State of California
DEPARTMENT OF TRANSPORTATION

California State Transportation Agency

Memorandum

Serious drought.
Help Save Water!

To: RIHUI ZHANG
Division Chief
Local Assistance

Date: June 24, 2015

File: P2535-0021

ORIGINAL SIGNED BY:

From: LAURINE BOHAMERA, Chief
External Audit - Contracts
Audits and Investigations

Subject: **AUDIT OF LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY**

Attached is the audit report pertaining to the audit performed on the Los Angeles County Metropolitan Transportation Authority, relative to funding received from Caltrans using Proposition 1B (Prop 1B) State-Local Partnership Program Funds. The name of the project audited is "Compressed Natural Gas Bus Procurement Project (3,4)," EA No. T269GA/T269GB. The Prop 1B programmed amount was $1,000,000. The audit was for the period of February 29, 2012, through December 31, 2014.

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by the State Controller's Office on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed.

The attached report includes one audit finding related to noncompliance with indirect cost reimbursement procedures. Please provide A&I a corrective action plan on the audit finding within 90 days of the audit report date.

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

Attachment(s)

c: Stephen Maller, Deputy Director, California Transportation Commission
Teresa Favila, Assistant Deputy Director, California Transportation Commission
Bruce De Terra, Acting Division Chief, Transportation Programming
Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
Sharon Ropp, Prop 1B Coordinator, Division of Local Assistance
Mark Samuelson, Chief, Office of Policy Development and Quality Assurance, Division of Local Assistance
Steve Novotny, District Local Assistance Engineer, District 7
Luisa Ruvalcaba, Audit Manager, Audits and Investigations
Annette Goudeau, Audits and Performance Analyst, Office of Policy Development and Quality Assurance

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

Audit Report

STATE-LOCAL PARTNERSHIP PROGRAM PROPOSITION 1B BOND-FUNDED PROJECTS EA No. T269GA/T269GB/P2535-0021

January 1, 2011, through June 4, 2014

BETTY T. YEE
California State Controller

June 2015

BETTY T. YEE
California State Controller

June 5, 2015

Laurine Bohamera, Chief
Audits and Investigations
California Department of Transportation
P.O. Box 942874
Sacramento, CA 94274-0001

Dear Ms. Bohamera:

The State Controller's Office (SCO) audited the Los Angeles County Metropolitan Transportation Authority's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of January 1, 2011, through June 4, 2014.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225, and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines and agreements.

We audited the Proposition 1B bond-funded projects EA No. T269GA/T269GB, Compressed Natural Gas (CNG) Bus Procurement Project (3,4) and determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18, and/or California Public Contract Code sections 10140–10141.

- Except for the noncompliance noted below, the project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.

- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

Our audit found that the implementing agency submitted for reimbursement a total of $337,517 of indirect project labor costs for Project Billings 1-15. Of that amount, $288,060 (76%) of indirect project labor costs were reimbursed before fiscal year (FY) 2012-13 and FY 2013-14 Indirect Cost Rate Proposal rates were approved by Caltrans. The implementing agency was not in compliance with Local Assistance Procedures Manual, Chapter 5.14, Obtaining Approval for Indirect Costs, and the Project State Master Agreement No. 64A0034-A01, Section 2, Allowable Costs and Payments.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Marty Namjou, Audit Manager
Division of Audits – Bond Unit
State Controller's Office
Nick McCarty, Auditor-in-Charge
Division of Audits – Bond Unit
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the Los Angeles County Metropolitan Transportation Authority's (implementing agency) financial management system relative to projects funded and reimbursed by Proposition 1B bond funds during the audit period of January 1, 2011, through June 4, 2014.

The SCO performed the audit in accordance with generally accepted government auditing standards and based on audit procedures performed, we determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225), and California Department of Transportation (Caltrans) and Transportation Commission (Commission) program guidelines, procedures, agreements, or approved amendments.

