

San Joaquin Joint Powers Authority Incurred Cost Audit



Audit Report

May 2018

PREPARED BY:

California Department of Transportation
Independent Office of Audits and Investigations – MS 2
Post Office Box 942874
Sacramento, California 94274-0001
www.dot.ca.gov/hq/audits

AUDIT TEAM

MarSue Morrill, Chief, External Audits-Local Governments
Luisa Ruvalcaba, Audit Manager
Kyungsun Gardiner, Auditor
Lin Zhang, Auditor

P1575-0054

TABLE OF CONTENTS

SUMMARY	1
OBJECTIVES	1
SCOPE	1
METHODOLOGY	2
BACKGROUND	2
VIEWS OF RESPONSIBLE OFFICIALS	2
FINDINGS AND RECOMMENDATIONS	4
FINDING 1 – Unsupported and Questioned Costs	4
FINDING 2 – Accounting System Weaknesses and Errors	6
FINDING 3 – Procurement Practices Need Improvement	9
ATTACHMENTS	
I. San Joaquin Joint Powers Authority’s Response to Audit Findings	

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

SUMMARY

The California Department of Transportation (Caltrans), Independent Office of Audits and Investigations (A&I), audited contract costs totaling \$4,460,686 advanced to the San Joaquin Joint Powers Authority (San Joaquin JPA). We found that San Joaquin JPA was reimbursed for questioned procurement costs of \$88,052 and unsupported copy machine costs of \$9,558. In addition, we identified weaknesses in their accounting system and procurement processes.

OBJECTIVES

The audit was performed to determine whether project costs claimed by San Joaquin JPA were allowable, supported, and in compliance with respective agreement provisions, San Joaquin JPA's policies and procedures and state and local regulations. The audit included costs incurred under Interagency Transfer Agreement (Agreement) number 75RSJJPA2015ITA between Caltrans and San Joaquin JPA. Our audit period was from July 1, 2015 through March 31, 2017.

SCOPE

We conducted an incurred cost audit of San Joaquin JPA's costs charged to the Agreement between Caltrans and San Joaquin JPA to determine if costs were in compliance with the Agreement, and applicable laws and regulations. Further, we accessed San Joaquin JPA's financial management system to determine if it is capable of accumulating, segregating, and allocating costs. The audit was limited to financial and compliance activities.

We limited our scope to requirements in the Agreement, and applicable state laws and regulations. Due to ambiguity in the language included in the Agreement we did not apply the cost principles set forth in 2 Code of Federal Regulations 200. Recommendations to clarify the ambiguous language will be reported to Caltrans management in a separate management memorandum. Our fieldwork was completed on November 21, 2017 and transactions occurring after this date were not tested and, accordingly, our conclusion does not include costs or credits arising after this date.

San Joaquin JPA is responsible for the claimed costs, compliance with applicable agreement provisions, state and local laws and regulations. San Joaquin JPA is also responsible for the adequacy of their 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 or procedures may deteriorate.

METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during the audit provides a reasonable basis for our findings and conclusions. The audit was less in scope than an audit performed to express an opinion on the financial statements of San Joaquin JPA. Therefore, we did not audit and are not expressing an opinion on San Joaquin JPA's financial statements.

The audit of San Joaquin JPA's financial management system included interviews of San Joaquin JPA staff to obtain an understanding of San Joaquin JPA's financial management system. The audit comprised transaction testing of costs to evaluate compliance requirements stipulated in San Joaquin JPA's Agreement with Caltrans.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made by San Joaquin JPA, and evaluating the overall presentation of costs claimed.

BACKGROUND

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

CONCLUSION

Based on our audit, we determined that San Joaquin JPA:

- Received advanced payment from Caltrans for questioned procurement costs of \$88,052 and unsupported copy machine costs of \$9,558.
- Has weaknesses in their Accounting system and procurement processes.

VIEWS OF RESPONSIBLE OFFICIALS

Our findings and recommendations consider San Joaquin JPA's response dated April 20, 2018 to our April 9, 2018 draft report. Our findings and recommendations, San Joaquin JPA's response, and our analysis of the response are set forth in the Findings and Recommendations of this report. A copy of San Joaquin JPA's full written response is included as Attachment I.

