

December 19, 2023

Toks Omishakin, Secretary
California State Transportation Agency
915 Capitol Mall, Suite 350-B
Sacramento, CA 95814

Dear Secretary Toks Omishakin,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the California Transportation Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2023.

Should you have any questions please contact KC Handren, Deputy Director, at (916) 382-6940, KC.Handren@catc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The California Transportation Commission (Commission) is an independent public agency dedicated to ensuring a safe, financially sustainable, world-class multimodal transportation system that reduces congestion, improves the environment, and facilitates economic development through the efficient movement of people and goods. The Commission holds public meetings throughout California, at which time it discusses a wide range of transportation policy issues, and reviews and approves projects for funding

The Commission is statutorily responsible for making specific decisions in the programming and allocating of state transportation funds for the following programs: State Transportation Improvement Program; State Highway Operation and Protection Program; Active Transportation Program; Solutions for Congested Corridors Program; Local Partnership Program; Trade Corridor Enhancement Program; Local Transportation Climate Adaptation Program, Propositions 1A and 1B; Local Assistance; Aeronautics and other programs. Senate Bill (SB) 486, enacted in 2014, requires the California Department of Transportation (Caltrans) to work with the Commission to prepare a "robust" Transportation Asset Management Plan to inform and guide project selection for the State Highway Operation and Protection Program; SB 1, enacted in 2017, assigned the Commission increased oversight responsibility including requiring Caltrans to report annually to the Commission on its progress in achieving performance targets.

The Commission's programs fund critical rehabilitation, preservation, and safety projects to improve roads, bridges, transit systems, ports, railroads, and active transportation across California. These projects improve trade corridors; reduce congestion in the most heavily used corridors of the state; provide safe routes to schools; improve and expand transit; and reduce greenhouse gas emissions, improve system resiliency to climate change, and minimize impacts to vulnerable communities. In Fiscal Year 2022-23, the Commission allocated \$11.8 billion in

transportation funds, creating over 130,000 jobs, and leading to diverse transportation improvements throughout the state.

The Commission continues its commitment to enhance equity considerations in transportation decision making. In January 2021, the Commission adopted a Racial Equity Statement condemning all forms of racism and vowing action to create mobility opportunities, and address investment inequities, so all Californians, especially those from underserved communities, can thrive in all aspects of life. In 2022, the Commission, in partnership with Caltrans and the California State Transportation Agency, convened an Equity Advisory Committee to advise the three agencies on how to achieve meaningful outcomes in transportation equity, environmental justice, and equitable economic opportunities, especially as related to transportation planning and programming. Throughout 2023, Equity Advisory Committee members supported numerous Commission activities including scoring the community engagement section of project applications in the Senate Bill 1 funding programs and reviewing and providing feedback on the draft program guidelines. Incorporating the experiences and expertise of the Committee members enhances the Commission's ability to fulfill its commitment to enhance equitable outcomes in its programs and policies.

Control Environment

The Commission is governed by a body of Commissioners. It is composed of eleven voting members and two non-voting ex-officio members. Of the eleven voting members, nine are appointed by the Governor, one is appointed by the Senate Rules Committee, and one is appointed by the Speaker of the Assembly. The two non-voting ex-officio members are appointed one each from the State Senate and Assembly.

The Commission is supported by an organization headed by an Executive Director who oversees a staff of 44 authorized positions and an annual budget of \$11.3 million. The Executive Director reports to the Commission and acts as a liaison with the CalSTA Secretary, the Caltrans Director, regional agency executive directors and others. The Executive Director also acts as a liaison between the Commission and the Legislature.

The Commission creates and demonstrates integrity and ethical values in all aspects of its operation. The tone is set by executive management through the Commission's staff values and discussed with staff during its on-going meetings. Commission staff is guided by a set of core values that promote integrity, transparency, accountability, and innovation. Roles and responsibilities are well established and strong lines of authority, collaboration, communication, teamwork, and problem solving are fostered and maintained throughout the organization.

