

Transportation 2015 SLAA REPORT

December 23, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Transportation 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 Amanda Esquivias, Administration and Finance Manager, at (916) 324-7514, Amanda.Esquivias@calsta.ca.gov.

BACKGROUND

The California State Transportation Agency (CalSTA) was created by Governor Edmund G. Brown Jr. through his Governor's Reorganization Plan #2, effective July 1, 2013. CalSTA consists of seven entities, each with a focus on safety, mobility and sustainability as they relate to California's transportation system and the traveling public. CalSTA provides necessary Cabinet-level attention and focus to coordinate the policies and programs emanating from the following transportation-related entities:

- The Department of Transportation
- The Department of Motor Vehicles
- The Department of the California Highway Patrol
- The Board of Pilot Commissioners
- The High Speed Rail Authority
- The California Transportation Commission

In addition to the entities above, the Office of Traffic Safety (OTS) is an operational transportation-related entity that resides within the CalSTA Office of the Secretary.

CalSTA Mission

CalSTA is charged with:

- Acting as a conduit between the departments, boards, commissions and offices within its jurisdiction and the Governor's Office in terms of policy and program development and execution.
- Overseeing the management of its departments, boards, commissions and offices to ensure they are operating efficiently and performing to expectations of the Agency, the Governor's Office, the Legislature, and taxpayers.
- Working with its departments, boards, commissions and offices to develop and execute policies designed to maximize the potential for the State's transportation system to reach its safety, mobility and sustainability objectives.
- Enhancing communication and coordination between departments, boards, commissions and offices to maximize the efficiency and effectiveness of policy and program execution.
- Being the primary communicator on statewide transportation matters with the media, the Legislature, the public and its stakeholders.
- Through its Office of Traffic Safety, effectively and efficiently administering traffic safety grant funds to reduce traffic deaths, injuries and economic losses.
- Operating ethically, efficiently and professionally in carrying out its mission and performing its functions and duties.

CalSTA Critical Business Function

CalSTA's critical business functions consist of providing administrative and policy guidance and oversight to constituent transportation-related entities, and administering traffic safety grant funds through the Office of Traffic Safety.

Scope of Review and Report

For purposes of this review and report, CalSTA comprises the Office of the Secretary of CalSTA, including the Office of Traffic Safety.

RISK ASSESSMENT PROCESS

Because CalSTA's critical business function consists of (a) providing administrative and policy guidance and oversight to constituent transportation-related entities and (b) administering traffic safety grant funds through the Office of Traffic Safety, the areas of potential risk are limited to:

- Administrative functions.
- Information security functions.
- Operations of the Office of Traffic Safety.

Within each of the three areas, management conducted a risk assessment to identify the highest risks and associated internal controls and monitoring processes.

More specifically, in conducting the risk assessment, CalSTA managers were asked to:

- List the principal functions/requirements.
- Rate each function/requirement as low, moderate or high, based on its impact on CalSTA in terms of accomplishing the organization's mission and goals.
- For each function/requirement determined to have a moderate or high impact, determine and identify the risks associated with each.
- For each of the risks associated with a function/requirement determined to have a moderate or high impact, rate the probability that each risk will occur as either low (remote), moderate (reasonably possible) or high (probable).
- For each risk determined to be potentially significant (i.e., with an impact/probability of occurrence combination of high/high, high/moderate or moderate/high), identify the controls that exist to prevent the risk from occurring and to help detect the occurrence of the risk.
- For each risk determined to be potentially significant, describe the regular and ongoing monitoring processes that are in place to ensure that the controls are functioning properly.
- For each risk determined to be potentially significant, identify (1) where the design of current controls may not be sufficient to mitigate risk, and where existing controls may not be operating effectively, and/or (2) where regular and ongoing monitoring processes require strengthening.
- Based on the identified control deficiencies, list the corrective action(s) to be taken, the date by which the corrective action(s) will be complete, and who will be responsible for implementing the action(s).

Our review and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on accounting and administrative controls. However, we did identify other reportable weaknesses that are described below.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Technology—Inadequate Support, Tools, Design, or Maintenance

OTS' current grant management system is paper-based. This system, however, creates the following

limitations and risks:

Manual processes –The paper system takes additional staff time to input duplicative information that can lead to clerical errors on final grant documentation and inaccurate grant reporting.

Lack of integrated information and inadequate reporting capabilities – Every year, OTS processes approximately 370 grant proposals, 190 grant agreements, 120 grantee performance reports, 1,550 quarterly/final performance reports and 1,690 reimbursement claims. Data is extracted from paper forms and manually entered by OTS employees, but represents only a subset of all data on these forms. Without inputting all data on the forms, this process limits the queries that OTS can utilize for evidence-based decision making in awarding and administering grants, which limits OTS' ability to fund projects in the most effective and efficient manner.

Although OTS has met data requirements by leveraging desktop productivity applications such as Microsoft Word, Excel, and Adobe Acrobat to facilitate distribution, completion and accuracy of forms, these tools have only marginally increased efficiency. For example, all of the forms identified above still must be printed and submitted in hardcopy format. OTS has also created and currently maintains a Microsoft Access database into which much of the grant program data is entered; however, this data is extracted from paper forms and manually entered by OTS support staff, and consists of only a subset of all data on these forms.

OTS will continue to develop an electronic grant system. An eGrant system could provide for a much more efficient way to manage the Highway Safety Grant Application process for both the OTS and the grant applicants by:

- Pre-populating as much information as possible.
- Providing access to locality-specific crash data.
- Providing a means to save application data, reports, and amendments.
- Improving data capture and reporting capabilities.

Operations- Internal- Staff—Training, Knowledge, Competence

As a small entity, OTS is dependent on key personnel with critical knowledge of its program operations, funding and reporting requirements. A temporary absence of these key personnel can have an adverse effect on the operations. A critical component of OTS' cross-training program is documentation of current policies and procedures in key operating manuals used by personnel as a resource and reference while training for various assignments throughout OTS.

OTS will continue its cross-training program with the revision of the following key operating manuals:

- Administration Manual
- Fiscal Manual
- Operations Manual
- Support Manual

Compliance- Internal- Staff Not Adhering to Policies, Procedures, or Standards

CalSTA documentation describing the policies and procedures associated with administrative and operational processes are outdated. The lack of updated policies increases the likelihood that (a) processes are executed improperly and errors or irregularities could occur, (b) operations are ineffective, and (c) policies may not fully comply with current laws or regulations.

CalSTA is in the final stages of updating a comprehensive administrative policy manual. Once

complete and approved by the Secretary, the manual will be disseminated to all personnel.

ONGOING MONITORING

Through our ongoing monitoring processes, the Transportation 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 Transportation, Brian P. Kelly, Secretary, is responsible for the overall establishment and maintenance of the internal control system. We have identified Michael R. Tritz, Deputy Secretary, as our designated agency monitor(s).

Frequency of Monitoring Activities

CalSTA and OTS individually hold weekly management meetings. Meeting topics include discussion of current and potential internal control issues. These meetings allow senior level management to be directly involved with the review, evaluation, and improvements to systems of internal control. Additionally, OTS Grant Coordinators monitor potential grantee risks through ongoing grantee performance reviews.

Reporting and Documenting Monitoring Activities

On a quarterly basis, OTS will submit reports to CalSTA to inform management of the monitoring practices being conducted, improvements needed, and the overall monitoring strengths or weaknesses. This information is summarized and reported to the Secretary.

CalSTA requires management to provide vital information and updates to personnel monthly. Personnel are also encouraged to report possible deficiencies to their supervisor.

Procedure for Addressing Identified Internal Control Deficiencies

Any deficiencies noted in either the quarterly reports or deficiencies that have been recently identified will be discussed in management meetings. The management team is responsible for the design of procedures and ongoing assessment of the implementation. Updates related to identified internal control deficiencies will be reported to the Secretary.

Finally, management will inform all staff of policy or procedure changes to assist in the mitigation of any deficiencies discovered.

CONCLUSION

The Transportation strives to reduce the risks inherent in our work through ongoing monitoring. The Transportation 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.

Brian P. Kelly, Secretary

cc: Department of Finance
Legislature

State Auditor
State Library
State Controller
Secretary of Government Operations