

California Transportation Commission

2015 SLAA REPORT

January 7, 2016

Brian Kelly, Secretary
California Transportation Agency
915 Capitol Mall, Suite 350-B
Sacramento, CA 95814

Dear Mr. Kelly,

In accordance with the State Leadership Accountability Act (SLAA), the California Transportation Commission submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Susan Bransen, Chief Deputy Director, at (916) 654-4245, susan.bransen@dot.ca.gov.

BACKGROUND

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 consists 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 ex-officio non-voting members are appointed from the State Senate and Assembly, usually the respective chair of the transportation policy committee in each house. The Commission is a part-time body that meets on a regular basis to formally review, approve and/or adopt state policy.

The Commission is responsible for programming and allocating funds used in the construction of highway, intercity passenger rail, transit and active transportation improvements throughout California. The Commission is statutorily responsible for making specific decisions in the programming and allocating of state transportation funds to the following programs: State Transportation Improvement Program (STIP); State Highway Operation and Protection Program (SHOPP); Active Transportation Program (ATP); Propositions 1A, 1B, and 116; Traffic Congestion Relief Program (TCRP); Local Assistance; Aeronautics and other programs.

Most recently, on September 30, 2014, Governor Brown signed Senate Bill (SB) 486 modifying the process for developing and adopting California's Transportation Plan, Interregional Transportation Strategic Plan, Interregional Transportation Improvement Program, and State Highway Operation and Protection Program. The provisions of SB 486 now require the Commission to prescribe areas of analysis and develop guidelines for Caltrans' preparation of the California Transportation Plan, among other new responsibilities. This new role requires close coordination and collaboration with Caltrans and other stakeholders to ensure statewide goals and objectives are addressed transparently and comprehensively in the California Transportation Plan. The Commission will also provide a public venue for the review of the Interregional Transportation Strategic Plan and the Interregional Transportation Improvement Program prior to approval. The Commission is required to develop and adopt asset management plan targets and performance measures, and also review and approve an asset management plan. Additionally, the Commission is required to review the State Highway Operation and Protection Program relative to its overall adequacy and consistency with the approved asset management plan and the funding priorities established in Streets and Highway Code Section 167, the level of annual funding needed to implement the program, and the impact of those expenditures on the State Transportation Improvement Program. The Commission must also adopt the State Highway Operation and Protection Program and submit it to the Legislature and the Governor.

The Commission is supported by an organization headed by an Executive Director who oversees a staff of 19 and an annual budget of \$3.8 million. The Executive Director acts as a liaison with the State Transportation Agency Secretary, the Department of Transportation (Caltrans) Director, and regional agency executive directors and their respective staff. The Executive Director also acts as a liaison between the Commission and the Legislature and its staff, interpreting actions taken by the Legislature and reporting to the Commission on areas of concern to the Legislature. Further, the Executive Director serves as a member of the Toll Bridge Program Oversight Committee and the California Transportation Financing Authority.

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. The Commissioners and staff alike are 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.

RISK ASSESSMENT PROCESS

The Commission relies on a system of continuous assessment and evaluation of its internal control structure that includes weekly staff meetings, weekly executive management meetings, and continuous communication, monitoring and reporting. For example, through weekly 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. For example the risks and corresponding mitigation measures identified in the 2013 Financial Integrity and State Manager's Accountability Act report were a key focus of management and, to the extent possible, control procedures were implemented to minimize these risks. In certain instances, where risks identified are outside the control of the Commission, the executive management makes an informed decision to accept the consequences and likelihood of these risks.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Staff—Key Person Dependence, Succession Planning

Succession Planning. The Commission's staff is comprised of high-level professionals, many of which are at or near retirement status. Given the policy-level nature of the Commission's responsibilities, and the limited pool of qualified candidates, replacing these individuals will be difficult. The Assistant Executive Director classification used for the Commission's three deputy director positions is a civil service classification which should be changed to a Career Executive Assignment (CEA). Recruiting for these positions is difficult due to compensation disparities in comparison with similar policy level making positions within state and local governments or the private sector.

To reduce the risk of filling these high-level positions with unqualified candidates, the Commission has prepared a request to the California Department of Human Resources to reclassify these three authorized Assistant Executive Director positions as CEAs. In addition, the Commission is directing its attention to training and development assignments of subordinate staff and has developed a workable succession plan.

Operations- Internal- FI\$Cal Conversion

FI\$CAL. With the implementation of the State's FI\$Cal system, the Commission is experiencing accounting system weaknesses. Travel expense claims are not processed timely and accounting records have not been received for fiscal year 2015-16. To avoid excessive staffing levels, the Commission contracts with the Department of General Services (DGS) for its accounting functions instead of hiring internal accounting experts. As a result, the Commission is reliant upon the expertise and diligence of the DGS accounting office for the processing of accounting activities in a timely, accurate, and comprehensive manner. As DGS struggles to catch up with a large backlog of invoices and TECs, the Commission is left without timely accounting records and significant delays in processing travel reimbursements.

Given the seriousness of this issue, the Commission's Executive Director has brought these concerns to the Director of DGS and kept the CalSTA Secretary apprised. In addition, the Commission's staff continues to monitor its expenditures for budgetary compliance and fiscal integrity to the extent possible.

Compliance- External- Funding—Sources, Levels

Legislative Responsibilities. In recent years, the Legislature has assigned increasing workload and oversight responsibilities to the Commission. Responsibilities include, but are not limited to, managing the State Highway Operation and Protection Program and the Active Transportation Program, overseeing the development of the state Asset Management Plan, writing guidelines for the California Transportation Plan, developing a technical advisory committee to help direct the development of a road charge pilot program, and approving applications to operate toll facilities on the state highway system, among others. Through this increased authority, the Legislature has clearly indicated its desire for the Commission to serve as a leader in accountability and transparency in delivering mobility solutions efficiently and effectively.

However, though responsibilities have increased, the Commission's budget has not kept pace. The Commission has had to become more efficient and selective about the workload that can be accomplished within existing resources. There is significant risk that the Commission will not be able to meet the Legislature's expectations for oversight and accountability without additional resources, potentially undermining the Commission's value and credibility.

The Commission has begun a process to justify its resource needs to the Department of Finance and ensure that it has the resources necessary to fulfill all responsibilities assigned to it by the Legislature and/or the Administration.

ONGOING MONITORING

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

Roles and Responsibilities

As the head of California Transportation Commission, Will Kempton, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Mitchell Weiss, Deputy Director, as our designated agency monitor(s).

Frequency of Monitoring Activities

The Commission relies on a system of continuous assessment and evaluation of its control structure. Identified risks, internal controls, and mitigation measures are to be recorded and reported monthly to Executive Management. Through each subsequent SLAA cycle, staff continues to reassess the risks and their corresponding controls. The Executive Director and Chief Deputy Director meet on an

on-going basis to consider issues and risks to the organization as well as methods to identify measures to prevent or minimize risks. All Commission staff meet weekly 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 Commission 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.

Reporting and Documenting Monitoring Activities

Mitchell Weiss, the Commission's Deputy Director and designated agency monitor, will monitor the risks through the aforementioned process and document via a report on a monthly basis to the Commission's Executive Director and Commission Chief Deputy Director. The Executive Director and Chief Deputy Director will review and take necessary action based on the report.

Procedure for Addressing Identified Internal Control Deficiencies

While the Commission is in compliance with the State Leadership Accountability Act (Government Code section 13400 et. seq.), staff will continue to monitor the progress of mitigation measures to address the aforementioned risks and will implement additional measures as necessary. In addition, the regular meetings, assignment of responsibilities and the monitoring process as described above are used as the primary method for identifying and addressing internal control deficiencies.

CONCLUSION

The California Transportation Commission strives to reduce the risks inherent in our work through ongoing monitoring. The California Transportation Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Will Kempton, Executive Director

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations