DEPARTMENT OF TRANSPORTATION
AUDITS AND INVESTIGATIONS
P.O. Box 942874, MS-2
SACRAMENTO, CA 94273-0001
PHONE (916) 323-7111
FAX (916) 323-7141
TTY 711
www.dot.ca.gov

Serious drought.
Help Save Water!

July 15, 2014

Dr. Charles Lester
Executive Director
California Coastal Commission
45 Fremont Street, Suite 2000
San Francisco, CA 94105-2219

Dear Dr. Lester:

The California Department of Transportation (Caltrans) Audits and Investigations (A&I) completed an audit of the California Coastal Commission's Agreement 43A0295 (Agreement). The purpose of the audit was to determine whether costs incurred under the Agreement were in accordance with applicable state and federal laws and regulations as well as agreement provisions and whether the Commission is in compliance with the agreement's scope of work.

The scope of the audit was limited to financial and compliance activities related to the above referenced Agreement. The audit consisted of a review of the Agreement provisions, an assessment of the Commissions' financial management system related to its ability to accumulate and segregate project costs, a review of costs incurred, a review of the Commission's invoicing and billing process, and tests of transactions supporting costs incurred through September 20, 2013. The Commission is responsible for the fair presentation of costs incurred, ensuring compliance with Agreement provisions and state and federal regulations, and the adequacy of its financial management system to accumulate and segregate reasonable, allowable, and allocable costs.

The final audit report includes the Commission's and Caltrans response to the draft report. We request that the status of corrective actions be provided to Caltrans' Division of Environmental Analysis at 60, 180, and 360 days from the date of the final report. This report is intended for the Commission's and Caltrans' management. However, this report is a matter of public record, and it will be posted on Caltrans' website.

We thank you and your staff for the assistance provided during the audit. If you have any questions or need additional information, please contact Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or Juanita Baier, Audit Manager, at (916) 323-7951.

Sincerely,

WILLIAM E. LEWIS
Assistant Director

Enclosure

c: Malcolm Dougherty, Director, Caltrans
Susan Hansch, Chief Deputy Director, California Coastal Commission
Norma Ortega, Acting Chief Deputy Director, Caltrans
Karla Sutliff, Chief Engineer, Project Delivery, Caltrans
Tami Grove, Statewide Development & Transporation Liaison, California Coastal Commission
Katrina Pierce, Chief, Division of Environmental Analysis, Caltrans
Laurine Bohamera, Chief, Internal Audits, Caltrans
Juanita Baier, Audit Manager, Internal Audits Caltrans

P4000-0388
Audit of the California Coastal Commission Agreement 43A0295
July 2014

William E. Lewis
Assistant Director
Audits and Investigations
California Department of Transportation

REPORT CONTENTS

Summary

The California Department of Transportation's (Caltrans) Audits and Investigations (A&I) completed an audit of the California Coastal Commission's (Commission) Agreement 43A0295 (Agreement.) The purpose of the audit was to determine whether costs incurred under the Agreement were in accordance with applicable state and federal laws and regulations as well as agreement provisions and whether the Commission is compliant with the agreement's scope of work.

Our audit determined that during the audit period of December 1, 2010, through June 30, 2013, costs incurred and billed were allowable and in accordance with state and federal laws and agreement provisions; and the Commission appears to be providing services in accordance with the agreement's scope of work. However, we could not determine the reasonableness of billed costs due to the following:

- Project Cost Accounting System Weaknesses
- Unsupported Indirect and Operating Costs

We also conducted a statewide survey of Caltrans' district offices to assess communication. We determined that overall Caltrans' staff are satisfied with the communication between both agencies with some exceptions. We will address communication in more detail in a management letter to the Division of Environmental Analysis.

Background

Caltrans partners with regulatory agencies for priority review of transportation projects, beyond what the agencies existing financial resources permit. Under agreement with the partner agencies, environmental technical assistance, consultation, and coordination services are provided to enable Caltrans and the regulatory agencies to address issues timely and more effectively, therefore, accelerating the environmental review and permit process.

