness, based on staff's experience with similar projects. At no point did the taxpayer's pay for unneeded services or services in excess of amounts deemed reasonable. At no point has it been determined by SRTA or Caltrans that unreasonable or excess amounts were paid on these contracts.

Rincon Consultants Contract (Contract 3):

- Caltrans indicates that the evaluation criteria were not clear and that oral interview criteria were not specifically represented to bidders. SRTA disagrees with this assessment. Figure 3 in RFP provided the evaluation criteria and scoring weights. Admittedly, the scoring points column is missing from the table. However, SRTA maintains that the lack of a scoring column did not have material consequence to the procurement. The standard criteria, scoring weights and point scale was used by all proposal evaluators. Regarding the oral interviews, the RFP indicated oral interviews may take place at the discretion of SRTA. While weight or values are not in the RFP, SRTA represented to Caltrans and documented that a standard set of questions were used to conduct the interviews and the reference checks of proposers.
- SRTA acknowledges that while independent cost estimates were not documented to the level Caltrans' desires, the cost was evaluated for reasonableness, based on staff's experience with similar projects. At no point did the taxpayer's pay for unneeded services or services in excess of amounts deemed reasonable. At no point has it been determined by SRTA or Caltrans that unreasonable or excess amounts were paid on these contracts.

Vestra Resources Contract (Contract 4/purchase order):

- Whereas SRTA staff had experience at another regional agency procuring transit buses through a state contract, the same staff investigated CMAS for applicability to procuring technical services. As per the Department of General Services Website, "The California Multiple Award Schedules (CMAS) offers a wide variety of commodities, non-IT services, and information technology products and services *at prices which have been assessed to be fair, reasonable and competitive. Suppliers may apply for a CMAS contract at any time - no bids are required. The use of these contracts is optional and is available to state and local government agencies*" (emphasis added). In consultation with DGS staff it was determined that SRTA was eligible to participate in the program and that VESTRA Resources was a contractor under the CMAS program (contract #**3-16-70-0650D**).

The rationale for selecting the CMAS procurement process was the same as when transit buses were previously purchased – i.e. that the state has much greater purchasing power and therefore much greater leverage in the competitive bidding process. SRTA had previously acquired VESTRA Resources' services through the conventional procurement

process and found that in each instance the CMAS was indeed lower. In October of 2010, for example, SRTA perform a competitive process to procure GIS technical services, but then chose the CMAS as the contracting tool because it represented a \$12,000 savings. When procuring GIS technical services in 2012, SRTA again compared standard market rates with CMAS rates and found that the CMAS would reduce costs by 15%, as shown below:

**CMAS Price Reduction Amount
VESTRA Resources, Inc.**

GSA Job Title	VESTRA Rates	Discount	VESTRA Discounted Rates
Principal Consultant	\$ 189.00	17%	\$ 156.87
Senior Database Consultant	\$ 148.50	5%	\$ 141.08
Database Consultant	\$ 126.00	5%	\$ 119.70
Junior Database Consultant	\$ 103.50	23%	\$ 79.70
Senior Solutions Analyst	\$ 148.50	7%	\$ 138.10
Solutions Analyst	\$ 126.00	30%	\$ 88.20
Junior Solutions Analyst	\$ 103.50	23%	\$ 79.70
Senior Applications Developer	\$ 148.50	5%	\$ 141.08
Applications Developer	\$ 126.00	15%	\$ 107.10
Junior Applications Developer	\$ 103.50	15%	\$ 87.98
Senior System Architect	\$ 157.50	12%	\$ 138.60
Senior Project Manager	\$ 157.50	12%	\$ 138.60
Project Manager	\$ 135.00	20%	\$ 108.00
Average Discounted Rate		15%	

The process was not used by SRTA staff to avoid a full and open procurement process. Any qualified firm may submit a bid and be considered as a CMAS contractor with the state. DGS documents the CMAS procurement process (i.e. evaluations of qualifications, experience, and cost competitiveness).

At no time did DGS indicate that the use of their services did not meet the requirements of the competitive bid process. A disclaimer by the DGS was later found on the DGS deep into the website.

SRTA questions why such a program is promoted and advertised as a valid procurement process, and why it is made available for public agency use, if it is not an acceptable option for procurement. All services and products were in fact delivered, at a cost that was repeatedly confirmed to be a substantial savings to the agency, and through a process that was open to all agencies. All of the above notwithstanding, SRTA discontinued use of the CMAS contracting process in response to the Caltrans' concerns.

All Consultants

SRTA respectfully disagrees with Caltrans that SRTA did not negotiate profit as a separate element as found in *49 CFR Part 18.36 (f) (2)* states, "Grantees and sub-grantees will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration will be given to the complexity of the work to be performed, the risk borne by the

contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.”.

In determining a fair and reasonable profit, SRTA did consider the hourly billing rate, the wages typically paid to employee's and partners in consulting firms and industry profit rates in the surrounding geographical areas. SRTA considers the issuance of RFPs, the selection process and the completion of a contract to be a negotiation process.

