Dear Mr. Brian Kelly,

In accordance with the State Leadership Accountability Act (SLAA), the California Transportation Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Mitch Weiss, Chief Deputy Director, at (916) 654-4245, mitch.weiss@catc.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 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 Account; Propositions 1A, 1B, and 116; Traffic Congestion Relief Program; Local Assistance; Aeronautics; and other programs.

The Governor signed Senate Bill (SB) 1 – the Road Repair and Accountability Act of 2017 last April. The Administration estimates this legislation will increase state revenues for California’s transportation system by an average of $5.2 billion annually over the next decade. SB 1 provides the first significant, stable, and on-going increase in state transportation funding in more than two decades. SB 1 “presents a balance of new revenues and reasonable reforms to ensure efficiency, accountability, and performance from each dollar invested to improve California’s transportation system.” Among other goals, SB 1 seeks to:

1. Direct increased revenue to the state’s highest transportation needs; and
2. Fairly distribute the economic impact of increased funding between all users.

SB 1 creates the Road Maintenance and Rehabilitation Account and the Road Maintenance and
Rehabilitation Program. Programs funded by this account include the Local Partnership Program, the Active Transportation Program, the State Highway Operation and Protection Program (SHOPP), and Local Streets and Roads apportionments. SB 1 also creates two new registration fees, the Transportation Improvement Fee imposed on all motor vehicles, and the Road Improvement Fee imposed on zero-emission motor vehicles. Revenues from the Road Improvement Fee will be deposited in the Road Maintenance and Rehabilitation Account. Revenues from the Transportation Improvement Fee will be deposited in the Public Transportation Account to fund the Transit and Intercity Capital Rail Program and the State Transit Assistance Program, in the State Highway Account to fund the Solutions for Congested Corridors Program, and in the Road Maintenance and Rehabilitation Account.

SB 1 states that “it is the intent of the Legislature that the California Department of Transportation (Caltrans) and local governments are held accountable for the efficient investment of public funds to maintain the public highways, streets, and roads, and are accountable to the people through performance goals that are tracked and reported.” Recognizing the emphasis SB 1 places on accountability, the Commission has incorporated measures in its adopted guidelines for the individual programs under its purview to promote efficiency, accountability, and performance from each dollar invested.

In addition to implementing SB 1, the Commission continues to work with the Department of Transportation (Caltrans) and other partners to address SB 486 (DeSaulnier, 2014). SB 486 modified the process for developing California’s Transportation Plan, Interregional Transportation Strategic Plan, Interregional Transportation Improvement Program, and State Highway Operation and Protection Program. To implement the provisions of SB 486, the Commission adopted guidelines that prescribe areas of analysis to guide Caltran’s preparation of the California Transportation Plan, the Transportation Asset Management Plan, and the State Highway Operation and Protection Program. The Commission also provided a public venue for the review and approval of the Interregional Transportation Strategic Plan. Public venues are also planned for the Interregional Transportation Improvement Program, the State Transportation Improvement Program, the Asset Management Plan, and the State Highway Operation and Protection Program. The Commission also adopted targets and performance measures for pavement, bridges, culverts and transportation management system assets and is in the process of reviewing Caltrans’ draft Asset Management Plan.

Additionally, the Commission is preparing to review the 2018 State Highway Operation and Protection Program relative to its overall adequacy and consistency with the 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. This review is necessary since the Commission is now required to adopt the State Highway Operation and Protection Program and submit it to the Legislature and the Governor – or decline to adopt the State Highway Operation and Protection Program if it finds it inconsistent with the Asset Management Plan.

The Commission is supported by an organization headed by an Executive Director who oversees a staff of 24 authorized positions and an annual budget of $5.625 million. The Executive Director acts as a liaison with the State Transportation Agency Secretary, the 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. 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.

ONGOING MONITORING

As the head of California Transportation Commission, Susan Bransen, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

Executive Monitoring Sponsor(s)

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Transportation Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Susan Bransen, Executive Director, Justine To-Gutterres, Administrative Officer, and Mitch Weiss, Chief Deputy Director.

Monitoring Activities

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

Roles and Responsibilities. Susan Bransen serves as Executive Director for the California Transportation Commission and is responsible for the overall establishment and maintenance of internal control systems. Mitch Weiss, Chief Deputy Director, is designated as agency monitor.

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 State Leadership Accountability Act cycle, staff continues 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 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.

Addressing Vulnerabilities

Reporting and Documenting Monitoring Activities. Mitch Weiss, the Commission’s Chief 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.

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. 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.

**Communication**

**Reporting and Documenting Monitoring Activities.** Mitch Weiss, the Commission’s Chief Deputy Director and executive monitoring sponsor, will monitor the risks through the aforementioned process and document via a report on a monthly basis to communicate new or status of existing vulnerabilities and control inefficiencies throughout the organization to the Commission’s Executive Director.

**Ongoing Monitoring Compliance**

The California Transportation Commission is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Transportation Commission systems of controls and monitoring.

**RISK ASSESSMENT PROCESS**

The following personnel were involved in the California Transportation Commission risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

**Risk Identification**

**Frequency of Monitoring Activities.**

As stated above, the Commission relies on a system of continuous assessment and evaluation of its control structure, identified risks, internal controls, and mitigation measures. Meetings are routinely held by the Executive Director and Chief Deputy Director with Commissioners, Deputy Directors and all staff to discuss actual and potential risks to the organization and measures required to prevent, detect, correct and/or minimize risks to less than significant levels. The Chief Deputy Director is directly involved with the Deputy Directors on day to day basis to timely identify and address risks to the organization. Through on-going communication including weekly meetings, all staff understand that Executive Management is to be notified as soon as possible of any potential or actual risks that are identified during the course of work to ensure that the necessary actions are taken timely to prevent, detect and correct risks to the organization. Staff meetings are also held weekly to discuss ongoing issues and to identify measures necessary to address identified risks, to prevent risks, and to ensure that necessary mitigation measures are working effectively to minimize, prevent and correct known risks.

**Risk Ranking**

The Executive Director, Chief Deputy Directors and Deputy Directors meet weekly to discuss risks to the organization and the degree to which risks pose a serious threat to the Commission’s ability to meet its mission. Those risks that pose the greatest threat to the organization are deemed the highest priority for action. However, all identified risks are deemed important and mitigation measures are implemented for the less critical risks as well.
RISKS AND CONTROLS

Risk: Operations - Internal - Program/Activity—Changes, Complexity
SB 1 signed by the Governor in April 2017, increased the Commission's responsibilities with regard to transportation funding, accountability and reporting. In addition to augmenting existing transportation programs such as the State Transportation Improvement Program; Active Transportation Program; and the State Highway Operation and Protection Program; SB 1 created new funding programs under the Commission's purview such as the Local Partnership Program, Solutions for Congested Corridors, and the Trade Corridor Enhancement Program. SB 1 also placed specific new requirements for the Commission to increase transparency and accountability of transportation funding and project delivery. Given these new responsibilities, there is increased risk of not fully implementing the provisions that fall within the Commission's purview within the timeframe envisioned by the Legislature and Administration.

Implementing new programs and accountability requirements must be carefully carried out to ensure that transportation funding investments are transparently and effectively directed to the projects that will provide the greatest overall benefit to California and that those receiving the funds are held accountable.

Therefore, it is critical that comprehensive procedures and processes are transparently established, implemented and monitored to ensure that the Commission's increased responsibilities are successfully implemented.

Control A
For each new statutory role, experienced staff leads were assigned, numerous public workshops were held throughout California to solicit input on program and accountability guidelines; guidelines setting forth the Commission's direction for implementation of each program were adopted through open, transparent and public processes; progress reports were made at each Commission meeting to seek input, and qualified staff were hired to increase assurance that SB 1 is successfully implemented.

Risk: Operations - Internal - Staff—Key Person Dependence, Workforce Planning
Achievement of the Commission's workload requires highly skilled and dedicated professionals with the ability to develop sound policy recommendations for the Commission's consideration within a short period of time. Specifically, the Commission's staff must have the ability to formulate and bring forward sound and timely recommendations to protect and improve California's transportation system for the Commission's consideration.

Given the complex policy-level nature of the Commission's responsibilities, and the limited pool of qualified candidates, hiring individuals is difficult.

As as result, the Commission has been placed in a position of excessive dependence on existing staff, with many staff taking on assignments over and above their existing workload until new staff are hired and trained.

Control A
Recognizing that accomplishing the Commission's complex, extensive and time sensitive workload requires uniquely skilled staff comprised of high-level professionals, the Commission has converted three of its positions to the Career Executive Assignment classification allowing for a larger and more qualified candidate pool. The Commission has also reclassified a number of its middle management positions to ensure a larger and more competitive candidate pool. In addition, the Commission seeks assistance from Caltrans, student interns, and retired annuitants to ensure that workload is
successfully accomplished.

**Risk: Compliance-Internal-Resource Limitations**

The Legislature has assigned increasing workload and oversight responsibilities to the Commission with the passage of SB 1 (Beall, 2017), Assembly Bill 179 (Cervantes, 2017), SB 486 (DeSaulnier, 2014), and more. Through this increased authority and responsibility, 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.

Without the necessary resources, there is risk that the Commission will not meet the Legislature’s expectations for oversight and accountability, potentially undermining the Commission’s value and credibility.

While the Commission has received resources to assist in meeting these new responsibilities, until the workload is normalized, it cannot be certain that the current level is sufficient.

**Control A**

The Commission will, in consultation with the Department of Finance, continue to monitor the workload to determine whether additional resources are required to fulfill all responsibilities assigned to it by the Legislature and Administration.

**Risk: Operations -Internal-FI$Cal Implementation, Maintenance, or Functionality**

Delayed financial reports necessary to make effective business decisions have impacted the Commission’s ability to address operational issues in a timely manner.

These delays have occurred because of turnover in administrative staff and because Commission administrative staff lacks sufficient accounting expertise. The Commission contracts its fiscal services with the Department of General Services (DGS) instead of hiring internal financial expert(s), however, some expertise is required to analyze information received from DGS and FI$Cal, and to prepare monthly internal financial reports. Because of administrative staff turnover and administrative staff’s lack of skills necessary, staff has been unable to prepare timely internal financial and other business reports to inform executive management of the Commission’s operations.

The delay in financial reporting has impacted the Commission’s ability to address operational issues in a timely manner.

**Control A**

The Commission has borrowed a Caltrans financial manager to assist Commission staff in formulating budgetary, financial and other operational reports necessary to make sound and timely business decisions. The Commission is also in the process of assessing the civil service classification necessary within the Commission to coordinate on a daily basis with DGS to ensure comprehensive financial and budgetary information is timely prepared and submitted to Executive Management. Once this assessment is complete, the Commission will consult with the Department of Finance if a reclassification of an existing position is determined necessary.

**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 controls to prevent
those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Susan Bransen, Executive Director**

CC: California Legislature [Senate (2), Assembly (1)]
- California State Auditor
- California State Library
- California State Controller
- Director of California Department of Finance
- Secretary of California Government Operations Agency