We audited the Proposition 1B bond-funded projects EA No. T269GA/T269GB, Compressed Natural Gas (CNG) Bus Procurement Project (3, 4), and determined that:

- The implementing agency complied with applicable federal and state procurement requirements as required by Title 49, *Code of Federal Regulations*, Part 18 (49 CFR 18), and/or California Public Contract Code sections 10140–10141.

- Except for the noncompliance noted below, the project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.

- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

Our audit found that the implementing agency submitted for reimbursement a total of $337,517 of indirect project labor costs for Project Billings 1-15. Of that amount, $288,060 (76%) of indirect project labor costs were reimbursed before fiscal year (FY) 2012-13 and FY 2013-14 Indirect Cost Rate Proposal rates were approved by Caltrans. The implementing agency was not in compliance with Local Assistance Procedures Manual, Chapter 5.14, Obtaining Approval for Indirect Costs, and the Project State Master Agreement No. 64A0034-A01, Section 2, Allowable Costs and Payments.

Background

In accordance with Caltrans and Commission executed project agreement(s) or approved amendments, the projects listed below were programmed and approved to receive Proposition 1B bond funds, for one or more phases of work, under the State-Local Partnership program.

1. EA No. T269GA, acquisition of 100 45-foot, CNG composite buses, Los Angeles, California.

   The total approved Proposition 1B amount is $33,989,000. The expected project completion date was August 28, 2013.

2. EA No. T269GB, acquisition of 50 45-foot, CNG composite buses, Los Angeles, California.

   The total approved Proposition 1B amount is $4,561,000. The expected project completion date was August 28, 2013.

This audit was performed by the SCO on behalf of Caltrans (Audit Request No. P2535-0021). The authority to conduct this audit is given by:

- Interagency Agreement No. 77A0027, dated December 1, 2007, between the SCO and Caltrans, which provides that the SCO will perform audits of project expenditures that were funded and reimbursed by the Proposition 1B Bond Fund to ensure compliance with Caltrans and Commission Proposition 1B program guidelines.

- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

Objectives, Scope, and Methodology

The SCO audited the implementing agency's financial management system relative to projects funded and reimbursed by the Proposition 1B Bond Fund during the audit period of January 1, 2011, through June 4, 2014.

The objectives of our audit were to determine whether:

- The implementing agency's accounting system and internal controls were adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines, procedures, project agreements, or approved amendments.

- The implementing agency complied with applicable federal and state procurement requirements as required by 49 CFR 18, California Public Contract Code sections 10140–10141, and/or provisions stated in the contract.

- The project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.

- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

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

- Reviewed the implementing agency's prior audits and single audit reports;

- Reviewed the implementing agency's written policies and procedures relating to accounting systems, construction project management, and contract management; and

- Interviewed employees, completed the internal control questionnaire, and performed a system walk-through in order to gain an understanding of the implementing agency's internal controls, accounting systems, timekeeping and payroll systems, and billing processes related to transportation projects; specifically, projects funded by Proposition 1B.

For the project(s) under review, we performed the following audit procedures:

- Obtained project files and reviewed preliminary information to ensure that the implementing agency complied with applicable state and federal procurement requirements;

- Obtained project expenditure reports, selected a sample of activities that were funded by Proposition 1B, and obtained and reviewed supporting documentation to ensure that project expenditures were reasonable, allocable, and allowable in accordance with Caltrans and Commission program guidelines, procedures, agreements, and applicable state and federal requirements;

- Reviewed significant contract change orders to ensure that they were properly approved and supported;

- Reviewed project final reports, close-out documents, finance letters, and baseline agreements to ensure that variances or changes to the project's scope, schedule, costs, and benefits were properly approved and supported; and

- Reviewed the project payment history file and/or invoices sent to the Caltrans accounting office to ensure that the implementing agency properly prepared and/or billed Caltrans for reimbursement of project expenditures as required by Caltrans' local assistance procedures.

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

We did not audit the implementing agency's financial statements. We limited our audit scope to planning and performing audit procedures necessary to achieve our audit objectives.

Conclusion

We determined that the implementing agency's accounting system and internal controls appear adequate to accumulate and segregate reasonable, allocable, and allowable project costs as required by 2 CFR 225, and Caltrans and Commission program guidelines and agreements.

We audited the Proposition 1B bond-funded projects EA No. T269GA/T269GB, Compressed Natural Gas (CNG) Bus Procurement Project (3,4), and determined that:

- The implementing agency complied with applicable federal and state procurement requirements required by 49 CFR 18, California Public Contract Code sections 10140–10141, and/or provisions stated in the contract.

- Except for the noncompliance noted below, the project costs incurred and reimbursed were in compliance with required Caltrans and Commission program guidelines, procedures, agreements, or approved amendments; contract provisions; and/or applicable state and federal laws and regulations.

- The project deliverables (outputs) and outcomes were consistent with the project scope, schedule, and benefits described in the executed project baseline agreements or approved amendments thereof.

Our audit found that the implementing agency submitted for reimbursement a total of $337,517 of indirect project labor costs for Project Billings 1-15. Of that amount, $288,060 (76%) of indirect project labor costs were reimbursed before fiscal year (FY) 2012-13 and FY 2013-14 Indirect Cost Rate Proposal rates were approved by Caltrans. The implementing agency was not in compliance with Local Assistance Procedures Manual, Chapter 5.14, Obtaining Approval for Indirect Costs, and the Project State Master Agreement No. 64A0034-A01, Section 2, Allowable Costs and Payments.

Views of Responsible Officials

We issued a draft audit report on April 17, 2015. Frank Flores, Executive Officer, responded by letter dated May 4, 2015 (Attachment), agreeing with the audit results. This final audit report includes the Los Angeles County Metropolitan Transportation Authority's response.

Restricted Use

This report is solely for the information and use of Los Angeles County Metropolitan Transportation Authority, Caltrans, 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.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 5, 2015

Schedule—
Summary of Project Costs
Approved, Expended, and Audited
January 1, 2011, through June 4, 2014

Project No./EA No.:

EA No. T269GA/Project No. 0700020987
EA No. T269GB/Project No. 0712000248

Project Information:

Los Angeles County Metropolitan Transportation Authority/CNG Bus Procurement Project (3,4)

Project Financial Information:

Phases Reimbursed by Proposition 1B Bond Fund	Programmed and Approved	Expended	Audited	Difference*
Construction	$ 38,550,000	$ 38,256,598	$ 38,256,598	$ 293,402
Total	$ 38,550,000	$ 38,256,598	$ 38,256,598	$ 293,402

Project Delivery Baseline:

Project Phase(s):	Baseline	Approved	Actual
Beginning construction	01/31/12	12/16/11	12/16/11
End construction	07/31/13	08/28/13	08/28/13
Beginning closeout	08/01/13	09/01/13	09/01/13
End closeout	01/31/15	01/31/15	02/28/14

* Difference between amount approved and expended. Funds have been de-obligated.

Finding and Recommendation

FINDING—Noncompliance of Indirect Cost Reimbursement Procedures

The Los Angeles County Metroplitan Transportation Authority (implementing agency) filed Project Billings 1-15 and were reimbursed for indirect costs prior to Caltrans approval of Indirect Cost Rate Proposals (ICRP) for fiscal year (FY) 2012-13 (Billings 3-8) and FY 2013-14 (Billings No.11-13,15). In total, Caltrans reimbursed $377,517 of indirect costs for project labor, of which $288,060 (76%) was not in compliance with the Local Assistance Procedures Manual (LAPM), Chapter 5, and the Project State Master Agreement No. 64A0034-A01.

Local Assistance Procedures Manual (LAPM) Chapter 5, Accounting/Invoices, 5.14 Obtaining Approval for Indirect Costs Documentation of Proposal, 3. Approval and Use states,

> If the cognizant federal agency has approved the local agency's Indirect Cost Rate Proposal and Central Service Cost Allocation Plan for a time period/fiscal year, the local agency must send a copy to Caltrans Audits and Investigations and include a copy of the federal approval letter. After Audits and Investigations have notified the local agency that it has accepted the federal approval letter, the local agency may include indirect costs on its invoices.