SRTA respectfully disagrees with Caltrans that SRTA failed to perform independent cost analysis. *49 CFR Part 18.36 (f)(1) states, “Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.”*

(LAPM), Chapter 10, Section 10.2 states in part “... *An independent cost estimate is needed to ensure that consultant services are obtained at a fair and reasonable price. ... The estimate must include a break-down of (1) Direct labor costs, (2) Indirect costs, (3) General and administrative cost, (4) Other direct costs, (5) Subconsultant costs and (6) Net fee ...*”

SRTA is required to perform a cost or price analysis in connection with every procurement. SRTA does not require proposers to submit elements of estimated costs other than a separation of fees and out-of-pocket. The LAPM requirements that costs be separated as described above do not apply to non-Architectural and Engineering contracts such as the contracts tested. Fees and out-of-pocket are analyzed to determine reasonableness. SRTA does make independent estimates before receiving bids.

Recommendations

Based on the above response, SRTA respectfully disagrees with the following recommendations to revise policies as policies and procedures previously and currently exist and training has been provided for the following:

- Ensure a request for proposal is utilized when required per state and federal regulations.
- Ensuring the correct type of contract (i.e. project-specific or on-call) and appropriate use.
- Documenting the basis for consultant selection.
- Including the evaluation criteria (i.e. cost proposal and/or interviews) in the RFP and ensuring the score sheets match the RFP.

- Ensuring the evaluation criteria specifies the weighted values and these values match the evaluation criteria listed on the RFP.
- Performing an independent cost estimate or cost analysis consistent with the method of procurement.

SRTA respectfully disagrees with the following as the scope of work developed by SRTA on each proposal is designed to meet the needs and circumstances of SRTA:

- Ensuring the RFP includes a full and detailed scope of work and associated budget.

SRTA respectfully disagrees with following recommendation as 49 CFR Part 18.36 (f) (2) states, “Grantees and sub-grantees will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration will be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.”. In determining a fair and reasonable profit, SRTA did consider the hourly billing rate, the wages typically paid to employee’s and partners in consulting firms and industry profit rates in the surrounding geographical areas. SRTA considers the issuance of RFPs, the selection process and the completion of a contract to be a negotiation process.

- Ensuring profit is negotiated as a separate element of price.

ANAYLSIS OF AUDITEE’S RESPONSE

FINDING 2 –Inadequate Contract Management

SRTA did not maintain a contract administration system to ensure consultant billings to Caltrans were in compliance with state and federal regulations, and Caltrans agreement provisions. SRTA’s contract management procedures did not include proper processes to manage consultant contracts, to review and approve invoices and to appropriately charge Caltrans funds. SRTA billed and was reimbursed for consultant costs on contracts that were not in compliance with state and federal regulations and Caltrans agreement provisions.

Specifically, we tested three (3) consultant contracts, and one (1) purchase order and five (5) consultant invoices for compliance related to management of the contract, contract monitoring , contract provisions and consultant billings.

Specifically we found the following deficiencies related to contract management and contract monitoring:

Table 2 Division of Transportation Planning & Local Assistance			
A	DKS Associates	Rincon Consultants	Vestra Resources

Loaded labor rate components identified in contract/purchase order	No	No	No	
Evidence of costs analysis on amendment that exceeded SRTA's \$3,000 threshold	No	No	Yes	
Amendment executed prior to contract expiration	No	Yes	Yes	
Evidence of meeting report delivery date specified within contract	N/A	No	N/A	
Unallowable costs excluded from proposal: 1 contingency, 2. Administrative fee.	No, 1	No, 2	N/A	
Signature authority level for amendment is at the same level as original contract	Yes	No	Yes	

No = Provision missing / Deficiency on contract / Amendments
Yes = Contract contained provision / No deficiency
N/A = Not applicable

Additionally our review found all three contracts were missing some Caltrans required contract language. Specifically we found the following missing contract provisions and deficiencies:

Table 3

<i>Required Provisions per the Fund Agreements with Caltrans and Local Assistance Procedures Manual (LAPM)</i>	<i>DKS Assoc.</i>	<i>Rincon</i>	<i>Vestra</i>
Access to records / Specifically Audit by FHWA and Caltrans.	No	No	No
Travel reimbursement limited to state DPA rates.	No	No	No
Clear Method of Payment stated (ex. Actual costs plus fixed fee). Per LAPM Chapter 10.2	No	No	No
Maintain accounting system conforming to GAAP.	No	No	No
Fiscal provisions included in contracts.	No	No	No
Contract numbers included on initial contract. **	Yes	No	Yes
Contract numbers included on amendments. **	No	No	Yes

No = Provision missing / Deficiency on contract / Amendments
Yes = Contract contained provision / No deficiency
** = Not required, however, good internal control

Further, during our review of the five consultant invoices, we found that the project managers did not properly review the consultant invoices to ensure compliance with the contracts. Specifically we noted:

- Invoices lacked evidence that clearly defined or distinguished the scope of work or tasks in accordance to the contract. The costs involved total \$14,390 for DKS and \$13,851 for Vestra. There is no clear audit trail from invoice to the contract. The DKS invoices also did not contain the work element number, although, the DKS contract required the

consultant to provide separate invoices by work element for work completed and stated in part that the invoices shall include the work element by number. The project manager assigned to Vestra could not explain or provide documentation to identify what work should be charged to Caltrans and what work should be charged to another organization.