Caltrans' Division of Environmental Analysis' (DEA) first agreement with the Commission was executed in 1999. The current agreement covers the period December 1, 2010, to November 30, 2015, and the total amount is not to exceed $4,317,898. The primary purpose of the Agreement is to facilitate early and continuous coordination between the Commission and Caltrans. Under the terms of the Agreement, the Commission provides environmental technical assistance, oversight and coordination services to Caltrans for projects subject to the Commission's jurisdiction. The following specific performance measures are listed within the agreement:

- Participation in Caltrans project coordination, scoping, project planning, project development meetings and field reviews.
- Early input on project alternative analyses and selection processes.

Background (continued)

- Evaluation and guidance on avoiding and minimizing impacts from Caltrans proposals and on the development and selection of appropriate project related mitigation for any remaining unavoidable impacts.
- Participation in various Caltrans district efforts to develop mitigation programs in advance of upcoming projects.
- Development of guidance documents, and training on Commission policies, processes, information needs and permit requirements.
- Participation in special-topic subcommittees such as the Commission Roads' Edge Subcommittee.

Objectives, Scope and Methodology

We performed the audit in accordance with the International Standards for the Professional Practice of Internal Auditing. The objectives of our audit were to determine if the Commission's:

- Accounting system is capable of accumulating and segregating reasonable, allowable and allocable project costs per the terms of the agreement.
- Billed costs are allowable, supported and in compliance with the agreement provisions and applicable state and federal regulations.
- Internal controls and contract management processes comply with state and federal regulations.
- Services are in accordance with the agreement's scope of work.

The scope of the audit covered the period of December 1, 2010, through June 30, 2013. We conducted our audit from September 4, 2013, through September 20, 2013. Changes after these dates were not tested, and accordingly, our conclusion does not pertain to changes arising after September 20, 2013.

Our methodology consisted of interviewing Commission management and staff, examining policy and procedure manuals, reviewing and testing project costs and performing other analytical tests as we considered necessary to achieve the audit objectives, including a survey of DEA staff.

The Commission works closely with Caltrans' coastal districts and regions. We surveyed the coastal districts and regions to determine whether the Commission is meeting the agreement's performance measures.

Conclusion

Our audit disclosed that during the audit period of December 1, 2010, through June 30, 2013, Caltrans was generally satisfied with the Commission's work, maintained good relationships with Commission staff, and performance measures were met, but not always timely. We also found that the costs incurred were allowable, but we could not determine the reasonableness of billed costs. Specifically we identified the following:

Conclusion (continued)

- Project Cost Accounting System Weaknesses
- Unsupported Indirect and Operating Costs

The findings and recommendations are discussed in greater detail in the Findings and Recommendations section of this report.

View of Responsible Official

We requested and received a response to our findings and recommendations from the Commission's Executive Director. The Commission's response recognizes the importance of a mutally beneficial agreement and is committed to supporting an accurate and efficient accounting system. Overall, the Commission did not readily agree to implement the draft report's recommendations because, in their opinion, certain statements are inaccurate. Nevertheless, Commission staff is dedicated to making reasonable and necessary improvements in the future to ensure efficient and accurate billings resulting in full cost recovery. For a copy of the complete response, please see the Attachemt.

Auditor's Comments on DGS's Response

A&I agrees that a mutually beneficial agreement between the Commission and Caltrans' DEA is important. We appreciate the Commission's commitment and dedication to maintaining performance goals and objectives, while providing accurate financial data. However, A&I disagrees that the draft report contains inaccurate statements. A&I discussed all draft report findings and recommendations during the course of field work and with Commission management at the formal exit conference held on May 9, 2014. During the formal exit conference, the Commission expressed concerns with certain draft report statements and issues, and as a result, A&I revised the draft report accordingly. Since the exit conference, the Commission did not provide supplementary documentation to warrant additional changes to the draft report. Implementing A&I's recommendations would allow the Commission to prepare billings efficiently and ensure full cost recovery in accordance with the State Administrative Manual's section 8752.

We appreciate and thank the Commission's staff who worked with the audit team and look forward to working with them in the future, as necessary.

WILLIAM E. LEWIS
Assistant Director
Audits and Investigations

May 9, 2014

FINDINGS AND RECOMMENDATIONS

Finding 1 - Project Cost Accounting System Weaknesses

The California Coastal Commission (Commission) uses the California State Accounting & Reporting System (CALSTARS). CALSTARS is maintained and operated by the California Department of Finance and is an automated organizational and program cost accounting and reporting system. CALSTARS was designed to conform to Generally Accepted Accounting Principles and the State Administrative Manual (SAM). Our review of the Commission's project cost accounting system disclosed that overall, the Commission incurs allowable costs in accordance with state and federal regulations and agreement provisions. However, we identified the following weaknesses within the project cost accounting system:

Direct Costs Are Not Identified on a Project-by-Project Basis

The Commission does not identify direct labor and travel costs by specific projects. Existing practices identify costs by Program Cost Account (PCA) number. The PCA is a 5 digit number used to identify the various Commission programs, including Special Projects. Work performed under Agreement 43A0295 falls under the Special Projects program. This category represents reimbursable work, including all Caltrans' projects. The Commission does not use an additional code to identify specific project work. All Caltrans' work, including labor and travel costs, are identified by the PCA number 09277. Although the current agreement does not require the financial management system to identify costs by projects, doing so ensures project costs are readily identifiable within the accounting system. Currently, the performance reports submitted with the quarterly billings meet the project management requirements of the agreement.

Indirect and Operating Costs Are Not Adequately Supported

The Commision uses an estimated indirect cost rate of 20 percent of salaries and benefits; and an estimated $32,000 per personnel year (PY) for operating costs for billing purposes. We reviewed the indirect rate calculation and found that although the costs appear reasonable and allowable, per 2 Code of Federal Regulations (CFR) Part 225, the rate was calculated incorrectly. Specifically, indirect labor was included in the direct labor base and not all indirect costs were included in the indirect cost pool. In addition, the estimated operating expense of $32,000 was not supported by historical data or a reasonable methodology. As a result, we were not able to determine the reasonableness of the billed indirect and operating costs. This issue is discussed in detail in Finding 2.

Car Usage Fees Are Not Billed at Actual Cost

The Commission uses cars from the Department of General Services' (DGS) motor pool. DGS cars are used on a daily or monthly basis. Each month, DGS bills established monthly (varies depending upon vehicle),

Finding 1 (continued)

daily ($20) and per mile ($.30) rates. Based upon project use, the Commission bills Caltrans. We found that the rates billed to Caltrans did not always agree to the DGS billings and may be over or understated.

Accurate project accounting plays a key role in effectively managing and delivering projects. Without accurate financial data, actual project costs may be over or under budget, which may negatively affect management decisions regarding the project. Also, Caltrans could be over or under charged for services.

SAM 20050 incorporates the Government Code (GC) and section 13401 requires agencies to maintain an effective system of internal accounting and administrative control to ensure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency.

GC Section 13043 (a) also states, "The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following: (3) A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures."

The Commission's management is aware of these issues, but has not changed existing practices to ensure more accurate financial data.

Recommendation

We recommend Commission management work with Caltrans to ensure future agreements require the identification of costs on a project-by-project basis within the accounting system. We also recommend that the Commission:

1. Ensure project costs are adequately supported, actual and incurred in accordance with SAM and Agreement provisions, and employee time records identify specific project hours to support billed labor in the Performance Reports.
2. Establish a method of billing indirect and operating costs that are based upon actual agency wide operating expenditures.
3. Implement procedures to ensure DGS usage fees are billed at actual costs.

Commission's Response

The Commission's response expresses concerns regarding the practicality of some of the recommendations and did not provide a specific plan of action. For a copy of the complete response please see the Attachment. The Commission's response includes the following statements:

1. "Questions about the basis for the $32,000 estimate were not raised specifically with the Commission's management during the course of the audit otherwise, that information could have been made available."

Commission's Response (continued)

2. Attempting to ensure that "employee time records identify specific project hours to support billed labor in the Performance Reports," as recommended would be difficult, if not impossible, to do in many instances.
3. The Commission disagrees with the following statement, "the indirect rate...was calculated incorrectly..."

Auditor's Analysis of Commission's Response

A&I disagrees with the statements in the Commission's response for the following reasons:

1. A&I discussed the lack of historical data to support the estimated $32,000 in operating costs with Commission staff during the course of the audit and with Commission management at the exit conference on May 9, 2014.
2. In prior years, the Commission established at least three PCA codes to identify Caltrans labor and other direct costs. In addition, during our testing of direct labor to timesheets, we found one employee identifying work on a project-by-project basis using the one PCA code.
3. The method used by the Commission to calculate the indirect rate does not appear equitable and is not in compliance with 2 CFR Part 225.

Finding 2 - Unsupported Indirect and Operating Costs

Our audit found that the Commission invoiced and billed indirect and operating costs that are not actual incurred costs. The current invoice format identifies salary & benefits, indirect costs and operating expenses by employee. Although the salary & benefits are based upon actual costs, the indirect and operating expenses are a calculated percentage of the cost identified in the executed Agreement. These costs are billed, by employee, based upon the following:

Indirect Rate: 20 percent of direct salaries & benefits
Operating Expense: Varying percent of the total annual Agreement amount

At the time of our audit, the Commission did not adequately support the Agreement estimates and calculations.

GC Section 13403 (a) states, "The elements of a satisfactory system of internal accounting and administrative control, shall include, but are not limited to, the following: (3) A system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures."

SAM 8752 cites a Full Cost Recovery Policy. This policy states that the full cost of goods or services includes all costs directly attributable to the activity plus a fair share of indirect costs which can be ascribed reasonable to the good or service required.

Finding 2 - (continued)

Exhibit B, 5 B, Budget Detail and Payment Provisions, of the Agreement states: "It is understood and agreed that this total is an estimate and that the Department will pay for only those services actually rendered as authorized by the Department Contract Manager or his/her designee."

Given current practices, we are not assured the Commission is in compliance with SAM and that actual costs are billed to Caltrans.

Recommendation

We recommend that Commission management implement procedures to ensure billed indirect and operating expenses are supported by actual, historical costs and in accordance with SAM and agreement provisions.

Commission's Response

The Commission states that operating and indirect cost estimates were based on actual historical costs and provides full cost recovery. For a copy of the complete response, please see the Attachment.

Auditor's Analysis of Commission's Response

Although A&I agrees that the commission's indirect rate for billing purposes is an estimate, we are not assured the estimate provides accurate full cost recovery, as provided in SAM 8752. Given the lack of support for the $32,000 operating expense and the accounting system generated departmental service cost we cannot determine the reasonableness of the cost categories and amounts. Based upon the information provided, the estimated rate may be over or understated.

Audit Team

Laurine Bohamera, Chief, Internal Audits
Juanita Baier, Audit Manager
Teresa Draeger, Auditor

ATTACHMENT

CALIFORNIA COASTAL COMMISSION RESPONSE TO THE DRAFT REPORT

STATE OF CALIFORNIA—NATURAL RESOURCES AGENCY EDMUND G. BROWN, JR., *GOVERNOR*

CALIFORNIA COASTAL COMMISSION

45 FREMONT STREET, SUITE 2000
SAN FRANCISCO, CA 94105-2219
VOICE (415) 904-5200
FAX (415) 904-5400

July 3, 2014

Mr. William E. Lewis
Assistant Director
Audits and Investigations
California Department of Transportation
P.O. Box 942874, MS-2
Sacramento, California 94274-0001

Dear Mr. Lewis:

Commission staff received your office's draft audit report of the California Coastal Commission's Agreement 43A0295 (Agreement) with the California Department of Transportation. This spring, we met with your staff to review various aspects of the draft findings which they took into consideration in the production of the draft report currently under review (dated May 2014). As requested, we write today to comment on the fairness and accuracy of the report and, per your instructions, have attempted to frame our response in the form of a work plan that identifies specific steps to be taken, the period involved and the person responsible for the work plan/tasks.

At the outset, your office described the purpose of the audit:

> *(T)he audit is to determine whether costs incurred Agreement 43A0295 (Agreement) between the Department of Transportation (Caltrans) and the California Coastal (Commission) were in accordance with applicable laws and regulations as well as contract provisions. Specifically, our objectives are to determine whether the Commission's:*
>
> - *Accounting system is capable of accumulating and segregating reasonable, allowable and allocable incurred project costs per the terms of the Agreement.*
> - *Billed costs are allowable, supported and in compliance with the Agreement provisions and applicable state and federal regulations.*
> - *Internal controls and contract management processes comply with state and federal regulations.*

The audit review covering the audit period of December 1, 2010 through June 30, 2013 found that the costs incurred and billed were allowable and in accordance with state and federal laws as well as the provisions of the Agreement. In addition, the audit found that the Commission appears to be providing services in accordance with the Agreement's scope of work. The overall conclusion was that Caltrans was found to be generally satisfied with the Commission's work, maintained good relationships with the Commission staff, and performance measures were met. (In addition, the audit team

conducted a statewide survey of Caltrans district office staff to assess communication, determining that overall they "are satisfied with communication between both agencies with some exceptions." We understand that you will be addressing the results of this survey in more detail in a management letter to Caltrans Division of Environmental Analysis.)
We would like to underscore that we strongly believe the Agreements that the Commission and Caltrans have negotiated over the years have yielded extremely beneficial results in the form of high quality transportation projects that meet the access needs of the public and are sensitive to coastal resources. We have developed mutually agreeable workplans and budgets and implemented those consistent with State rules and regulations. Maintaining this performance remains a goal of Commission management. Certainly this includes supporting an accurate and efficient accounting system. It also requires that we are mindful that the potential addition of any workload burdens to our small agency must yield results that are clearly beneficial and necessary.

While your audit team found that the Commission is delivering services in accordance with the Agreement scope of work and that the costs incurred and billed by the Commission overall are allowable under state and federal law and the Agreement, the draft audit report also raises questions about the reasonableness of billed costs due to (1) "Project Cost Accounting System Weaknesses" and (2) "Unsupported Indirect and Operating Costs." In support of these findings, the draft audit report contains statements that our Coastal Commission staff members, who are responsible for the Caltrans Agreement, do not believe are accurate or fair characterizations. We address these statements, as well as the overall findings and recommendations, in more detail below.

Finding 1 Project Cost Accounting System Weaknesses (per draft Audit)

The draft audit report calls out the following weaknesses of the accounting system:

1a. Direct costs are not identified on a project-by-project basis

1b. Indirect and operating costs are not adequately supported

1c. Car usage fees are not billed at actual cost

Recommendation:

Ensure that future Agreements require the identification of costs on a project-by-project basis within the accounting system. In addition:

1. Ensure project costs are adequately supported, actual and incurred in accordance with SAM and Agreement provisions, and employee time records identify specific project hours to support billed labor in the Performance Reports.

2. Establish a method of billing indirect and operating costs that are based upon actual agency wide operating expenditures.

3. Implement procedures to ensure DGS usage fees are billed at actual costs.

Commission Response

Response to Finding 1a and Recommendation 1:

Beginning on Page 4 of the draft audit, the Findings 1a through 1c listed above are discussed as weaknesses within the Commission's project cost accounting system. Questions about the basis of the $32,000 estimate were not raised specifically with the Commission's management during the course of the audit otherwise, that information could have been made available. It is discussed in more detail in our response to Finding and Recommendation 1b below. Commission staff also takes exception to the statement on Page 5 of the draft audit that "(t)he Commission's management is aware of these issues, but has not changed existing practices to ensure more accurate financial data." Commission's management does continue to monitor its accounting system to ensure that it maintains accurate financial data and conforms with both generally accepted accounting principles as well as to the State Administrative Manual (SAM). If any problems in these areas are identified by management, they receive appropriate attention. Finally, we note that the recommendation states that the Commission should "ensure that project costs are adequately supported, actual and incurred in accordance with SAM and Agreement provisions." We believe that this is already the case. Our concerns relative to the recommendation that "employee time records identify specific project hours to support billed labor in the Performance Reports" are discussed in the following paragraphs.

As noted by the audit team, the Commission uses the California State Accounting and Reporting System (CALSTARS) which is maintained and operated by the California Department of Finance. Under this system, the Commission does not identify direct labor and travel costs by specific projects in the way that Caltrans accounting system does, but instead the Commission identifies costs by specific CALSTARS Program Cost Account (PCA) numbers that reflect a variety of programs and functions of the agency. ***As noted in the draft audit, the Agreement does not require the Commission's financial management system to identify costs by projects. Moreover, the quarterly performance reports submitted by the Commission with the quarterly billings meet the project management requirements of the Agreement. Your auditors' tests found that the total quarterly hours reported on each individual Commission employee's time sheets reconciled with the total hours reported for each individual (by project and activity) in each quarterly performance report. The time spent on Caltrans projects and activities is documented on Commission employee timesheets and both a description of the work and the total time an individual employee spends on each project and activity is summarized in the Performance Reports. This information is consistent with the terms of the Agreement.***

The Commission is concerned about the practicality and potential time consumption of implementing the recommendation that the Commission should "(e)nsure that future Agreements require the identification of costs on a project-by-project basis within the accounting system." It would not be a simple undertaking to completely revise the Commission's financial management system to identify all costs on a project-by-project basis within the accounting system. One of the feasibility challenges of such an accounting approach is that it would require that new PCA codes be created each quarter for large numbers of new and continuing projects. The Commission does not have the financial resources to monitor and maintain such a system and we also believe that there is no need to do so.

Moreover, attempting to ensure that "employee time records identify specific project hours to support billed labor in the Performance Reports," as recommended would be difficult, if not impossible, to do in many instances. For example, to bill by project, a specific PCA code would have to be set up in advance under the CALSTARS system, yet in some cases there is no way to foresee a specific project that might occur in any month in response to something like an emergency, or that might be the result of a development activity that was pursued by Caltrans without obtaining the necessary coastal development permit in advance, or that might be initiated through a Caltrans local assistance grant that Commission staff was not previously informed about.

Further, many of the activities requested by Caltrans under the Agreement are *programmatic* responses or approaches that are not project-specific, but affect a number of Caltrans projects. Examples include providing guidance on preparing informationally-complete permit applications and developing advance mitigation projects prior to the initiation of future Caltrans projects. Notably, Exhibit B of the Agreement states that Caltrans will only pay for those *services* actually rendered by the Commission and Part D of Exhibit A of the Agreement provides a list of *services* to be provided by Commission staff that includes, but is not limited to, over 24 different itemized types of activities. Many of these are not project-specific, including some of the instances noted above, as well as such activities as participating in Federal/State/Regional transportation planning activities, including providing for the California Coastal Trail and addressing issues related to climate change, including efforts to anticipate the impacts of sea level rise on transportation infrastructure, evaluate adaptive responses, and consider related land use issues.

Despite concerns relative to the practicality and potential benefits of transforming the Commission's financial management system so that all costs are identified on a project-by-project basis similar to how Caltrans runs its accounting system, Commission staff does remain committed to making reasonable and necessary improvements to the effectiveness of its accounting system and to providing Caltrans with useful information under the Agreement. In response to Recommendation 1, Commission staff, led by the identified Contract Manager, commits to working with Caltrans Division of Environmental Analysis in the negotiation of the next Agreement to mutually identify any potential changes to accounting and reporting practices that would improve information and efficiencies.

Response to Finding 1b and Recommendation 2:

Regarding the indirect rate, the audit team stated that "the rate was calculated incorrectly" and that the Commission "did not adequately support the Agreement estimates and calculations". The Commission disagrees with these assertions.

At the time the Agreement was being developed, the Commission calculated indirect rates based upon historical records to determine the proper costs. The indirect cost rate developed for the current Agreement did not include Executive and Legal staff because the Caltrans contract manager at the time, agreed that it would be appropriate that these positions could and should bill directly due to the direct project and policy work that the Commission Executive and Legal staff are performing. This information is adequately supported by CALSTARS expenditure data.

The Commission used the Agreement estimate of 20% to bill indirect costs. Actual monthly costs from FY2009 to "current" reflect the estimate to be reasonable (not including Executive and Legal staff in the Indirect Cost rate), as the actual rate averaged 20% throughout the year. As such, the 20% rate is the set rate for the contract.

For future Agreements, we will work with Caltrans closely to ensure full cost recovery per SAM 8752.

As noted above, the audit also stated, "In addition, the estimated operating expense of $32,000 was not supported by historical data or a reasonable methodology."

Operating costs were calculated using actual expenditures, when the contract was first implemented, and included inflation costs to adjust for future rent increases, IT costs, and other expenses. Therefore, billing is based on the estimated cost.

When the Commission staff developed the operating cost figure used in this Agreement, we reviewed and compiled several years of actual historic operating costs and settled on a number that reflected over time a summary of actual operating costs. We did go over these figures with Caltrans when developing the Agreement. The Commission runs on a very constrained budget and in the many times where there have been budget cuts, the Commission has always chosen to deeply cut operating expenses before reducing staff. This means that in many years we have deferred key purchases and drastically cut operating costs to levels that are not sustainable on a long term basis. The operating cost we included in the Agreement was based on actual averages of historic operating costs needed to keep the agency operational. Because our actual operating costs fluctuate monthly depending on needed purchase and other expenses, we believe that the most accurate method is an operating cost rate based on historic actuals over multiple years rather than billing actuals on a monthly basis. We believe this method meets SAM and we use it in other Agreements with other state agencies.

We do not fully understand the actions the audit report is asking the Commission staff to take regarding operating costs. We are happy to discuss with you and go over the specific data you have concerns about and try and resolve this issue in a way that is efficient for billing and continues to be fair for Caltrans and the Commission.

Response to Finding 1c and Recommendation 3:

When the contract was first implemented, the Commission calculated car usage fees based upon a daily rate per DGS. The DGS has since charged to a monthly rate. The fees for car usage represent a minimal amount to the overall total invoice amount. (Note that between December 2010 and June 2013, the total amounts that the Commission sought reimbursement for State Car usage associated work undertaken to meet the terms of the Agreement on average were only 0.3% of the total invoiced amounts each fiscal year.)

While these are minimal costs, the Commission has implemented the new billing method to agree with actual DGS charges.

Finding 2 Unsupported Indirect and Operating Costs

The draft audit report states that "(t)he Commission invoiced and billed indirect and operating costs that are not actual incurred costs. The current invoice format identifies salary and benefits, indirect costs and operating expenses by employee. Although the salary & benefits are based upon actual costs, the indirect and operating expenses are calculated as a percentage of the cost identified in the executed Agreement. The audit team was not assured the Commission is in compliance with SAM and that actual costs are billed to Caltrans.

Recommendation:

Implement procedures to ensure billed indirect and operating expenses are supported by actual, historical costs and in accordance with SAM and Agreement provisions.

Commission Response

Response to Finding 2 and Recommendation:

See "Finding 1b and Recommendation" response.

Commission staff commends the courtesy and professionalism of the team that undertook the audit evaluation of the Agreement. We continue to support the underlying goal of the Agreement to improve the implementation of our respective agency's missions by providing for the transportation needs and coastal resource protection goals of the State of California. Thank your for the opportunity to provide our response to your draft audit report. Please do not hesitate to contact Susan Hansch, our Chief Deputy Director, at (415) 904-5244 if you have any questions or wish to discuss any of these comments in more detail.

We do think it would be productive to meet with the audit team and the Caltrans contract managers to fully discuss these issues and come to mutually workable solutions consistent with SAM. We value our working relationship with Caltrans and believe that overall, the Agreement has been a very positive asset to the Commission and Caltrans work.

Sincerely,

Susan Hansch

Susan Hansch
Chief Deputy Director

for

Charles Lester
Executive Director