The Commission, including staff, has accomplished an outstanding record of fulfilling its responsibilities, gaining the respect of successive Administrations and Legislatures, and earning a reputation as an effective and well-functioning organization. Its organizational structure is evaluated on an on-going basis as new legislation is enacted that modifies or expands responsibilities. The structure is also re-evaluated annually to ensure that it is effective and efficient in meeting the Commission's commitments.

The Commission has significant documentation to ensure adequate controls are in place to meet its commitments. There is an agenda and meeting minutes prepared for each

Commission meeting, including any required follow-up actions. For each transportation program, the Commission adopts guidelines for how funds will be allocated, how projects are selected, and how recipient agencies are held accountable. Any action taken is documented through a resolution adopted by the Commission. The Commission also maintains an internal operating procedures manual to guide staff on day-to-day operating responsibilities.

To ensure the Commission has and maintains a competent workforce, a workforce development plan has been prepared. The plan is evaluated annually for effectiveness and new initiatives. The plan includes an annual assessment of employee training needs, work shadowing, and contracting for specialized training such as negotiation and facilitation, diversity, and equity. Employee training is tracked individually and assessed annually.

To ensure accountability is in place, managers are required to annually assess the performance of their staff, including reviewing employee expectations, reviewing, and signing updated policies, evaluating performance, and identifying training needs. All employee assessments are reviewed and signed by the responsible Deputy Director, and the Chief Deputy Director or the Executive Director.

Information and Communication

The Commission submits an annual report to the Legislature summarizing decisions in allocating transportation funds, identifying relevant transportation issues facing California, providing a summary of major policies and decisions adopted, and any significant upcoming transportation issues. The report includes recommendations to advise and assist the CalSTA Secretary and the Legislature in formulating and evaluating state policies and plans. The Executive Director also meets with key partners, stakeholders, and the Legislature to address transportation related issues.

The Commission communicates information to achieve its objectives through scheduled meetings open to the public, and other events or meetings with stakeholders and partners. In 2023, the Commission continued to hold events in a hybrid in-person and web-based format to allow greater participation by stakeholders and the public and to address accessibility needs. The Commission also uses its website to post meeting agendas and materials, program descriptions and guidelines, upcoming meetings and events, reports and resources, and legislation affecting transportation. Internally, the Commission's executive management sets the tone for an ethical and open environment. Employees are encouraged to report inefficiencies or inappropriate actions through their chain of command, during all staff meetings, weekly meetings, or directly to the Chief Deputy Director or Executive Director.

Caltrans provides Information Technology (IT) systems and support for the Commission's operational and programmatic information. The Commission utilizes the California State Multi-Modal Accountability Reporting Tool (CalSMART), developed, and maintained by Caltrans, to collect project status and expenditure information for all programs. Other operational and programmatic information is maintained on a server and accessible to Commission staff, as designated. Caltrans' Staff Central system is used for timekeeping and leave balances and excel spreadsheets are used to capture pertinent management information. The Commission also uses FISCAL for financial information through a contract with the Department of General

Services.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Transportation Commission monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Tanisha Taylor, Executive Director.

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Paul Golaszewski, Chief Deputy Director; and KC Handren, Deputy Director of Administration and Financial Management.

Through our ongoing monitoring processes, the Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined the Commission complies with California Government Code sections 13400-13407.

Tanisha Taylor serves as the Executive Director for the California Transportation Commission and is responsible for the overall establishment and maintenance of internal control systems. Paul Golaszewski, Chief Deputy Director, is designated as agency monitor. KC Handren, Deputy Director Administration and Financial Management, is responsible for compiling risk reports based on risks identified by executive management via the weekly deputy director meeting, providing mitigation strategies when possible, and monitoring for organizational impact.

The Commission's organizational structure sets the framework for assigning responsibilities for monitoring activities and addressing vulnerabilities. All programs that the Commission is responsible for are assigned to a Deputy Director who ensures program requirements are met. Responsible managers conduct meetings with staff and determine the effectiveness of baseline internal controls over their responsible program areas. They conduct periodic detailed reviews of work, make necessary changes, and perform on-going evaluation and monitoring to ensure objectives are met. Further, the Deputy Director of Administration and Financial Management conducts independent reviews of functional program areas on a sample basis to ensure adequate controls are in place.