This report is intended as information for Caltrans management, California Transportation Commission, and San Joaquin JPA. The report is a matter of public record and will be placed on Caltrans' website, which can be viewed at <www.dot.ca.gov/audits/INC.html>.

If you have questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.



MARSUE MORRILL, CPA

Chief

External Audits – Local Governments

Independent Office of Audits and Investigations

May 15, 2018

FINDINGS AND RECOMMENDATIONS

FINDING 1 – Questioned and Unsupported Costs

Questioned Costs

San Joaquin Joint Powers Authority (San Joaquin JPA) awarded a contract to Providence Strategic Consulting, Inc. (PSC) although PSC's proposal was received after the proposal due date of December 23, 2015. PSC's proposal was received by San Joaquin JPA on December 28, 2015. According to San Joaquin JPA, the late proposal was accepted since it was mailed on time and was to be delivered on time. San Joaquin JPA considered the late submission an "informality" or "irregularity" which according to San Joaquin JPA's procurement manual may be waived. By accepting the late proposal, San Joaquin JPA gave an unfair advantage to PSC. PSC did not meet the Request for Proposal (RFP) submission requirements, and therefore received preferential treatment. As a result, Caltrans paid for services that may not have provided the best benefit. As of March 31, 2017, San Joaquin JPA had paid \$88,052 to PSC for services received.

California Public Contract Code 10344. (a) states in part, "...State agencies that use a procedure that makes use of a request for proposal shall evaluate proposals and award contracts in accordance with the provisions of subdivision (b) or (c). No proposals shall be considered that have not been received at the place, and prior to the closing time, stated in the request for proposal..."

RFP for solicitation No. 16-J-27-00 states in part, "Proposals must be received at the office of San Joaquin Regional Rail Commission at or before 2:00 P.M. on December 23, 2015".

Unsupported Costs

San Joaquin JPA billed the California Department of Transportation (Caltrans) copy machine costs of \$9,558 without documentation to verify the costs were directly associated to San Joaquin JPA's activities. The copy machine was shared among three entities, and the costs were allocated based on budgeted labor not actual usage (e.g. usage logs). Therefore, the actual costs pertaining to San Joaquin JPA cannot be determined and Caltrans runs the risk of paying for costs not attributable to San Joaquin JPA.

Section 5.2 of the Managing Agency Agreement between San Joaquin JPA and San Joaquin Regional Rail Commission (San Joaquin RRC) states in part, "...Managing Agency shall prepare and submit monthly invoices to the State for the actual costs ...invoices shall include all of the Managing Agency's charges relating to its services to the San Joaquin JPA. Such invoices shall indicate the Managing Agency's rates, costs, and reimbursable expenses..."

RECOMMENDATION

We recommend:

- Caltrans, Division of Rail and Mass Transportation (DRMT), work with San Joaquin JPA to determine if any of the \$88,052 PSC billed costs identified above should be repaid to Caltrans.
- San Joaquin JPA credit Caltrans \$9,558 for the unsupported copy machine costs identified above.

SUMMARY OF SAN JOAQUIN JPA RESPONSE

The San Joaquin RRC, as the managing agency for the San Joaquin JPA who incurred and billed all costs to San Joaquin JPA, responded to the audit findings in lieu of San Joaquin JPA.

Questioned Costs: PSC

During the week of the deadline, there were several severe weather storms throughout the country that caused major delays in shipping. An unfair advantage was not given to PSC since seven (7) proposals were received after the due date under the same parameters that San Joaquin JPA Legal approved the irregularity.

Corrective Actions: The San Joaquin RRC will improve established procedures by determining language to be added to the solicitations to allow for exemptions that are out of the San Joaquin RRC's or Proposer's control, like the weather. The San Joaquin RRC is in the process of updating the Procurement Manual to allow for more guidance.

Unsupported Costs: Copier Charges

The San Joaquin RRC does not concur and determined that both direct and indirect costs billed to San Joaquin JPA are allowable, measurable and materially correct. The San Joaquin RRC, as the Managing Agency, will review the feasibility of required department codes for the San Joaquin JPA charges.

Corrective Action: The San Joaquin RRC will request clarification on the requirement to remit monthly invoices to the State of California, as the funding for this program are on an advance payment schedule, and it has been communicated by DRMT that quarterly reconciliations are the required method of reporting financial expenditures.

See Attachment 1 for complete response.

ANALYSIS OF SAN JOAQUIN JPA'S RESPONSE

Questioned Costs: PSC

The "seven proposals" San Joaquin RRC referred to includes late proposals for other procurements. Based on our review of the selected contract, two out of four proposals, which include PSC's proposal, were submitted after the deadline. PSC received unfair advantage compared to the firms who submitted their proposals on time. The finding remains as stated.

Unsupported Costs: Copier Charges

San Joaquin RRC allocates the copy machine costs to San Joaquin JPA based on budgeted labor, but San Joaquin JPA did not show how the budgeted labor is substantiated. The allocation methodology is not acceptable since the usage of copy machine does not relate to labor. The finding remains as stated.

If DRMT approves the quarterly invoice submission process, we recommend the San Joaquin JPA amend the Managing Agency Agreement to update the invoice process.

FINDING 2 – Accounting System Weaknesses and Errors

San Joaquin JPA's accounting system contains several weaknesses and errors as noted below:

- San Joaquin JPA billed their payroll and fringe benefits costs monthly to Caltrans based on the established budget rather than at actual cost as required by the Agreement. San Joaquin JPA did record actual usage hours on their timesheets, and actual total costs were determined after the fact by performing a reconciliation between budgeted and actual costs. Based on this reconciliation, the variance between the billed budgeted costs and the actual costs were billed/credited to Caltrans at the end of the year. This practice is not in accordance with the Agreement and puts Caltrans at risk of not being billed appropriately.

In addition, during our labor testing of pay period February 20, 2017 to March 3, 2017, several errors were noted with San Joaquin JPA's accounting system and budget to actual reconciliation process as follows:

- Hours reported on timesheets did not always agree to hours reported on the payroll register.
- Payroll corrections were not adjusted in the pay period when incurred. Rather, they were entered during the pay period the error was discovered.
- Costs for overtime and vacation pay were not calculated consistently during the reconciliation of payroll and fringe benefits.
- Vacation costs incurred were mischarged to incorrect pay periods.
- Payroll and fringe benefit costs for two different payroll periods were used to calculate the payroll and fringe benefits cost reconciliation adjustment.

The weaknesses noted above in San Joaquin's timesheet submission and reconciliation processes put Caltrans at risk of being overbilled by San Joaquin JPA for labor and fringe benefit costs.

Section 3.2.2 of Appendix D - Master Fund Transfer Agreement of Agreement states in part, *"San Joaquin JPA shall establish and maintain, and shall require that its sub recipients, contractors and subcontractors shall establish and maintain, an accounting system conforming to GAAP to support Requests for Reimbursement which segregate and accumulate the costs of work elements by line item (i.e. direct labor, other direct costs, sub-recipients/subcontractors, etc.) and enable the determination of expenditures at interim points of completion, and provide support for reimbursement payment vouchers or invoices."*

Section 5.2 of Managing Agency Agreement between San Joaquin JPA and San Joaquin RRC states in part, “...*Managing Agency shall prepare and submit monthly invoices to the State for the actual costs ...invoices shall include all of the Managing Agency's charges relating to its services to the San Joaquin JPA. Such invoices shall indicate the Managing Agency's rates, costs, and reimbursable expenses ...*”

- San Joaquin RRC, San Joaquin JPA’s administrative agency, did not submit monthly invoices for services performed on behalf of San Joaquin JPA. Instead, when San Joaquin JPA and San Joaquin RRC shared employees who perform accounting services, accounting system adjustments were entered instead of an actual monthly invoice preparation. This puts Caltrans at risk of being overbilled by San Joaquin JPA if actual costs were not billed by San Joaquin RRC.

Section 5.2 of Managing Agency Agreement between San Joaquin JPA and San Joaquin RRC states in part, “...*Managing Agency shall prepare and submit monthly invoices to the State for the actual costs ...invoices shall include all of the Managing Agency's charges relating to its services to the San Joaquin JPA. Such invoices shall indicate the Managing Agency's rates, costs, and reimbursable expenses...*”

- San Joaquin JPA billed Caltrans labor costs for two positions that were not listed on the fee schedule of the original agreement or subsequent amendments that San Joaquin JPA had with the Jeffrey Scott Agency (JSA). One position appears to be justified as it was a replacement for a more qualified individual, but there was no communication or documentation between JSA and San Joaquin JPA regarding justification or approval for the replaced position. In addition, there was a second position titled “Sound”, which was not included on a fee schedule but was included on an invoice that was paid. San Joaquin JPA staff did not verify that only charges allowed and included in the contractual agreement with JSA were approved and billed. By not verifying that only allowable costs are included on contractor invoices, Caltrans runs the risk of paying additional unallowable costs.

Agreement No. 16-J-33-00 between San Joaquin JPA and JSA section 5.1 states, "*San Joaquin JPA agrees to compensate Consultant for the services provided under this Agreement, and Consultant agrees to accept in full satisfaction for such services, payment in accordance with the Approved Fee Schedule (Attached as Exhibit B)*".

- San Joaquin JPA reported and billed Caltrans for what was identified as a credit card payment of \$6,111 but in actuality the payment was to replenish a bank account for future health insurance payments. This resulted in both billing Caltrans for future health insurance payments before they were incurred, and in a misallocation of funds. San Joaquin JPA did not ensure that the costs billed by San Joaquin RRC were accurately identified. This effectively puts Caltrans at risk of paying for costs not incurred by San Joaquin JPA. The agreement between San Joaquin JPA and San Joaquin RRC states in section 5.2, "*The Managing Agency shall prepare and submit monthly invoices to the State for the actual costs for administration, marketing, and operations. These invoices shall include all of the Managing Agency's charges relating to its services to the San Joaquin JPA*".

RECOMMENDATION

We recommend the San Joaquin JPA:

- Establish and follow written procedures for the budget to actual reconciliation of labor and fringe benefit costs.
- Perform the budget to actual reconciliation of the labor and fringe benefit costs before San Joaquin JPA submits the monthly invoice to Caltrans to ensure billed costs are actual.
- Require San Joaquin RRC to submit to San Joaquin JPA invoices that include actual costs incurred and reimbursed costs of services provided to San Joaquin JPA.
- Establish procedures to ensure San Joaquin JPA staff is aware of contract terms and only reimburse consultants/contractors for services received in accordance with the contract terms.

SUMMARY OF SAN JOAQUIN JPA'S RESPONSE

Accounting System Weaknesses and Errors

The determination that there were weaknesses in the accounting system is based on limited understanding and documentation of the processes. Numerous items about the accounting system's ability to accumulate, segregate and allocate allowable costs have not been documented correctly.

Corrective Action: The San Joaquin RRC will draft a written procedure for the reconciliation of labor costs and will request clarification on the requirement to remit monthly payments as well as the requirement to prepare a separate invoice from the San Joaquin RRC to the San Joaquin JPA.

Labor Costs for "Sound"

The San Joaquin RRC acknowledges that the Project Manager provided verbal authorization and approved the invoice for the "sound" cost. The consultant for the contract communicated with the Project Manager that the hours spent for "Sound" would be in lieu of hours already identified in the price proposal under "Hispanic Marketing Specialist". By exchanging hours for the work, no additional hours were used and the contract did not go over the not-to-exceed amount. Verbal authorization was given to the consultant for the one time change to accommodate a Hmong outreach event. Since attending outreach events was part of the consultant scope of work, the exchange of hours was not considered a cardinal change. A cardinal change, i.e. a management change or permanent staff change, would have been approved in writing.

Corrective Actions: The San Joaquin RRC does have proper procedures in place to ensure that SJJPA is not overbilled. To improve established procedures, the San Joaquin RRC has added procedures for communicating in writing any deviation from the agreements. The San Joaquin RRC is in the process of updating the Procurement Manual to allow for more guidance.

Please see Attachment 1 for complete response.

ANAYLSIS OF SAN JOAQUIN JPA'S RESPONSE

Accounting System Weaknesses and Errors

The audit manager was able to get an accurate understanding of San Joaquin RRC's financial management system once a walkthrough was provided. The uniqueness and complexity of San Joaquin RRC's financial management system is not at issue, however. At issue are some deficiencies identified with an understanding of their system. Therefore, the finding remains as stated.

Labor Costs for "Sound"

JSA had already billed labor costs for "Hmong Marketing Specialist" in lieu of the "Hispanic Marketing Specialist" in addition to the labor costs for "Sound" without approval. We determine "Hmong Marketing Specialist" may perform similar work as a "Hispanic Marketing Specialist" and determined it is justifiable; however, support and approval was not provided to justify a "Sound" position. Therefore, the finding remains as stated.

San Joaquin RRC did not respond to the finding on charging advanced payment to replenish a bank account for future health insurance payment.

FINDING 3 – Procurement Practices Need Improvement

During our audit we determined that San Joaquin JPA did not always adhere to their procurement procedures. Specifically, we noted:

- San Joaquin JPA did not evaluate proposals based on price as required in their procedures when procuring contracts with ProProse, LLC and Providence Strategic Consulting, Inc. Instead, San Joaquin JPA's evaluation form included criteria to evaluate the "**Value Provided for the Budget**" for which there was no guidance or procedures for evaluating based on that method. Additionally, San Joaquin JPA included the project budget amount on the Request for Proposal. Advertising the budget cap up front limits incentive for prospective respondents to submit competitive cost proposals. As a result, Caltrans runs the risk of not being billed a fair and reasonable price for procurements.

San Joaquin JPA Procurement Manual Section 1.5.3 states, "*A Request for Proposals is issued, and proposals are evaluated based upon qualitative factors in addition to price*".

- San Joaquin JPA did not document management approval and legal counsel's consultation as required by their procurement procedures when procuring three sole source contracts. Without proper approvals for sole source contracts, San Joaquin JPA cannot justify or support that the non-competitively bid contracts were the best value. As of March 31, 2017 the following consultant costs were paid:

Consultant	Costs Paid
Jones & Stokes, Inc.	\$ 7,150
Angela Miller	\$ 13,950
Bay Area Council Economic Institute	\$ 10,000
Total	\$ 31,100

San Joaquin JPA Procurement Manual Section 7.1.2 states, "Single Source procurements will be processed as Sole Source purchases. The Procurement Officer and Director of Planning, Programming, and Operations, after consultation with San Joaquin RRC Legal Counsel, may make Single Source determinations", Section 7.3.2 states, "In circumstances where services are needed on an expedited basis that do not permit the time required for the RFP process, the Executive Director may waive such procedures, provided there is adequate documentation of the need for such services" and Section 7.3.3 states, "A Sole Source procurement requires consultation with Legal Counsel to ensure compliance with federal and state contracting rules".

- San Joaquin JPA did not verify debarment and suspension status before executing contracts with ICF Jones & Stokes, Inc. and Angela Miller as required by their procurement. Without verifying debarment and suspension status, the San Joaquin JPA increases the risk of contracting with unqualified business entities whose costs could be passed on to Caltrans.

San Joaquin JPA Procurement Manual Section 3.1.8 requires and states, "A review of the General Service Administrations Listing of Excluded Parties from Federal Procurement or Non-procurement Programs to insure a prospective contractor is not listed".

RECOMMENDATION

We recommend the San Joaquin JPA:

- Update their procurement manual to allow evaluating proposals based on "Value Provided for the Budget" and develop a standardized process for the evaluation.
- Train staff and ensure adherence to established procurement policies and procedures, specifically for sole source contracting and verifying debarment and suspension.

SUMMARY OF SAN JOAQUIN JPA'S RESPONSE

"Value Provided for the Budget"

Since the budget would be a part of the solicitation, stating that the "Value Provided for the Budget" potential proposers would understand better how they were to be evaluated. Also, the

San Joaquin RRC determined that the title "Value Provided for the Budget" fell under the umbrella term of "Price".

Corrective Actions: The San Joaquin RRC will not use any other titles besides "Price" when releasing solicitations so as to alleviate any confusion. The San Joaquin RRC is in the process of updating the Procurement Manual to allow for more guidance.

Sole Source Contracts

The San Joaquin RRC followed the procurement procedures for executive approval and legal consultation. Executive approval occurs in the requisition process for all purchases and legal was consulted over the phone. The documentation of executive approval can be found in the requisition notes.

Corrective Actions: The San Joaquin RRC improved the sole source documentation related to sole source justification documentation and requires legal and executive signatures on sole source purchases. Please see attached documentation from legal confirming that they were consulted in FY15/16. Also, attached are updated sole source justifications that were provided in November 2017 as part of the audit responses. (Attachments included are included with Attachment 1 to the report.) The San Joaquin RRC is in the process of updating the Procurement Manual to provide more guidance.

Debarment and Suspension

In December 2016, the San Joaquin RRC was made aware that San Joaquin JPA's contracts fell under Federal Guidelines for Procurement. The San Joaquin RRC immediately corrected the potential deficiency by reviewing all previously awarded San Joaquin JPA contracts to pull the debarment and suspension.

Corrective Actions: San Joaquin RRC immediately implemented corrective actions in response to the potential findings from December 2016. The Commission is in the process of updating the Procurement Manual to allow for more guidance.

See Attachment 1 for complete response.

ANAYLSIS OF SAN JOAQUIN JPA'S RESPONSE

"Value Provided for the Budget"

We agree with San Joaquin RRC's suggested corrective action.

Sole Source Contracts

During our audit we found, in addition to the undocumented legal consultation for all sole source procurements, the approvals from the Executive Director of Planning, Programming, and Operations (management approval) were also missing in our test of single source procurement process. Our audit finding relates to what we found at the time of our audit. Any subsequent procurement processes were not reviewed.

Debarment and Suspension

We appreciated San Joaquin JPA indicating they reviewed debarment and suspension after the fact. The recommendation to review for debarment and suspension prior to execution remains as stated.



April 20, 2018

*Dedicated to
passengers*

California Department of Transportation
Independent Office of Audits and Investigations – MS2
Post Office Box 942874
Sacramento, California 94274-0001

*Responsive
to change*

*Committed
to growth*

Agency Responses to Incurred Cost Audit

1. Questioned Costs: PSC

Commissioners

Agency Response: Seven (7) solicitations were due the week of December 20, 2015. During the week, there were several severe weather storms throughout the country that caused major delays in shipping. Per the request of many potential proposers, the Commission followed the Procurement Manual and consulted with Legal regarding what was deemed an irregularity. The acceptance of late proposals was an isolated incident that was a result of weather. An unfair advantage was not given to PSC since a total of seven (7) proposals were received after the due date under the same parameters that Legal approved the irregularity. The seven (7) proposals that were received under the same irregularity were evaluated.

*Steve Dresser
City of Lathrop*

*Bob Elliott
San Joaquin County*

*Bob Johnson
City of Lodi*

Corrective Actions: The Commission complied with the Procurement Manual with regards to what was determined an irregularity. The Commission will improve established procedures by determining language to be added to the solicitations to allow for exemptions that are out of the Commission's or Proposer's control, like the weather. The Commission is in the process of updating the Procurement Manual to allow for more guidance.

*Debby Moorhead
City of Manteca*

*Leo Zuber
City of Ripon*

2. Unsupported Costs: Copier Charges

*Christina Fugazi
City of Stockton*

Agency Response: The San Joaquin Regional Rail Commission, as the Managing Agency for the San Joaquin Joint Powers Authority (SJJPA), in response to the Incurred Cost Audit conducted by the Department of Transportation, Independent Office of Audits and Investigations does not concur with the determination of unsupported costs in Finding 1, Unsupported Costs for billings of copiers in the amount of \$9,558. The Commission has determined both direct and indirect costs, that are both allowable, measurable and materially correct. At various points during the engagement it was suggested that the SJJPA obtain its own separate copier machines, which would be both fiscally excessive and unnecessary in cost/benefit, as well as unfeasible given space constraints. The Commission, as the Managing Agency will review the feasibility of required department codes for the SJJPA charges.

*Executive Director
Stacey Mortensen*

Corrective Action: The Commission will request clarification on the requirement to remit monthly invoices to the State of California, as the funding for this program are on an advance payment schedule, and it has been communicated by the Division of Rail that quarterly reconciliations are the required method of reporting financial expenditures.

3. Accounting System Weaknesses and Errors

During the course of the audit there were numerous instances when staff assigned applied inconsistent methodology, which resulted in a prolonged and haphazard approach to testing and resulted in an incomplete and frequently erroneous understanding and documentation of the Managing Agency, the JPA, and the nature of the transactions that were to be selected for testing. Further, due to inefficiencies in managing documentation, items that were requested were required to be submitted multiple times and explained continually, with proper responses still demonstrating that areas and procedures were still misunderstood by Audits and Investigation staff.

The determination that there were weaknesses in the accounting system is based on limitations of staff assigned to this engagement properly understand and document processes that have been subject to various audits since the inception of the San Joaquin Regional Rail Commission. Appropriate planning and supervision of staff for extended period of time, as well as overall methodology of the criteria that would be used was insufficient to result in a adequately planned and executed engagement. At the close of the engagement it was noted that a supervisor with requisite skill and expertise in the area of incurred costs testing was assigned, but the engagement had been conducted to such an extent that numerous items had already been documented in error. Initial documentation concerning the accounting systems ability to accumulate, segregate and allocate allowable costs.

Corrective Action: The Commission will draft a written procedure for the reconciliation of labor costs and will request clarification on the requirement to remit monthly payments as well as the requirement to prepare a separate invoice from the Commission to the SJJPA.

4. Finding: Labor Costs for "Sound"

Agency Response: The Commission acknowledges that the Project Manager provided verbal authorization and approved the invoice for the "sound" cost. The consultant for the contract communicated with the Project Manager that the hours spent for "Sound" would be in lieu of hours already identified in the price proposal under "Hispanic Marketing Specialist". By exchanging hours for the work, no additional hours were used and the contract did not go over the not-to-exceed amount. Verbal authorization was given to the consultant for the one time change to accommodate a Hmong outreach event. Since attending outreach events was part of the consultant scope of work, the exchange of hours was not considered a cardinal change. A cardinal change, i.e. a management change or permanent staff change, would have been approved in writing. This one time change was to accommodate language barriers at the

event which is reasonable considering that sending a "Hispanic Marketing Specialist" to a Hmong outreach event would not have been prudent.

Corrective Actions: The Commission does have proper procedures in place to ensure that SJJPA is not overbilled. To improve established procedures, the Commission has added procedures for communicating in writing any deviation from the agreements. The Commission is in the process of updating the Procurement Manual to allow for more guidance.

5. Finding: "Value Provided for the Budget"

Agency Response: The Commission determined at the time of the solicitation to include the budget for the project. Since the budget would be a part of the solicitation, stating that the "Value Provided for the Budget" potential proposers would understand better how they were to be evaluated. The only guidance provided by the Procurement Manual lists "Price", the Commission determined that the title "Value Provided for the Budget" fell under that umbrella term.

Corrective Actions: The Commission will not use any other titles besides "Price" when releasing solicitations so as to alleviate any confusion. The Commission is in the process of updating the Procurement Manual to allow for more guidance.

6. Finding: Sole Source Contracts

Agency Response: The Commission followed the procurement procedures for Executive approval and Legal consultation. Executive approval occurs in the Requisition process for all purchases and Legal was consulted over the phone. The documentation of Executive approval can be found in the Requisition notes.

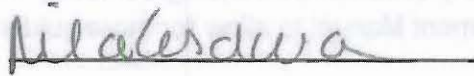
Corrective Actions: The Commission improved the sole source documentation related to sole source justification documentation and requires Legal and Executive signature on Sole Source purchases. Please see attached documentation from Legal confirming that they were consulted in FY1516. Also attached are updated sole source justifications that were provided in November 2017 as part of audit responses. The Commission is in the process of updating the Procurement Manual to allow for more guidance.

7. Finding: Debarment and Suspension

Agency Response: In December 2016, the Commission was made aware that SJJPA contracts fell under Federal Guidelines for Procurement. The Commission was following the Procurement Manual procedures for State funded contracts since the funding comes from the State. The Commission immediately corrected the potential deficiency by reviewing all previously awarded SJJPA contracts to pull the debarment and suspension. None of the agreements reviewed were found deficient.

Corrective Actions: The Commission immediately implemented corrective actions in response to the potential findings from December 2016. The Commission, as part of the

procurement process, checks debarment and suspension on all contracts. The Commission is in the process of updating the Procurement Manual to allow for more guidance.



Nila Cordova

Director of Fiscal and Administration



Angela Miller

Senior Accountant

All of attachments from San Joaquin JPA's response have been reviewed and no new information was provided. Due to the size of the attachments, they are not included in the report, but can be provided upon request.