- DKS invoices were paid that included labor billing rates for two staff, training, and ground transportation costs that were not in accordance with the contract/cost proposal.

The SRTA's project managers stated that they lacked training in contract management and were not aware of some of the state and federal requirements or Caltrans' agreement provision requirements. The lack of separate contracts or clear separation of scope of work for different projects and different fund sources can make it difficult for SRTA staff to manage contracts, verify the allowability of invoiced costs, and puts Caltrans at risk for reimbursing for unallowable costs. SRTA's lack of contract management policies and procedures training resulted in \$ 28,241 (\$14,390 + \$13,851) in questioned costs being billed to Caltrans. These questioned costs are included in the questioned costs in finding 1.

See Attachment II finding 2 for detailed criteria.

RECOMMENDATION

We recommend SRTA revise their policies and procedures and ensure staff are trained and follow the procedures, to ensure compliance with state and federal requirements over the administration of consultant contracts. Policies and procedures implemented need to address, but not limited to the following:

- Execution, administration, and approvals of contract and amendments.
- Proper scope development.
- Required contract language and provisions.
- The correct methods of payment and appropriate use.
- Prohibition of contingencies and unsupported general administration fees in cost proposals.
- Specify and verify cost data and elements, including loaded labor rates, before entering into contracts.
- Billing of eligible and allowable costs in accordance with contracts/cost proposals and agreements.
- Subrecipients, contractors and subcontractors invoicing requirements, that include identifying tasks per the cost proposal and contract work elements and tasks numbers.
- Unique contract numbers

We also recommend SRTA include in its future agreements with subrecipients, contractors and subcontractors, the required provisions listed in Table II, and amend any current agreements with subrecipients, contractors and subcontractors to also include the required provisions.

In addition, we recommend Caltrans Planning, DLA and Federal Highway Administration if necessary, determine if any of the \$28,241 in questioned costs as shown below should be repaid if not repaid as a result of finding 1.

Consultant	Work Element	FHWA- Planning Funds	PPM Funds	Questioned Cost Total
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DKS	701.02/702.02	\$12,739	\$1,651	\$14,390
Vestra	705.02	\$13,851		\$13,851
Total		\$26,590	\$1,651	\$28,241

AUDITEE'S RESPONSE

Findings

Table 2

- SRTA respectfully disagrees with Caltrans' finding in Table 2 that SRTA did not identify loaded rates. SRTA required that consultant's hourly rates, out-of-pocket and sub-consultant costs be identified. Consultants were required to identify their full hourly rates, which included all their costs.
- SRTA agrees with Caltrans' finding in Table 2 that the DKS contract was amended after the expiration date of the original contract. However, the amendment provided a continuity of service at no additional cost to the public.
- SRTA agrees with Caltrans' finding in Table 2 that the Rincon did not meet the deliverable date in the contract. The original deadline was modified in Amendment #1 to the contract, which was executed on February 11, 2015. The consultant met the modified date.
- SRTA respectfully disagrees with Caltrans' finding in Table 2 that the signature level authority for the original contract and subsequent amendment(s) for Contract 3 (Rincon Consultants) is not consistent. Documentation provided to Caltrans supports our contention that the original contract and amendment(s) were all signed by the Executive Director.
- SRTA agrees that an administrative fee, as a description of costs, is vague. The administrative fees were the costs associated with a mark-up for monitoring their sub-contractors. This type of charge is eligible. Therefore, SRTA disagrees with the finding.
- SRTA respectfully disagrees with Caltrans' finding Table 2 related to the use of contingencies. SRTA agrees that the word "contingencies" was included in the RFP and proposal. Vendors were requested to specifically identify a 5% set-aside for events that were possible but not probable. In all cases under this arrangement, SRTA would have reimbursed the vendor for only 95% of the contract as a maximum should no set-aside

services been needed. This contractor did have SRTA's approval to invoice for the set-aside. Any use of set-aside funds required SRTA approval and were not an automatic set-aside of funds for the consultant.

- SRTA agrees that the agency erred in not catching incorrect billing rates on the DKS invoice that was reviewed, but we disagree that the entire invoice should be questioned. The work conducted was consistent with the contract and grant funded scope of work. SRTA does concede that the amounts paid above the contract billing rate are un-allowed and should be reimbursed back to Caltrans. After evaluating the billing rates on the invoice and contract (see table below), SRTA determined that \$480.00 is due back to Caltrans.

Comparison of Invoice# 54917				
		Contract Rate	Paid Rate	
Tokarski	Hours	\$ 135.00	\$ 140.00	Difference
	58	\$ 7,830.00	\$ 8,120.00	\$ 290.00
		Contract Rate	Paid Rate	
Gibb	Hours	\$ 160.00	\$ 165.00	Difference
	38	\$ 6,080.00	\$ 6,270.00	\$ 190.00
		Total Un-allowed:		\$ 480.00

Table 3

- SRTA respectfully disagrees with Caltrans' Finding in Table 3 that the DKS Associates contract did not include provisions for access to records, including for audits, by federal or state agencies. Section 14 of the contract provided to Caltrans states the following:

"The SRTA, federal, and state officials shall have access to any books, documents, papers, and records of Consultant that are directly pertinent to the subject matter of this agreement for the purpose of auditing or examining the activities of Consultant or the SRTA. Except where longer retention is required by federal or state law, Consultant shall maintain all records for five years after the SRTA makes final payment hereunder."

SRTA believes the language stated above covers FHWA and Caltrans' access.

- SRTA acknowledges Caltrans' finding in Table 3 that travel reimbursements were more than state rates
- SRTA agrees that any contract with Vestra did not contain any reference to access to records.
- SRTA respectfully disagrees with Caltrans' finding in Table 3 that the contracts in question did not contain a clear method of payment. Caltrans incorrectly treats the

specific contracts as Architectural and Engineering (A&E) as described in Chapter 10 of the Local Assistance Procedures Manual (LAPM). In fact, the contracts are not for “federally funded engineering and design related contracts” as described in the LAPM, but for other professional services to which the provision do not apply. Non-A&E contract procurement on highway projects must comply with California State Public Contract Code, Section 10351-10381 (from LAPM Chapter 10).

- SRTA respectfully disagrees with Caltrans’ finding in Table 3 that SRTA does not maintain the accounting system in conformity with generally accepted accounting principles (GAAP). Contracts with the state require SRTA to conform to generally accepted accounting principles. SRTA maintains its accounting in strict compliance with GAAP as evidenced by independent audits. Caltrans did not request any documents related to SRTA’s compliance with GAAP and SRTA questions the validity of the finding.
- SRTA agrees that the fiscal provisions are required and have been incorporated in sub-recipient agreements for the past two years.
- SRTA agrees the contract numbers on both original and amended contracts is a good practice.

General

- SRTA respectfully takes exception to Caltrans’s generalization in supporting their questioning costs based on statements such as “*The lack of separate contracts or clear separation of scope of work for different projects and different fund sources can make it difficult for SRTA staff to manage contracts, verify the allowability of invoiced costs, and puts Caltrans at risk for reimbursing for unallowable costs*”. SRTA agrees that the risk of non-compliance can increase when there is not separate contracts and scope separation. SRTA believes that the lack of a separate contract or the specified scope would not have presented additional risks to Caltrans.
- SRTA staff reviewed the original copy of the VESTRA invoice. The invoice references the project ('On-Call Technical Support'), which services fell under the CMAS contract, Purchase Order 12-1. The contract is clearly assigned a work element (705.02) and the invoice clearly identifies each task that was worked on with attachments providing a description of work completed and a time log of each individual consultant.
- The CMAS is the contract between the state and the consultant. The Purchase Order submitted by SRTA to VESTRA Resources establishes the terms of that agreement (i.e. the time period and budget). Finally, the approved Task Order documents the specific scope of work, the cost to provide said scope, and the approval thereof. The use of purchase orders mitigates the risk that a consultant will work outside the defined scope. SRTA staff has email correspondence regarding the task order (task name, budget, and approval), but is unable to locate the detailed task order for this specific invoice. This does not mean that the work was not performed and charged to the correct fund source.

SRTA acknowledges that agency policies and procedures continually need further refinement to ensure consistency with federal and state requirements. SRTA made efforts during the

audit discussions and interviews to seek clarification and updated some policies during the process to better reflect federal and state requirements at the time. SRTA also developed a procurement checklist to guide project managers during the procurement process and requires that most of procurements include a memo describing procurement activities. SRTA will evaluate the findings in this report and consider additional refinements to agency policies and procedures that may be necessary.

Recommendations

SRTA respectfully disagrees with Caltrans with the following as SRTA had policies in effect at the time for:

- Execution, administration, and approvals of contract and amendments.
- Billing of eligible and allowable costs in accordance with contracts/cost proposals and agreements.
- Subrecipients, contractors and subcontractors invoicing requirements, that include identifying tasks per the cost proposal and contract work elements and tasks numbers.
- The correct methods of payment and appropriate use.

SRTA respectfully disagrees with the following recommendation as SRTA feels the current level of scope development meets the needs and circumstances of SRTA:

- Proper scope development.

SRTA agrees with Caltrans on needing to add the following policies and procedures:

- Required contract language and provisions.
- Prohibition of contingencies and unsupported general administration fees in cost proposals.
- Specify and verify cost data and elements, including loaded labor rates, before entering into contracts.
- Unique contract numbers

ANAYLSIS OF AUDITEE'S RESPONSE

FINDING 3 – Regional Surface Transportation Program Not Adequately Administered

SRTA did not adequately administer the Regional Surface Transportation Program (RSTP) funds. We found SRTA did not ensure the RSTP exchange funds allocated to subrecipients were expended for projects as required by the Streets and Highway Code (SHC) Section 182.6 (d) (1). The Agreement between SRTA and Caltrans in part states RTPA agrees to allocate these funds only for those projects as are authorized under Article XIX of the California State Constitution in accordance with the requirements of section 182.6 (d) (1) of the SHC. Specifically we found the following:

- City of Anderson expended their RSTP exchange funds on general maintenance work, not on project work as required by SHC 182.6 and thus are ineligible. The expenses were charged to supplies, utilities, uniform services, landscape materials and fleet maintenance. The City of Anderson was unaware that these cost were not eligible RSTP expenses. The City of Anderson indicated the work performed was preventative maintenance and thought the costs were eligible. In addition, the City of Anderson did not provide any documentation or evidence detailing the actual work performed, and instead they provided a maintenance agreement and an encroachment permit between the City of Anderson and Caltrans. We determined that the general maintenance costs charged to RSTP exchange funds totaling \$127,730 are disallowed.
- City of Shasta Lake also expended their RSTP exchange funds for general street maintenance, not on project work and thus are ineligible. The City of Shasta Lake's certification clearly stated that the exchange funds were used for general street maintenance activities as pothole patching, culvert replacement, and traffic marking. Additionally, they indicated work performed was for general street maintenance, not for projects. We determined that the general street maintenance costs charged to RSTP exchange funds totaling \$143,497 are disallowed.

SRTA stated they did not appropriately monitor the use of the RSTP funds as they relied on the subrecipient certifications that RSTP exchange funds were used in accordance with regulations. We found the agreement cited compliance to SHC 182.6. SRTA's policies and procedures and sub-recipient certifications do not cite compliance to SHC 182.6(d) which in part states "The applicable metropolitan planning organization, shall annually apportion the RSTP funds for projects in each county.... These funds shall be apportioned for projects implemented by cities, counties, and other transportation agencies on a fair and equitable basis. Projects shall be nominated by cities, and other public transportation agencies through a process that directly involves local government representatives."

In addition, SRTA did not enter into formal contractual agreements with the RSTP subrecipients. A contractual agreement is required to ensure both parties agree to the scope of work and terms of the contract as well as the time frame of the contracts. As a result of the lack of contractual agreements, the subrecipients were not required to comply with critical clauses such as, eligibility requirements, applicable cost principles, requirements for travel and subsistence, third party contracting, record retention requirements, Caltrans' right to audit, and accounting system requirements. See Attachment I for the required provisions. This poses a risk to SRTA and to Caltrans as Caltrans could be reimbursing ineligible expenditures.

See Attachment II finding 3 for detailed criteria.

RECOMMENDATION

We recommend SRTA:

- Reimburse Caltrans \$271,227 (\$127,730 + \$143,497) for the disallowed costs identified above.
- Establish written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements, conditions and specifications.
- Develop and implement RSTP Exchange Fund policies and procedures which would strengthen the contract management and oversight of the program funds.
- Ensure that future fund recipients are aware of fund requirements and provide evidence to substantiate the project costs incurred by the fund recipients are authorized under Article XIX of the California State Constitution and in accordance with requirements of Section 182.6 (d) (1) of the SHC.

AUDITEE'S RESPONSE

Findings

SRTA respectfully disagrees with Caltrans Audits and Investigations RSTP disallowed costs finding. California Streets and Highways Code (SHC) Section 182.6(d)(1) does not define eligible projects. However, Article XIX, Section 1 of the California Constitution does cite: "Revenues from taxes imposed by the State on motor vehicle fuels for use in motor vehicles upon public streets and highways, over and above the costs of collection and any refunds authorized by law, **shall be used for the following purposes:**

- a. The research, planning, construction, improvement, **maintenance**, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes." **(bolding added by SRTA for emphasis)**

Although Federal statute does not apparently provide for general maintenance and rehabilitation of the local road system, the California Constitution does. Accordingly, the RSTP funds that have been exchanged for state motor vehicle fuel funds are subject to the provisions of both SHC Section 182.6(d)(1) and Article XIX of the California State Constitution as Caltrans Audits and Investigations points out above. Since SHC Section 182.6(d)(1) does not define eligible projects, the definition of eligible projects defaults to Article XIX. To emphasize this, Section 4 of the annual Caltrans RSTP Exchange Agreement stipulates:

"RTPA agrees to allocate these Funds only for those projects implemented by cities, counties, and other agencies as are authorized under Article XIX of the California State Constitution, in accordance with the requirements of Section 182.6(d)(1) of the Streets and Highways Code."

Per Article XIX, Section 1(a), cited above, public street maintenance is an eligible purpose. Therefore, the cities of Anderson and Shasta Lake general street maintenance is eligible for RSTP exchange funds use.

The concern that Caltrans Audits and Investigations has regarding the interpretation of "project", and maintenance work not satisfying that interpretation, appears to stem from applying the Federal interpretation of "project" to a state fund source. Once RSTP funds are exchanged for state funds, they are no longer subject to Federal provisions per the RSTP Exchange Agreement referring the recipient to SHC Section 182.6(d)(1) and Article XIX, Section 1 of the State Constitution. It appears that since SHC Section 182.6(d)(1) does not define "project" and further refers recipients to Article XIX for eligible fund use, the Federal interpretation of "project" as applied to RSTP Exchange Funds no longer remains consistent or valid. This uncertainty of applying a federally-interpreted term for state funding source eligibility requires resolution as Caltrans has acknowledged that their own agreement language with regions is materially inconsistent.

Recommendations

SRTA respectfully disagrees with the following recommendation based on the provisions of the SHC:

- Reimburse Caltrans \$271,227 (\$127,730 + \$143,497) for the disallowed costs identified above.

SRTA is currently implementing the following recommendation:

- Establish written agreements with RSTP Exchange fund recipients to ensure compliance with the RSTP Exchange fund requirements, conditions and specifications.

SRTA agrees that the following recommendation should be implemented:

- Develop and implement RSTP Exchange Fund policies and procedures which would strengthen the contract management and oversight of the program funds. Caltrans, HQ Local Assistance is key to this implementation as it is currently developing revised RSTP Exchange Fund guidelines which should help facilitate statewide compliance and acceptability.

SRTA respectfully disagrees with the following recommendation as SRTA already requires recipients to certify compliance with the SHC:

- Ensure that future fund recipients are aware of fund requirements and provide evidence to substantiate the project costs incurred by the fund recipients are authorized under Article XIX of the California State Constitution and in accordance with requirements of Section 182.6 (d) (1) of the SHC.

ANAYLSIS OF AUDITEE'S RESPONSE

FINDING 4 – Costs Billed Were Not In Agreement With the Planning Programming and Monitoring Agreement

We found work elements on DKS invoices billed to Planning Programming and Monitoring (PPM) funds that were not in accordance with the FY 2012/13 State Transportation Improvement Program- Planning Programing & Monitoring (PPM) Agreement number PPM 12-6093(34) between SRTA and Caltrans. The agreement in part states “Administering agency agrees: to use state funds only for eligible PPM project specific work activities as defined in Attachment A of this agreement.” We reviewed the fourth Caltrans billing for the period October 1, 2013, through December 31, 2013, and associated DKS invoice. We found SRTA did not bill for the project specific work activities in Attachment A, which identifies six specific work elements. We initially found DKS billed for work element 701.07 for Sustainable Community Strategy (SCS), and Attachment A identified work element 701.05 for SCS, however, while the titles of these work elements were the same the tasks under these work elements were different. Upon further review of all work elements charged on the Caltrans billing, and an excel schedule of costs provided by SRTA, we found SRTA billed PPM funds for work activities that were identified in the OWP for the year the work was performed, rather than the work activities in the OWP for the time period that related to the Attachment A as required per the agreement. The differences between the work elements per the agreement Attachment A and the work elements that were billed are shown in Table 4 below:

Table 4

<i>Allowable Per Agreement</i>		<i>Actual Billed</i>	
701.05	Sustainable Community strategy (<i>OWP states obtain funding for SCS</i>)	Sustainable Community strategy (<i>OWP states develop & obtain regional approval</i>)	701.07
702.02.	OWP Development	Development of RTIP	701.01
704.01	Meeting & Jurisdictional Coordination	Regional Travel Demand Model	701.02
705.03	ITS Study	Freight & Goods Movement	701.08
706.02	Transit Planning	Public Participation & Information Dissemination	704.04
707.01	Corridor Studies & Development Review	ITS Planning & Development	705.01
Carry-over to FY 13/14	N/A	RABA Short Range Transit Plan	706.03
		SRTA Board & TAC Mtgs.*	704.01
		Review Corridor Studies & Projects*	707.01

*This activity appears to be in line with the Agreement work elements 704.01 and 707.07

Billing for costs not in accordance to the PPM agreement are disallowed. Based on our review of the fourth billing, A&I determined a total of \$76,569 of ineligible PPM funds were used for work elements that were not in line with the FY 2012/13 PPM Agreement.

RECOMMENDATION

We recommend SRTA:

- Reimburse Caltrans \$76,569 for disallowed costs. Of the \$76,569, it should be noted \$1,805 (Vestra \$618 + DKS \$1,077 + \$110) is included in finding 1 above.
- Develop and implement PPM Fund policies and procedures which would strengthen the contract management and oversight of the program funds.
- Ensure that future subconsultants substantiate the project costs incurred by the fund recipients are in compliance with the PPM agreement.
- Comply with Caltrans PPM Agreement:
 - The agency shall prepare a PPM plan, which will become a part of the Fund Transfer Agreement, titled Attachment A.
 - This plan is a one or two page summary outline of the major activities and, where appropriate, sub activities that will be accomplished with the current year PPM fund allocation. The plan shall outline the specific activities the agency plans to implement. Indicate the approximate time period and cost for each major agency.
 - Indicate a single or multi-year plan for this specific allocation and the anticipated date of completion of all expenditures.
 - Fund allocations for future years should not be requested until this plan's expenditures are near completion.
 - Expenditures must be completed no later than two years after the fiscal year of allocation.
 - Details of a plan should be consistent with the activities proposed and funding received.

AUDITEE'S RESPONSE

Findings

SRTA respectfully submits that Caltrans is incorrect in their findings. Costs charged to PPM for the period October 1, 2013 through December 31, 2013 were invoiced on PPM 13-6093(037) and not PPM 12-6093 (34) as represented by Caltrans. PPM 12-6093 (034) had been exhausted by June 30, 2013. The invoices in question need to be compared to the Attachment A in PPM 13-6093(037) which contains language in covering the invoices in question.

Caltrans states, "The agreement in part states "Administering agency agrees: to use state funds only for eligible PPM project specific work activities as defined in Attachment A of this agreement." This is, in fact, true and accurate.

The six specific Work Elements presented in 2011/2012 PPM Agreement PPM 12-6093(034) Attachment A only cover work activities of said work elements for the period 7/1/11 – 6/30/2012 (PPM 12-6093(034) Attachment A) incorrectly list the fiscal year as 2012-13)). According to FY 12/13 OWP and FY 13/14 OWP, work activities listed in 2011/2012 PPM Agreement PPM 12-6093(34) Attachment A have either been fully spent in FY 12/13 or have been incorporated into the FY 13/14 OWP work elements with similar products and tasks, but different work element numbers. Though the numbers of the work elements had changed the planning work agreed to perform with PPM funds was continued and accomplished in the FY 13/14 OWP.

Specifically, the following work elements which appeared in OWP FY 12/13 and 2011/2012 PPM Agreement PPM 13-6093(034) Attachment A had completely expended PPM dollars in FY 12/13. Also, to note, similar planning work shows up in the FY 13/14 OWP work elements but was funded solely with FHWA PL dollars as the PPM funds that were exhausted in FY 12/13 rendering these work elements out of question:

Attachment A Work Elements	PPM dollars Spent	Work Elements similar planning work occurred
WORK ELEMENT 702.02	Fully Expended in FY 12/13	WORK ELEMENT in FY 13/14 – 702.02 (PL)
WORK ELEMENT 705.03	Fully Expended in FY 12/13	WORK ELEMENT in FY 13/14 - 705.01 (PL)
WORK ELEMENT 706.02	Fully Expended in FY	WORK ELEMENT in FY 13/14 – 706.02 & 706.03 (PL)

As for the remaining three work elements identified in the 2011/2012 PPM Agreement PPM 12-6093(034) Attachment A, the planning work had been carried over from FY OWP 12/13 to FY OWP 13/14 in the following table provided below. As stated above, the specific work elements detailed in 2011/2012 PPM Agreement PPM12-6093(034) and Attachment A were for the period of 7/1/12 – 6/30/2013. The work identified in 2011/2012 PPM Agreement PM 12-6093(034) Attachment A specified work elements which not all PPM dollars has been spent were carried over to FY 13/14 OWP, but did not carry over the same work element number.

Attachment A Work Element	FY 12/13 OWP Work Element	FY 13/14 OWP Work Element
701.05	701.05	701.01, 701.02 701.07
704.01	704.01	704.01, 704.04
707.01	707.01	701.08

It is the opinion of SRТА according to the evidence provided above the costs identified by A&I as disallowed were in fact allowable and in line with the Overall Work Program and Planning Programming and Monitoring agreements. We contest the planning work performed and the dollars spent performing this work were not in line with the FY 12/13 OWP, FY 13/14 OWP and Attachment A of the 2011/2012 PPM Agreement, PPM12-6093(034) Attachment A. The planning work completed, and the dollars spent on said work fulfill the goals and objectives of both programs. Additionally, 2011/2012 PPM Agreement, PPM 12-6093(034) Attachment A specifically called out work elements for PPM dollars to be spent and correspondingly listed specific dates which these particular work elements planning work would be performed. The invoice and identified dates by Caltrans fall outside the identified dates in PPM 12-6093 (034) Attachment A and therefore are not a valid argument, finding and or recommendation.

SRТА agrees the distribution of work from 2011/2012 PPM Agreement PPM 12-6093(034) Attachment A, FY OWP 12/13 and FY OWP 13/14 was not clearly identified throughout the three documents. But, contends the work was carried through in all documents and agreements with original identified planning work being completed. Agreements between SRТА and

Caltrans need to be better monitored and provide clear and accurate guidance for future PPM agreements. SRTA will work with Caltrans District 2 and Caltrans HQ to ensure procedures in future years are clear and carefully followed.

In conclusion, facts and evidence provided should prove adequate to reverse the recommendations of reimbursing Caltrans \$76,569 for identified disallowed costs. SRTA currently is working on completing the other three findings and will work with Caltrans District 2 and Caltrans HQ to fully resolve the remaining recommendations.

Recommendations

SRTA respectfully disagrees with the following recommendation because the incorrect funding year was used by Caltrans in their findings:

- Reimburse Caltrans \$76,569 for disallowed costs. Of the \$76,569, it should be noted \$1,805 (Vestra \$618 + DKS \$1,077 + \$110) is included in finding 1 above.

SRTA has implemented the following recommendations with use of sub-recipient agreements:

- Ensure that future subconsultants substantiate the project costs incurred by the fund recipients are following the PPM agreement.
- Develop and implement PPM Fund policies and procedures which would strengthen the contract management and oversight of the program funds.

SRTA agrees with the following recommendations:

- Comply with Caltrans PPM Agreement:
- The agency shall prepare a PPM plan, which will become a part of the Fund Transfer Agreement, titled Attachment A.
- This plan is a one or two-page summary outline of the major activities and, where appropriate, sub activities that will be accomplished with the current year PPM fund allocation. The plan shall outline the specific activities the agency plans to implement. Indicate the approximate period and cost for each major agency.
- Indicate a single or multi-year plan for this specific allocation and the anticipated date of completion of all expenditures.
- Expenditures must be completed no later than two years after the fiscal year of allocation.
- Details of a plan should be consistent with the activities proposed and funding received.

SRTA respectfully disagrees with the following recommendation based on the historical uncertainties of PPM funding:

- Fund allocations for future years should not be requested until this plan's expenditures are near completion.

ANAYLSIS OF AUDITEE'S RESPONSE

FINDING 5 – Unallowable Indirect Costs Billed to Caltrans

SRTA improperly billed and was reimbursed by Caltrans for indirect costs on work SRTA performed for Department of Conservation (DOC). In our review of SRTA's fourth billing we identified \$3,542 of indirect costs on work SRTA performed for DOC. Upon further review of the schedule of costs provided by SRTA we found that SRTA also billed Caltrans for indirect costs in the amount of \$27,556 for the time period from December 31, 2012, through June 30, 2015 for work SRTA performed for DOC. These indirect costs are disallowed.

Per discussions with SRTA staff, the DOC does not allow indirect costs to be billed to the DOC grant. To re-coup the indirect costs, SRTA billed the Division of Local Assistance (DLA) PPM funds for the indirect costs which is in violation of Caltrans' Agreements and 2 CFR 225. The ICAP certifications signed by SRTA state in part "all costs included in this proposal are properly allocable to federal and state awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements". Further, 2 CFR part 225 Appendix A, Section C.3.c states, "Any cost allocable to a particular federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons."

RECOMMENDATION

We recommend SRTA:

- Reimburse Caltrans \$31,098 (\$3,542 + \$27,556) for disallowed costs identified above. It should be noted that \$3,542 of the \$31,098 identified above is also included in the \$76,569 of disallowed costs identified in finding 4.
- Develop and implement PPM Fund policies and procedures which would strengthen the contract management and oversight of the program funds and in accordance with the Caltrans Agreement.

AUDITEE'S RESPONSE

Findings

SRTA staff respectfully disagrees with Caltrans Audits and Investigations recommendation of reimbursement of disallowed costs. SRTA staff was aware that the Department of Conservation (DOC) grant did not provide for reimbursement of indirect costs, per the grant application and

award. In recognition of this, SRTA staff budgeted the Planning, Programming and Monitoring funds (PPM) for supplementing the project.

Caltrans Audits and Investigations appears to believe that since these indirect costs were not allowed by DOC within the grant fund source, then PPM funding may not be used for indirect costs. However, their citation to 2 CFR part 225 Appendix A, Section C.3.c. appears not to support this conclusion.

2 CFR part 225 Appendix A, Section C.3.c states, "Any cost allocable to a particular federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons." This reference is to a **federal award overcoming another federal award deficiency**. This is not the case in this situation, since PPM funds received by SRTA are not federal funds. Due to the small amount of funding received by SRTA for PPM, PPM funds are delivered to SRTA as state-only funds. Furthermore, the DOC award is another state funding award. In summary, a state funding source (DOC grant) and another state funding source (PPM) were used for the activity. Therefore, SRTA staff firmly believes that this finding is unfounded based on its federal citation reference.

Caltrans Audits and Investigations subsequently noted in a response to SRTA staff questions that "Since SRTA is a local agency and developed an ICAP that relates to state and federal awards 2 CFR 225 applies even though this was a direct billing to the department." As stated immediately above, PPM funds are state-only funds to SRTA. In the 2015 Caltrans Master Agreement with Caltrans, which would be the applicable agreement for SRTA's use of PPM funds, there appears to be no limitations for using state funds in conjunction with another state award, or with another federal award, for that matter. In fact, Article 1. Section 7. of that agreement indicates, "Projects allocated with STATE FUNDS from the STIP will be administered in accordance with the current CTC STIP Guidelines, as adopted or amended and in accordance with Chapter 23 of the Local Assistance Program Guidelines (LAPG) published by STATE. Further, Chapter 23.2.3 State-Only Funding of the Caltrans LAPG says, "The CTC will assume that all projects will meet federal requirements unless state-only (nonfederal) funding has been approved."

The above Caltrans Audits and Investigations finding alters the provisions and interpretation of Federal statute to apply them to a situation which has no direct relevance to the original statute. SRTA staff recommends that Caltrans, Audits and Investigations research this further.

Recommendations

SRTA respectfully disagrees with the following recommendation based on the above-mentioned criteria:

- Reimburse Caltrans \$31,098 (\$3,542 + \$27,556) for disallowed costs identified above. It should be noted that \$3,542 of the \$31,098 identified above is also included in the \$76,569 of disallowed costs identified in finding 4.

SRTA respectfully disagrees with the following recommendation as SRTA has policies and procedures in place to monitor PPM funds.

- Develop and implement PPM Fund policies and procedures which would strengthen the contract management and oversight of the program funds and in accordance with the Caltrans Agreement.

ANAYLSIS OF AUDITEE'S RESPONSE

Sincerely,

A handwritten signature in blue ink, appearing to read "David L. Wallace", is written over a horizontal line.

David L. Wallace CFO
Shasta Regional Transportation Agency (MPO)