The Commission relies on a system of continuous assessment and evaluation of its control structure. Identified risks, internal controls, and mitigation measures are recorded and reported to Executive Management. Through each subsequent State Leadership Accountability Act cycle, staff continue to reassess the risks and their corresponding controls. The Executive Director and Chief Deputy Director meet with the Commissioners regularly to discuss issues and risks to the organization as well as methods to identify measures to prevent or minimize risks. All Commission staff meet biweekly to discuss ongoing issues, and to identify internal controls and

implementation measures to address identified risks. In addition, the Chief Deputy Director meets weekly with Deputy Directors. Together, these meetings are used to monitor implementation measures to mitigate known risks and to identify new risks that arise requiring mitigation measures. In addition, Deputy Directors are assigned responsibility for implementing mitigation measures to address identified risks and reporting back to Executive Management on the progress made.

RISK ASSESSMENT PROCESS

The following personnel were involved in the California Transportation Commission risk assessment process: executive management, and middle management.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, consideration of potential fraud, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

The Commission relies on a system of continuous assessment and evaluation of its internal control structure that includes biweekly staff meetings, weekly executive management meetings, and continuous communication, monitoring and reporting. For example, through regularly scheduled meetings, management is kept apprised by staff of risks and corresponding mitigation methods. Follow-up work, including executive management involvement, is initiated to formulate and implement response strategies to minimize risks of greater threat.

As risks are identified, corresponding existing controls are identified that, if working as intended, provide reasonable assurance that risks are mitigated. For other risks, staff identifies controls for implementation that, once established, would help mitigate such risks.

RISKS AND CONTROLS

Risk: Climate Resilience

There is a significant risk that the Commission will not be able to sustain its new Climate Resiliency work without converting two limited-term positions to full-time permanent positions for the development, management, and reporting of the Local Transportation Climate Adaptation Program. The two limited-term positions expire at the end of fiscal year 2023-24.

Pursuant to Senate Bill 198 (Committee on Budget and Fiscal Review, Chapter 71, Statutes of 2022), the Commission is required to develop and administer the Local Transportation Climate Adaptation Program. This Program, which combines federal Promoting Resilient Operations for Transformative, Efficient, and Cost-Saving Transportation (PROTECT) formula funding and a one-time state appropriation of \$148 million, provides funding to local agencies for the development and implementation of projects that adapt at-risk transportation infrastructure to natural hazards, including climate change, and directly benefit climate-vulnerable

communities.

The workload to develop and manage the program extends beyond the two years allocated to the limited-term positions. Projects in the first cycle of the Local Transportation Climate Adaptation Program may be programmed in Fiscal Years 2023-24, 2024-25, and 2025-26. Projects will come forward for allocation in those years and must be monitored for delivery the in following years. Subsequent programming of an additional \$100 million in PROTECT funds will be available for Fiscal Years 2026-27 and 2027-28. With the federal government's continued focus on resiliency, there is also the potential for reauthorization of the federal program in federal fiscal year 2027.

Given the significant impacts climate change poses to California's transportation infrastructure, it is imperative that all transportation funding programs study and incorporate, to the extent possible, climate adaptation strategies to address vulnerabilities and increase resilience. The Commission seeks to align its programs and develop climate adaptation policies that can be incorporated into Commission administered programs and planning guidelines. This requires a high level of technical expertise relating to climate change impacts, climate vulnerability and climate adaptation. Maintaining a high level of technical expertise in climate resiliency is critical to the operation and protection of the state's transportation infrastructure.

Unless these positions are made permanent, the Commission will not be able to sustain the workload for the Local transportation Climate Adaptation Program or maintain staff level expertise in climate resiliency. Absorbing this workload and expertise is not feasible.

Control: A

The Commission will work with the Department of Finance and the California State Transportation Agency to address the increased workload issue.

Control: B

The Commission will borrow staff from Caltrans to meet short-term needs.

Control: C

The Commission will hire a student assistant to assist with the additional workload.

Risk: Transportation Funding nas State and Local Transportation Needs Assessment

Gas tax revenues are projected to steadily decrease as vehicles become more fuel efficient and as the use of alternatively fueled vehicles increases to encompass all new vehicle sales by 2035. This poses a significant risk to long-term transportation funding using the existing state and federal gas tax structure. As a result, the gas tax will not be a sustainable financing mechanism for transportation in the coming decade.

Pursuant to the provisions of Senate Bill 1121 (Gonzalez, Chapter 508, 2022), the Commission must prepare a State and Local Transportation Needs Assessment to identify the cost to operate, maintain, and provide for the necessary future growth of the state and local

transportation system for the next 10 years. As part of the Assessment, the Commission must forecast the expected revenue, including federal, state, and local revenues, to pay for the cost identified in the needs assessment, any shortfall in revenue to cover the cost, and recommendations on how any shortfall should be addressed. In determining the cost to provide for the necessary future growth of the state and local transportation system in the Assessment, the Commission must include the costs of transportation system improvements included in regional, interregional, and state transportation improvement programs, the California State Rail Plan, and the State Highway System Management Plan. Any analysis of necessary future growth must be consistent with the transportation vision and preferred scenario contemplated in the most recent California Transportation Plan. In addition, the Commission must include the cost to address climate change impacts to provide for system resiliency in the needs assessment.

In developing the Assessment, the Commission must coordinate with the Transportation Agency, Caltrans, community-based organizations, environmental justice and equity-based organizations, organized labor, the transportation industry, metropolitan planning organizations, county transportation commissions, regional transportation planning agencies, local governments, and transit operators. The Commission must submit an interim Assessment to the Legislature by January 1, 2024, and a completed Assessment by January 1, 2025, and every five years thereafter.

The Commission received a three-year limited term position through 2025-26 to oversee the Needs Assessment effort and stakeholder engagement. In addition, the Commission executed a contract using one time consultant funding to conduct revenue projections, identify multimodal transportation needs, conduct a gap analysis, and develop policy recommendations. These resources, however, are not sufficient to sustain this workstream over the long term. Once the initial assessment has been completed in January 2025 SB 1121 requires the needs assessment be updated every 5 years. In addition, any policy recommendations made within the assessment to address long term funding gaps will need to be further developed and implemented. Absent permanent staffing and additional consultant funding, the Commission's ability to deliver updated assessments and to implement policy recommendations from the assessments will be extremely limited. If the Commission is unable to implement recommendations the state may not be able to secure a long-term sustainable replacement for the gas tax which puts California at risk of losing federal infrastructure funding and threatens the delivery of critically needed multimodal transportation infrastructure needed to achieve safety, equity, economic development, and climate goals.

Control: A

The Commission will work with the Department of Finance and the California State Transportation Agency to address the increased workload issue.

Control: B

The Commission will hire a student assistant to assist with the additional workload.

Risk: Funding for Medium/Heavy Duty Zero Emissions Infrastructure

Senate Bill 671 (Gonzalez, Chapter 769, Statutes of 2021) requires the Commission, in coordination with the California Air Resources Board, California Public Utilities Commission, California Energy Commission, and the Governor's Office of Business and Economic Development, to develop a Clean Freight Corridor Efficiency Assessment to identify corridors, or segments of corridors, and infrastructure needed to support the deployment of zero-emission medium-duty and heavy-duty vehicles and to submit the Clean Freight Corridor Efficiency Assessment to the relevant policy and fiscal committees of the Legislature by December 1, 2023.

As outlined in the Commission's SB 671 Clean Freight Corridor Efficiency Assessment, the transition to zero-emission infrastructure for medium- and heavy-duty vehicles will be vital for the State to meet its climate goals. Since December 2021, the Commission has worked in partnership with the California Air Resources Board, the California Energy Commission, the California Public Utilities Commission, the California Department of Transportation, and the Governor's Office of Business and Economic Development to develop the Assessment. In that time the Commission has become a key leader, and important funding partner, in the zero-emission medium- and heavy-duty infrastructure space.

The SB 671 Assessment provides a recommended path for the transition by identifying an initial viable network of zero-emission charging and hydrogen fueling stations needed to support fleets as they increasingly transition to zero-emission medium-duty and heavy-duty vehicles within the deadlines established by the California Air Resources Board's Advanced Clean Trucks and Advanced Clean Fleets regulations. Among the critical recommendations included in the Assessment is the need for allocating additional public funding to support public infrastructure.

