SAN FRANCISCO BAY AREA RAPID TRANSIT

Audit Report

PRE-AWARD AUDIT OF CALTRANS CONTRACT NO. 77A0044 (Audit Request No. P1560-0014)

July 1, 2014, through January 31, 2016

BETTY T. YEE
California State Controller

January 2017
MarSue Morrill, Chief
External Audits-Local Governments  
Audits and Investigations  
California Department of Transportation  
1304 O Street, Suite 200, MS 2  
Sacramento, CA 95814

Dear Ms. Morrill:

The State Controller’s Office (SCO) conducted a pre-award audit of San Francisco Bay Area Rapid Transit (BART) from July 1, 2014, through January 31, 2016. The audit was performed at the request of the California Department of Transportation (Caltrans) Audits and Investigations.

The purpose of the audit was to determine whether BART has (1) an adequate financial management system to accumulate and segregate project costs; (2) proper billing procedures compliant with the requirements provided in the Caltrans Local Assistance Procedure Manual (LAPM), Chapter 5; and (3) procurement policies and procedures that are in compliance with Title 2, Code of Federal Regulations, Part 200.

We determined that BART has an adequate financial management system to accumulate and segregate reasonable, allowable, and allocable direct and indirect costs, and that the project billings/reimbursements are in compliance with Caltrans LAPM, Chapter 5. Our audit also determined that BART is in compliance with applicable federal procurement policies and procedures.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

[Signature]

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as
cc: Tami M. Gill, Audit Manager
    External Audits-Local Governments
    Audits and Investigations (via email)
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Audit Report

Summary

The State Controller's Office (SCO) conducted a pre-award audit of San Francisco Bay Area Rapid Transit (BART) from July 1, 2014, through January 31, 2016.

The purpose of the audit was to determine whether BART has (1) an adequate financial management system to accumulate and segregate project costs; (2) proper billing procedures compliant with the requirements provided in the California Department of Transportation (Caltrans) Local Assistance Procedure Manual (LAPM), Chapter 5; and (3) procurement policies and procedures that are in compliance with Title 2, Code of Federal Regulations, Part 200 (2 CFR 200).

We determined that BART has an adequate financial management system to accumulate and segregate reasonable, allowable, and allocable direct and indirect costs, and that the project billings/reimbursements are in compliance with Caltrans LAPM, Chapter 5. Our audit also determined that BART is in compliance with applicable federal procurement policies and procedures.

Background

BART is a public agency created in 1957 by the California State Legislature for the purpose of providing an adequate, modern, interurban mass rapid transit system in the various portions of the metropolitan area surrounding the San Francisco Bay. BART began its revenue operations in September 1972. It presently owns a 104-mile, 44-station system serving the four counties of Alameda, Contra Costa, San Francisco and San Mateo. BART is regulated by the San Francisco Bay Area Rapid Transit District Act, as amended, and subject to transit district law as codified in the California Public Utilities Code. The disbursement of funds received by BART is controlled by statutes and by provisions of various grant contracts entered into with federal, state and local agencies.

The governance of BART is vested in a Board of Directors composed of nine members, each representing an election district within BART. Board members serve a four-year term. BART has requested an allocation of $78.639 million in High-Speed Passenger Train Bond Urban/Commuter Project funds from Caltrans for construction of the Hayward Maintenance Complex (HMC). HMC will provide expanded capacity for maintenance and warehouse activities for the future BART fleet.

The audit was performed by the SCO on behalf of Caltrans (Audit Request No. P1560-0014). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0044, dated June 1, 2014, between Caltrans and the SCO, which provides that the SCO will perform audits requested by Caltrans.
Objectives, Scope, and Methodology

We conducted this performance audit in accordance with the 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted the audit to determine whether BART has (1) an adequate financial management system to accumulate and segregate project costs; (2) proper billings procedures compliant with the requirements provided in Caltrans LAPM, Chapter 5; and (3) procurement policies and procedures that are in compliance with 2 CFR 200.

The scope of the audit was limited to select financial and compliance activities. The audit also included tests of individual accounts and transactions in the general ledger and supporting documentation to assess allowability, allocability, and reasonableness of costs, and an evaluation of the key internal control systems.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed the agency’s prior audit reports;
- Reviewed the agency’s written policies and procedures relating to financial management system, procurement, and project/contract/reimbursement management;
- Interviewed employees, completed internal control questionnaires, and performed walk-throughs in order to gain an understanding of the agency’s key internal controls, accounting information systems, timekeeping and payroll systems, procurement and billing processes; and
- Performed limited tests of controls on a judgmentally selected sample of transactions to confirm and validate existing documented processes and procedures.

We did not audit the agency’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the agency could properly manage federal and state funded projects. In addition to developing appropriate auditing procedures, our review of internal control was limited to gaining an understanding of the transactions flow, accounting information system, and applicable business controls to determine the agency’s overall ability to accumulate and segregate reasonable, allowable, and allocable project costs.
Conclusion

We determined that BART has an adequate financial management system to accumulate and segregate reasonable, allowable, and allocable direct and indirect costs, and that the project billings/reimbursements are in compliance with LAPM, Chapter 5, and procurement policies and procedures that are in compliance with 2 CFR 200. Our audit also determined that BART is in compliance with applicable federal procurement policies and procedures.

Views of Responsible Officials

We discussed our pre-award audit results with BART representatives during an exit conference conducted by telephone on April 28, 2016, and followed up on December 29, 2016. Terry Green, Internal Audit Department Manager, and John Love, Internal Audit Manager, agreed with the audit results. Mr. Green declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of BART, the California Department of Transportation, and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

January 18, 2017