State Master Agreement No. 64A0034-A01, Section 2. Allowable Costs and Payments (4) states,

> An indirect Cost Rate Proposal and/or Central Service Cost Allocation plan and related documentation approved under cognizant agency regulations are to be provided to STATE (Caltrans Audits & Investigations) annually for their review, and approval and filing prior to ADMINISTERING AGENCY seeking reimbursement of indirect costs incurred within each fiscal year being claimed for reimbursement.

Recommendation

It is recommended that the implementing agency follow the accounting/invoicing procedures of the LAPM, Chapter 5, to seek reimbursement for indirect costs after Caltrans has officially approved the fiscal year's ICRP rates, and properly file the approval letter for future records.

Auditee's Response

The Los Angeles County Transportaion Authority (LACMTA) did not disagree with our finding and recommendation. The official responding to the Draft Report has indicated that improvements have been implemented to prevent this problem from reoccurring.

SCO's Comment

The finding remains unchanged.

Attachment—
Los Angeles County Metropolitan Transportation Authority's
Response to Draft Audit Report

Metro

Metropolitan Transportation Authority
One Gateway Plaza
Los Angeles, CA 90012-2952
213.922.2000 Tel
metro.net

May 4, 2015

REVISED

Mr. Andrew Finlayson
Chief, State Agency Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

RESPONSE TO FINDING FROM DRAFT AUDIT REPORT ON PROPOSITION 1B BOND PROJECT EA NO.T269GA/T269GB, COMPRESSED NATURAL GAS BUS PROCUREMENT

Dear Mr. Finlayson:

The Los Angeles County Metropolitan Transportation Authority (LACMTA) has reviewed the draft audit report for our Proposition 1B Bond –funded Project EA No. T269GA/T269GB, Compressed Natural Gas (CNG) Bus Procurement Project (3, 4), which we received on April 27, 2015. This letter serves as our formal response to "Finding 1 – Noncompliance of Indirect Cost Reimbursement Procedures" from the draft audit report.

Finding 1 indicates that we did not comply with Local Assistance Manual, Chapter 5.14, Obtaining Approval for Indirect Costs, and Project State Master Agreement No. 64A0034-A0, Section 2, Allowable Costs and Payments. Basically, the provisions require that we seek prior approval from Caltrans Audits and Investigations for our Indirect Cost Rate Proposal (ICRP), as approved by letter from the Federal Transit Administration (FTA), before we seek reimbursement for indirect costs. More specifically, we are required to provide copies of the approved ICRP and the FTA approval letter to Caltrans, and we are to secure Caltrans written approval before we include the indirect costs in our invoices for reimbursement.

As noted in the draft report, we acknowledge having received reimbursement for indirect costs before receiving actual written Caltrans approvals of the ICRPs for fiscal year (FY) 2012-13 and FY 2013-14. However, we want to point out that we did provide copies of FTA approvals of our ICRPs and the approved rates to Caltrans before submitting our reimbursement requests, as has been our past practice. Caltrans did accept the copies of the FTA approval letters and paid our invoices without exception and without alerting us to any non-compliance with the provisions cited in the draft report. We had no reason to believe that we were in non-compliance because we did not have Caltrans letters of approval on file before we submitted our invoices.

Nevertheless, effective as of FY 2015, we will ensure that Caltrans officially has approved the fiscal year's ICRP rates in writing before submitting our request for reimbursement of our indirect costs. We also will ensure that we properly file the Caltrans approval letter for future records.

Should you or your staff have any questions, please contact Nela De Castro at (213) 922-6166. Thank you.

Sincerely,

FRANK FLORES
Executive Officer
Countywide Planning & Development

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

http://www.sco.ca.gov

S14-BAU-040