Specifically, the State must allocate available public funds, where feasible, to support the build out of the 2035 initial viable network cost.

The total cost of \$10 to \$15 billion will need to be shared between private and public funding and come from all available fund sources. One of the existing funding sources that could contribute to this identified cost is the CTC's Trade Corridor Enhancement Program, which can fund zero-emission infrastructure as an eligible fund project type.

Recognizing that the Commission has undertaken the large effort to develop the SB 671 Assessment and become an important agency in the zero-emission medium- and heavy-duty infrastructure space, adequate ongoing resources will be required to keep the Commission and its Trade Corridor Enhancement Program, Program Manager involved in the implementation of zero-emission freight infrastructure. The Commission received two limited-term positions (a Staff Services Manager I and a Staff Services Analyst) for three years through 2024-25 to support the SB 671 Assessment. In addition, the Commission's Trade Corridor Enhancement Program Manager dedicates a portion of their time to the effort.

Control: A

The Commission will continue to divide the Trade Corridor Enhancement Program

Manager's time to maintain the additional workload taken on during the development of the SB 671 Assessment to ensure the Commission is still engaged in the zero-emission medium- and heavy-duty infrastructure space. The Commission will also continue to utilize the limited term Staff Services Manager I and Staff Services Analyst to support this workload.

Control: B

The Commission will work with the Department of Finance and the California State Transportation Agency to address the ongoing and likely permanent increased workload issue around zero-emission medium- and heavy-duty infrastructure.

Risk: Commissioner Compensation

Compensation for serving on the Commission is inadequate to alleviate the financial constraints that may affect an individual's ability to serve.

The Commission has eleven voting members. Government Code authorizes each member of the Commission to receive a compensation of \$100 per day, not to exceed \$800 for any Commission business during any one month. Per diem compensation was established in 1977, and the monthly compensation maximum was last adjusted in 1984. Compensation rates have not been adjusted for inflation since that time. According to the California Department of Industrial Relations Consumer Price Index, the inflation adjusted Per Diem Rate for 2023 would be \$520 and the adjusted maximum monthly Commissioner Compensation would be \$4,160.

The Commission is responsible for allocating billions of dollars in transportation funds annually and setting policy for the state's transportation system, which significantly impacts all Californians. The estimated \$244,000 required annually to adjust Commissioner compensation for the effects of four decades of inflation is a fractional amount of these overall transportation expenditures.

Commissioner compensation has been identified as a concern limiting the ability of Commissioners to serve at their own expense. The Commission must be able to adequately compensate its Commissioners to perform the expected duties and to mitigate any financial burdens to serve the state. The Administration must also ensure it can attract and retain Commissioners with the appropriate expertise by mitigating the potential for financial constraints that may impact an individual's ability to serve.

Control: A

The Commission will work with the Department of Finance and the California State Transportation Agency to address the issue.

Risk: Staff Development

The Commission is losing knowledgeable, well-trained staff because there is not a natural line of promotional opportunities for analysts. The Commission faces unique challenges due to its small size, recent growth, and classification profile. There is not a natural career pathway for

entry/journey level analysts to be promoted to management level due to the small staff size, specific job duties, and lack of development and supervisory opportunities. The Commission invests in training new entry level staff and since internal opportunities are not as vast, the Commission has begun to lose staff to Caltrans or other agencies when they are ready for development or promotional opportunities. On-going turnover of trained and knowledgeable staff impacts the Commission's ability to accomplish its mission, goals, and objectives efficiently and effectively.

Control: A

The Commission prepared a Workforce Development and Succession Plan to develop and implement initiatives to address identified workforce gaps, including staff retention.

Control: B

The Commission is working with the California Department of Human Resources on the statewide Learning and Development Strategy Project.

Control: C

The Commission will schedule regular team building meetings for staff with the option of virtual or in-person attendance.

CONCLUSION

The California Transportation Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Tanisha Taylor, Executive Director

CC: California Legislature [Senate, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency