



U.S. Department
of Transportation
**Federal Transit
Administration**

REGION IX
Arizona, California,
Hawaii, Nevada, Guam,
American Samoa,
Northern Mariana Islands

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December 20, 2022

Matthew Tucker
Executive Director
North County Transit District
810 Mission Ave
Oceanside, CA 92054

Re: Full Scope Systems Financial Management
Oversight Review **Final Report**

Dear Mr. Tucker:

Please find attached a copy of the Final Report for the Federal Transit Administration's (FTA) Full Scope Systems Financial Management Oversight Systems Review conducted at the North County Transit District by the FTA's review contractor, TFC Consulting, Inc.

The report incorporates your responses to the significant deficiencies and advisory comments included in the report and the reviewer's comment on the adequacy of the proposed corrective action.

If you have any questions or comments, please contact Darin Allan, Director of the Region 9 Office of Financial Management and Program Oversight, at 415-734-9470 or darin.allan@dot.gov; or the reviewer, Jed Stancato from TFC Consulting, Inc., at 330-958-1157 or jstancato@tfcci.net.

Sincerely,

For Ray Tellis
Regional Administrator

Attachment



FINANCIAL MANAGEMENT OVERSIGHT PROGRAM

Full Scope Systems Review

of

North County Transit District

PERFORMED FOR

U.S. DEPARTMENT OF TRANSPORTATION

FEDERAL TRANSIT ADMINISTRATION



Prepared by

**TFC Consulting, Inc. and
Deva & Associates, P.C. (as Subcontractor to TFC Consulting, Inc.)**

Report Date: November 22, 2022

Draft Report Submission Date: November 22, 2022

Final Report Submission Date: December 19, 2022

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**U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL TRANSIT ADMINISTRATION**

**FINANCIAL MANAGEMENT OVERSIGHT PROGRAM
FULL SCOPE SYSTEMS REVIEW**

NORTH COUNTY TRANSIT DISTRICT

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INDEPENDENT ACCOUNTANTS' REPORT



TFC Consulting, Inc.
9200 Corporate Boulevard., Suite 260
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INDEPENDENT ACCOUNTANTS' REPORT

To the Regional Administrator
Federal Transit Administration Region IX:

We understand that the Federal Transit Administration (FTA) has awarded North County Transit District (NCTD) the grants listed in Section I of this report. We have examined management's assertion, included in its representation letter dated November 22, 2022, that NCTD maintained effective internal control over its compliance with FTA financial management system requirements during the period April 1, 2020, through March 31, 2022, as set forth in Section VI of this report, based on the following:

- For grants awarded or modified on or after December 26, 2014, [2 CFR Part 200](#), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Section [200.302](#), *Financial Management*.

Management is responsible for maintaining effective internal control over NCTD's compliance with FTA financial management system requirements. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the financial management system, testing, and evaluating the design and operating effectiveness of the financial management system, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NCTD's compliance with FTA financial management system requirements.

Because of inherent limitations in any internal control structure or financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that NCTD maintained effective internal control over its compliance with FTA financial management system requirements during the period April 1, 2020, through March 31, 2022, is fairly stated, in all material respects, based on the criteria established by the FTA as set forth in Section VI of this report.



INDEPENDENT ACCOUNTANTS' REPORT (continued)

Our examination identified a significant deficiency in NCTD's internal controls over compliance with FTA financial management system requirements. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency is discussed in Section III of this report. Certain advisory comments regarding procedures that do not affect our opinion or impact the criteria cited in the first paragraph of this report are described in Section IV of this report.

TFC Consulting, Inc.

Certified Public Accountants

November 22, 2022

SECTION I

BRIEF DESCRIPTION – NORTH COUNTY TRANSIT DISTRICT

BRIEF DESCRIPTION – NORTH COUNTY TRANSIT DISTRICT

Background

On September 20, 1975, the North San Diego County Transit Development Board was created by California Senate Bill (SB) Number 802. In January 2006, it was renamed by the State Legislature as the North County Transit District (NCTD). NCTD was created to plan, construct, and operate directly, or through a contractor, public transit in its area of jurisdiction.

NCTD provides bus, complementary paratransit, and train services in the northern part of San Diego County. This includes the cities of Carlsbad, Del Mar, Encinitas, Escondido, Oceanside, San Marcos, Solana Beach, and Vista, as well as the rural areas of Fallbrook and Ramona, Camp Pendleton Marine Corps Base, and unincorporated areas of North San Diego County. NCTD owns the coastal rail corridor from the Orange County line to the northern border of the City of San Diego and operates commuter rail service on this line from Oceanside to Santa Fe Depot in downtown San Diego. The total population of NCTD's 1,020 square mile service area is approximately 1,043,000 persons.

Fixed Route, Demand Response, Route Deviation and Complementary ADA Paratransit Service

NCTD's contractor, MV transportation, Inc., operates BREEZE, FLEX, and LIFT. The BREEZE's 30 fixed routes provide service on weekdays from approximately 4:00 a.m. to 12:15 a.m. Saturday service is operated from approximately 4:00 a.m. to 12:00 a.m. Sunday service operates from approximately 4:30 a.m. to 12:00 a.m.

The service hours for FLEX deviated fixed route are from approximately 5:00 a.m. to 8:30 p.m. Monday through Friday and from approximately 5:30 a.m. to 7:15 p.m. on weekends. Due to changes in running times on routes and connections with other services, service span can change by a few minutes in either direction.

The LIFT complementary ADA paratransit service operates during the same days and hours of service as the BREEZE fixed-route bus service.

The basic adult one-way fare for the BREEZE is \$2.50. A reduced fare of \$1.25 is offered to seniors (65 years old and above), youth (ages 6 through 18), persons with disabilities, and Medicare cardholders during all hours. The one-way fares for FLEX service are \$5.00 for adults and \$2.50 for seniors (65 years old and above), youth (ages 6 through 18), persons with disabilities, and Medicare cardholders. The LIFT complimentary ADA paratransit service fare is \$5.00 per trip.

There are 152 FTA-funded buses in the BREEZE fleet. The LIFT service provides ADA complementary paratransit service with 42 vehicles. The FLEX service consists of three (3) routes using eight (8) NCTD vehicles. MV Transportation also subcontracts a limited number of trips to meet demand and increase efficiencies.

BRIEF DESCRIPTION – NORTH COUNTY TRANSIT DISTRICT

Background (continued)

The BREEZE, LIFT, and FLEX services are operated from two maintenance garages. The West Division is located in Oceanside and the East Division is located in Escondido. NCTD has two administration/office buildings located in Oceanside: 810 Mission Avenue and 311 South Tremont Street.

COASTER and SPRINTER Rail Service

NCTD's Rail Division operates the COASTER and SPRINTER train services. The COASTER is a north-south commuter rail service that operates with tenant railroads - Amtrak, Metrolink, and BNSF freight services, utilizing 41.0 miles of track linking Oceanside to Downtown San Diego, with eight rail stations. In Oceanside, the COASTER connects with the BREEZE, FLEX, SPRINTER, Greyhound, Amtrak, and Metrolink. In San Diego, the COASTER connects with the MTS bus, MTS Trolley, and MTS Rapid Bus.

The COASTER service operates seven days a week, from approximately 5: a.m. to 10:30 p.m. on weekdays, and approximately 7:30 a.m. to 12:45 a.m. on weekends. The COASTER also operates extended hours on Fridays. The COASTER fare is determined by the number of zones through which a customer travels. The basic one-way fare ranges from \$5.00 to \$6.50 with a reduced one-way fare ranging from \$2.50 to \$3.25 for seniors (65 years old and above), youth (ages 6 through 18), persons with disabilities, and Medicare cardholders.

The COASTER has seven (7) diesel locomotives, 10 cab cars, and 18 coach cars and its operations facility is located on the Camp Pendleton Marine Corps Base at the Stuart Mesa Operations and Maintenance Facility.

The SPRINTER is a hybrid rail service operating east-west on 22.0 miles of track that links Escondido to Oceanside and serves 15 stations. In Escondido, the SPRINTER connects with the BREEZE, FLEX, MTS Rapid bus, MTS Rapid Express, and Greyhound services. In Oceanside, the SPRINTER connects with the COASTER, Metrolink, Amtrak, BREEZE, and Greyhound. The SPRINTER service operates seven days a week, from approximately 4:03 a.m. to 9:26 p.m., with similar service hours on Saturdays and Sundays. The basic SPRINTER one-way fare is \$2.50 with a reduced one-way fare of \$1.25 for seniors (65 years old and above), youth (ages 6 through 18), persons with disabilities, and Medicare cardholders. The SPRINTER has 12 Diesel Multiple Units (DMUs) and its Operations Facility is located at 1021 W. Washington Boulevard in Escondido.

NCTD is responsible for 82.6 miles of rail right-of-way. This includes 22.0 miles of SPRINTER track, 0.4 miles of track east of Escondido Transit Center used primarily by freight, and 60.6 miles of track along the main north-south line between Orange County and the northern border of the City of San Diego.

BRIEF DESCRIPTION – NORTH COUNTY TRANSIT DISTRICT

Active Federal Transit Administration (FTA) Awards

The following is a list of NCTD’s active FTA awards listed in the Transit Award Management System (TrAMS) as of March 31, 2022.

Award Number	Description	Authorized Federal Share	Federal Share of Expenditures
CA-2019-084	5307 Capital & Preventive Maintenance FFYs 2018\$ & 2019\$	\$ 20,074,258	\$ 17,678,771
CA-2021-216	5337 FY21 Capital Projects and Preventive Maintenance	6,737,447	219,128
CA-2022-054	ARP Section 5307 NCTD Operating Assistance and Prev Maintenance	60,174,403	-
CA-2020-275	5337 Capital & Preventive Maintenance FFY20 - FTIP 18-13	10,545,555	9,171,505
CA-2022-038	5307 FY21 Capital and PM projects	14,229,842	858,843
CA-2017-133	FFY 2017 5337 State of Good Repair	11,045,921	10,927,877
CA-90-Z096	Capital and Planning FY13	5,704,329	5,583,541
CA-2020-069	NCTD FFY20 5307-6 CARES Act Grant - Op Assist and Prev Maint	94,280,268	85,999,550
CA-2017-021	FFY16 Rail State of Good Repair	11,045,921	10,402,717
CA-2016-113	FFY16 Capital Projects and PM	14,461,489	13,882,245
CA-2020-026	5339(b) Zero Emission Bus Purchase	1,206,518	-
CA-2019-010	5339 - Facility Rehab/Improvements, Admin IT - FY2018\$	1,694,283	1,167,034
CA-2021-205	5339 FFY21 BUS Engines, Transmissions and Fareboxes	1,850,450	443,094
CA-2019-090	5337 Capital & Prev Maintenance FFYs 2016, 2018 & 2019\$	15,039,361	14,165,265
CA-90-Y874	Capital and Planning FY11	17,122,340	17,057,124
CA-2017-134	FFY17 5307 Capital Projects and PM	18,258,939	17,983,564
CA-2020-235	5307 Revenue Vehicle Replacement, Capital Improvement & Preventive Maintenance - FTIP 18-13	20,155,636	17,472,882
CA-2019-005	5307 - Facility/Vehicle Rehab, Shelters, PM, Planning - FY2018\$	18,678,984	18,143,244
CA-90-Z241	FFY15 Capital Projects and PM	11,528,711	11,324,479
Grand Total		\$ 353,834,655	\$ 252,480,863

SECTION II

MATERIAL WEAKNESSES

MATERIAL WEAKNESSES

For purposes of this examination, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that instances of material noncompliance with the FTA Financial Management system requirement may have occurred and were not prevented or detected and corrected on a timely basis.

None of the matters identified during the examination were considered to be material weaknesses in NCTD's financial management system.

SECTION III

SIGNIFICANT DEFICIENCIES

SIGNIFICANT DEFICIENCIES

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The significant deficiency identified during our examination is presented below, with notation of the standards impacted, recommendations, discussion of the significance of the condition, a summary of the recipient's proposed corrective actions, and evaluations thereof.

SIGNIFICANT DEFICIENCIES

1. NCTD Did Not Include Required Information in Milestone Progress Reports

Finding

Milestone Progress Reports filed by NCTD either do not include all required information related to project status or do not provide sufficient detail regarding project activities.

Standards Impacted

2 CFR §200.302(b) *Financial Management*. “The financial management system of each non-Federal entity must provide for the following:... (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation. (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. (5) Comparison of expenditures with budget amounts for each Federal award.”

2 CFR §200.303 *Internal Controls*. “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award... (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards. (c) Evaluate and monitor the non-Federal entity’s compliance with statutes, regulations and the terms and conditions of Federal awards.”

FTA Circular 5010.1E Chapter III(3)(d). *Milestone Progress Reports (MPR)* “The MPRs must be submitted for each active Award. The MPR is the primary written communication between the recipient and FTA. This report must be submitted electronically. If only operating assistance is included in the Award, the reporting requirements are limited to the actual dates when all federal assistance has been expended. The information provided in MPR reports should be as complete as possible, highlighting progress toward project objectives and any potential problem areas. Each MPR must include the following data as appropriate: (1) The current status, at a minimum, of each milestone that has passed during the prior reporting period, within an active Award. FTA, at its discretion, may request a recipient to update each milestone within an active Award. MPRs should identify: a) The actual completion dates for any milestones completed during the reporting period, and b) Any revised dates when any original (or last revised) completion dates were not met. c) If the milestone date exceeds the Award end date, the recipient should consult the FTA Regional Office to determine if the change to the Award end date will be made through a budget revision or an amendment. (2) A narrative of the activity status, any problems encountered in implementation, specification preparation, bid solicitation, resolution of protests, and third-party contract Awards. (3) A detailed discussion of all Award Budget or schedule changes. (4) An explanation of why scheduled milestones or completion dates were not met. (5) Identification of problem areas and a

SIGNIFICANT DEFICIENCIES

1. NCTD Did Not Include Required Information in Milestone Progress Reports (continued)

Standards Impacted (continued)

narrative on how the problems will be solved. (6) A discussion of the expected impacts and the efforts to recover from the delays. (7) An analysis of each significant project cost variance: Completion and acceptance of equipment and construction or other work should be discussed, together with a breakout of the costs incurred and those costs required to complete the project. Use quantitative measures, such as hours worked, sections completed, or units delivered. (8) A list of all outstanding claims exceeding \$100,000, and all claims settled during the reporting period. This list should be accompanied by a brief description, estimated costs, and the reasons for the claims. (9) A list of all potential and executed change orders, as defined in Circular 4220.1, and amounts exceeding \$100,000, pending or settled, during the reporting period. This list should be accompanied by a brief description. Identification of change orders does not imply notification, acceptance, or approval of budgetary changes that might be required. (10) A list of claims or litigation involving third-party contracts and potential third-party contracts that: a) Have a value exceeding \$100,000; b) Involve a controversial matter, irrespective of amount; or c) Involve a highly publicized matter, irrespective of amount. (11) A list of all real property acquisition actions, including just compensation, property or properties under litigation, administrative settlements, and condemnation for each parcel during the reporting period. (12) All rolling stock ALIs must include a milestone for Contract Award.”

Recommendations

We recommend NCTD do the following:

- 1) Consider revisions to policies and procedures to ensure that all required data elements in MPRs are included;
- 2) Remind project management staff that sufficient details regarding project activities should be included in MPRs particularly when moving projects between awards; and
- 3) Institute a quality assurance process to ensure that all required fields in the MPR spreadsheets are populated; sufficient details are provided to describe project changes, funding changes, and project status; and project updates discuss the status of all open Activity Line Items (ALIs) in accordance with the requirements of FTA Circular 5010.1E.

These corrective actions should be completed within 120 days from the date of receipt of this report.

SIGNIFICANT DEFICIENCIES

1. NCTD Did Not Include Required Information in Milestone Progress Reports (continued)

Discussion

In preparing MPRs, NCTD uses a spreadsheet updated by each project manager, containing a row for each required element. The design of the spreadsheet includes fields for all the data elements required, however, NCTD is not consistently filling out all the information needed for the MPR. Out of a sample of 10 MPRs, 6 MPRs did not include all of the information required. Additionally, there were instances in which the MPR did not provide sufficient detail to enable the reader to understand the project's status and significant issues. In some cases, ALIs that were still open had no discussion in the narrative of the report.

Notable examples include the following:

- CA-2016-113 – The Federal Quarter 2 MPR (March 31, 2022) did not include narrative writeups for all open ALIs. For example, 12.42.20 shows a revised estimated completion date of June 30, 2022, but includes no discussion of the activity's status or the reason for the change in the completion date. Also, there were 11 different projects listed in the narrative from the recipient but the ALI mentioned only three projects, stating, "This ALI will fund replacement of the two (2) existing drive-thru bus wash systems located at NCTD Bus Operations West Division, and one (1) existing drive-thru bus wash system located at NCTD Bus Operations East Division.";
- CA-2019-084 – The Federal Quarter 2 MPR narrative mentions that additional funds were programmed for the project to cover costs but does not explain why additional funds were needed. Additionally, NCTD included ALI 11.42.11 in the MPR for this award because NCTD intends to submit a grant revision to add this ALI to the project. As of the date of the MPR, however, ALI 11.42.11 was not included in the award and no money had yet been spent on it; and
- CA-2017-021 – The Federal Quarter 2 MPR milestone dates were not updated for ALI 12.44.20 and the MPR provided no information related to bid solicitation and contract awards for the procurement of goods for the ALI.

Project managers should ensure that all required fields in the MPR spreadsheets are populated and be as specific as possible when describing project changes, funding changes, and project status. In addition, their project updates should discuss the status of all open ALIs.

SIGNIFICANT DEFICIENCIES

1. NCTD Did Not Include Required Information in Milestone Progress Reports (continued)

Recipient Response

NCTD Corrective Actions to address the Significant Deficiency

The significant deficiency indicates that MPRs filed by NCTD either do not include all required information related to project status or do not provide sufficient detail regarding project activities.

TFC has made the three (3) recommendations below, to which NCTD will implement the following corrective actions within 120 days following receipt of the Final Report from the FTA.

Recommendation No. 1

Consider revisions to policies and procedures to ensure that all required data elements in the MPRs are included.

Corrective Action No. 1: NCTD will revise its Administrative Policy FIN-5042 to include not only the required data elements but also sufficient project-related details such as reasons for change in project scope and timelines or budget revisions. NCTD will also update its Project Delivery Manual to ensure all the required project related information are properly documented and reported with the MPRs.

Recommendation No. 2

Remind project management staff that sufficient details regarding project activities should be included in the MPRs particularly when moving projects between awards.

Corrective Action No. 2: The Capital Project Manager includes reminders of the required key project information for the MPRs in notices to project managers for upcoming report due dates. NCTD will develop training courses for project managers, accounting managers, and contracting officers, which will include the requirements for documenting and reporting the necessary detailed project information when preparing the MPRs.

Recommendation No. 3:

Institute a quality assurance process to ensure that all required fields in the MPR spreadsheets are populated; sufficient details are provided to describe project changes, funding changes, and project status; and project updates discuss the status of all open Activity Line Items (ALIs) in accordance with the requirements of FTACircular5010.IE.

SIGNIFICANT DEFICIENCIES

1. NCTD Did Not Include Required Information in Milestone Progress Reports (continued)

Recipient Response (continued)

Corrective Action No. 3: While NCTD has already established multiple layers of review conducted by the Capital Project Manager and the Chief Financial Officer to ensure MPR spreadsheets contain the required project data, NCTD will implement the following steps:

- Improve the review process by checking and verifying the financial status of projects against the ALIs. This review will be performed by the Capital Project Manager and the Accounting Manager – Grants and Projects.
- Add two (2) new data fields to the project tracking spreadsheet to show any budget changes and the associated reason. The data fields will be populated by the project managers. This will help better track budget changes for projects.

NCTD's goal is to achieve a higher level of quality assurance by instituting the above steps to ensure sufficient and accurate project details are included with the MPRs.

Evaluation of Recipient's Response

The recipient's response is considered adequate.

SECTION IV

ADVISORY COMMENTS

ADVISORY COMMENTS

For purposes of this examination, an advisory comment represents a control deficiency in the design or operation of the financial management system that is not significant enough to adversely affect NCTD's ability to record, process, summarize, and report financial and related data consistent with the requirements of [2 CFR Part 200.302](#).

The advisory comments presented in this section represent matters that came to our attention during the course of the examination and are offered to NCTD's management as opportunities for improvement. These advisory comments are provided along with recommendations and discussion of the significance of the conditions.

ADVISORY COMMENTS

1. NCTD Budgeting Processes for Programming Funds Could Be Improved

Finding

NCTD has a system in place to request budget revisions in a timely manner. We noted instances, however, in which only part of the award funding was reflected in tracking spreadsheets at the beginning of the project. The tracking spreadsheets were later revised to add the remaining funds as the project progressed.

Recommendation

We recommend that NCTD ensure that award budgets are reflected accurately in project tracking documents in order to effectively monitor project progress.

Discussion

We selected a sample of 10 awards and reviewed the tracking spreadsheets used by NCTD to track award progress. We performed the following steps to determine whether budget revisions had been performed in a timely manner:

- Reviewed the spreadsheet to determine whether there were any budget revisions during the review period;
- Agreed award budget per the spreadsheet to the award budget per TrAMS;
- Determined whether any ALIs were over-expended;
- Determined whether the cumulative overage exceeded 20% of the budget (requiring prior approval before charging expenses to the award); and
- Determined whether a budget revision was submitted for approval prior to over-expenditure of 20% or more.

For 4 out of the 10 awards reviewed, we noted:

- For CA-2022-054, \$39 million in funds are not programmed in the JD Edwards financial management system (JDE). Additionally, the budget shown on the tracking spreadsheet does not agree to award amount from FTA because a portion of the funds have not been programmed. However, there are no current variances related to FTA funding;
- For CA-2020-275, 1) The "Federal Requirement" budget agrees to the amount of the award, but differs from the budget recorded in JDE; and 2) there are no ALIs in which expenditures exceeded the budget, but two line items in the tracking spreadsheet do not agree to the corresponding ALI;
- For CA-2022-038, the budget listed in the tracking spreadsheet does not agree to the award amount, but there were no ALIs in which expenditures exceeded the budget; and

ADVISORY COMMENTS

1. NCTD Budgeting Processes for Programming Funds Could Be Improved (continued)

Discussion (continued)

- For CA-2017-021, the award budget does not agree to the budget recorded in JDE or the “Federal Requirement” budget in the tracking spreadsheet. But there was a budget revision approved to line 127A00 which was shown in the tracking spreadsheet.

The budgets shown in the tracking spreadsheets should be agreed to award amounts and project status reports status to allow for better overall monitoring of the budget and the progress of the award. Further, fully reconciled tracking spreadsheets will enable NCTD project managers to identify potential budget overruns more promptly so they can make budget amendment requests earlier or take actions to prevent the need for a budget amendment.

Recipient Response

NCTD Response No. 1: While NCTD closely follows the budget development and grant administration processes prescribed by various policies (i.e., Board Policy No. 17, FIN-5042, and FIN-5043), the few inadvertent mismatch instances between the award amount and the budget amount in the budget tracking sheets reflect the unallocated grant amount that was not programmed into any project. Unallocated grant amounts result from project savings that are released after the completion of the project and are available for use by other projects as available. NCTD will change its approach on unallocated grant amounts by including these with the budget tracking spreadsheet so that it reconciles with the FTA award agreements.

Evaluation of Recipient’s Response

The recipient’s response is considered adequate.

ADVISORY COMMENTS

2. NCTD Should Maintain Supporting Documentation of Employee Benefit Elections

Finding

NCTD does not consistently retain copies of benefit election forms for employees.

Recommendation

We recommend that NCTD do the following:

- 1) Obtain copies of benefit election forms completed by employees; and
- 2) Maintain copies of employee election forms in the personnel file for each employee.

Discussion

For one of the ten active employees tested and three terminated employees tested, NCTD could not locate the most recent medical benefits election form.

NCTD subsequently issued a corrective action memorandum dated June 1, 2022, detailing a plan to address employee benefits election form retention policy deficiencies and develop a quality assurance process whereby all data related to employee benefit elections is ensured to be accurate and that election forms are retained in personnel files.

Recipient Response

NCTD Response No. 2: NCTD has re-trained its Human Resources (HR) staff to ensure that the required supporting documents are kept with each personnel file. The continued training of new and existing HR staff will reinforce the proper filing of supporting documents.

Evaluation of Recipient's Response

The recipient's response is considered adequate.

ADVISORY COMMENTS

3. NCTD Should Revise Terminology Used to Describe the Various Types of Contract Change Orders

Finding

The terminology used in NCTD's change order process makes it difficult to determine if a transaction is a true change order or merely an issuance of previously obligated funds to a project.

Recommendation

We recommend that NCTD use fewer and clearly defined terms for identifying and reporting change orders on federally funded projects.

Discussion

Two of the five change orders tested for FTA-funded contracts exceeded the \$100,000 reporting threshold but were not reported to FTA in MPRs as required. This occurred because NCTD uses several terms in addition to change orders, including "supplemental agreements," "task orders," "modifications," and "amendments," for changes to contracts. When we inquired about the difference between the terms used to describe these types of transactions, we learned that there is little discernable difference between them, leading to confusion about what was required to be reported in an MPR.

The terms referred to above appear to originate in NCTD's Board Policy 19, which states that the Executive Director has the authority to "...Authorize a contract modification/amendment (which includes contract change orders and supplemental agreements) of any value consisted with the Board-adopted budget if the modification/amendment does not exceed \$100,000, singular or cumulative in value, and if the modification/amendment does not involve a major change in scope, unless the modification/amendment costs are reimbursable by a third party and an agreement for reimbursement is in place, in which event, the modification/amendment may be of any value..." and "...Award individual task orders to any task order-based contract under the basic scope of the contract, valued at not more than \$200,000. [Emphasis added.]"

Our review of Board Policy 19 indicates that the terms "contract modification," "amendment," "change order," and "supplemental agreement" refer to an increase in the amount of a contract that has been previously funded or approved. Further, the term "task order" as used in Board Policy 19 would refer to a contract in which task orders may authorize the completion of a defined scope of work utilizing a portion of the contract funding but do not alter the overall amount of the contract.

In view of the various terms used for similar contract actions, NCTD should closely monitor contract changes to ensure compliance with FTA notification requirements.

3. NCTD Should Revise Terminology Used to Describe the Various Types of Contract Change Orders

Discussion (continued)

Further, NCTD should define each of the various types of contract changes in a manner that clarifies the intention of the change and whether that change requires reporting to federal, state or local funding sources.

Using fewer terms that are clearly defined will improve consistency and reduce inadvertent reporting errors.

Recipient Response

NCTD Response No. 3: NCTD uses the term “change order” solely to refer to changes to construction contracts, while the FTA uses the term broadly to refer to any contract change that causes an increase to the amount of a contract that has been previously funded or approved by the FTA. NCTD uses several terms to describe changes to non-construction contracts that can change the contract value. These include “supplemental agreements,” “modifications,” and “amendments.” These terms appear in NCTD’s Board Policy No. 19, as well as its Procurement Manual. NCTD will take the following actions based on TFC’s recommendation:

- Train staff preparing MPRs that a “change order” includes any document that increases the amount of an FTA-funded contract that has been previously approved by the FTA. For clarity, this will not include Task Order Agreements or Amendments as these transactions, issued under the master contract, do not increase the maximum amount of the master contract.
- For the next updates of Board Policy No. 19 and the Procurement Manual (within the next 12 months), NCTD will simplify the terminology used to describe changes to contracts and include clarifications to prevent confusion by staff.

Evaluation of Recipient’s Response

The recipient’s response is considered adequate.

SECTION V

SUMMARY OF FINDINGS

SUMMARY OF FINDINGS

Finding Reference	Finding	Standards Impacted	Recommendation(s)	Corrective Action Implementation Date
Material Weakness 1	None of the matters identified during the review were considered to be a material weakness in NCTD's financial Management system.			
Significant Deficiency 1	NCTD Did Not Include Required Information in Milestone Progress Reports	2 CFR §200.302(b) <i>Financial Management.</i> 2 CFR §200.303 <i>Internal Controls.</i> FTA Circular 5010.1E Chapter III(3)(d). <i>Milestone Progress Reports (MPR)</i>	We recommend NCTD do the following: 1) Consider revisions to policies and procedures to ensure that all required data elements in MPRs are included; 2) Remind project management staff that sufficient details regarding project activities should be included in MPRs particularly when moving projects between awards; and 3) Institute a quality assurance process to ensure that all required fields in the MPR spreadsheets are populated; sufficient details are provided to describe project changes, funding changes, and project status; and project updates discuss the status of all open Activity Line Items (ALIs) in accordance with the requirements of FTA Circular 5010.1E.	Within 120 days from the date of receipt of this report.
Advisory Comment 1	NCTD Budgeting Processes for Programming Funds Could Be Improved	Not applicable.	We recommend that NCTD ensure that award budgets are reflected accurately in project tracking documents in order to effectively monitor project progress.	Not applicable.
Advisory Comment 2	NCTD Should Maintain Supporting Documentation of Employee Benefit Elections	Not applicable	We recommend that NCTD do the following: 1) Obtain copies of benefit election forms completed by employees; and 2) Maintain copies of employee election forms in the personnel file for each employee.	Not applicable.
Advisory Comment 3	NCTD Should Revise Terminology Used to Describe the Various Types of Contract Change Orders	Not applicable	We recommend that NCTD use fewer and clearly defined terms for identifying and reporting change orders on federally funded projects.	Not applicable.

SECTION VI

**CRITERIA ESTABLISHED BY THE FTA FOR
RECIPIENTS' FINANCIAL MANAGEMENT SYSTEMS**

CRITERIA ESTABLISHED BY THE FTA FOR RECIPIENTS' FINANCIAL MANAGEMENT SYSTEMS

The following criteria have been set forth by the Federal Transit Administration (FTA) as standards for the financial management systems of FTA recipients. The criteria for grants awarded or modified on or after December 26, 2014, are located in [2 CFR Part 200](#), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Additional guidance for applying many of these criteria is provided in various circulars issued by the FTA, U.S. Department of Treasury, and the Office of Management of Budget (OMB).

For grants awarded or modified on or after December 26, 2014, the financial management standards of [2 CFR Part 200](#), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, apply. Specifically, the financial management standards of the Omnibus Circular, located at [2 CFR Part 200.302](#). Additional guidance for applying many of these criteria is provided in various circulars issued by the FTA and the U.S. Department of Treasury. The financial management criteria of [2 CFR Part 200](#) are as follows:

[2 CFR Part 200.302\(a\)](#) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

[2 CFR Part 200.302\(b\)](#) The financial management system of each non-Federal entity must provide for the following (see also §§ [200.334](#) *Retention requirements for records*, [200.335](#) *Requests for transfer of records*, [200.336](#) *Methods for collection, transmission and storage of information*, and [200.337](#) *Access to records*):

1. Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings [formerly known as the Catalog of Federal Domestic Assistance (CFDA)] title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
2. Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ [200.328](#) *Financial reporting* and [200.329](#) *Monitoring and reporting program performance*. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

**CRITERIA ESTABLISHED BY THE FTA FOR
RECIPIENTS' FINANCIAL MANAGEMENT SYSTEMS**

3. Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest and be supported by source documentation.
4. Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See §[200.303](#) Internal controls.
5. Comparison of expenditures with budget amounts for each Federal award.
6. Written procedures to implement the requirements of §[200.305](#) Federal payment.
7. Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of [2 CFR Part 200](#) and the terms and conditions of the Federal award

SECTION VII

RECIPIENT'S RESPONSE (FULL TEXT)

810 Mission Avenue
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December 13, 2022

Mr. Darin Allan
Director of the Office of Financial Management and Program Oversight
Federal Transit Administration
Region 9 San Francisco Office
90 7th Street, Suite 15-300
San Francisco, CA 94103
Sent Via Electronic Mail: darin.allan@dot.gov

Subject: Response Letter to the Financial Management Oversight Program
Full Scope Systems Review Draft Report

Dear Mr. Allan:

The North County Transit District (NCTD) has reviewed the Financial Management Oversight Program Full Scope Systems Review Draft Report dated November 23, 2022 (Draft Report) prepared by TFC Consulting Inc. (TFC) on behalf of the Federal Transit Administration (FTA). In the Draft Report, TFC identified one (1) significant deficiency related to Milestone Progress Reports (MPRs) and offered three (3) advisory comments on the budget process, the employee benefit election form, and the terminology used for change orders. The following sections cover: 1) the corrective actions being implemented to address the three (3) recommendations proposed by TFC related to the significant deficiency; and 2) NCTD's responses to the advisory comments.

1. NCTD Corrective Actions to address the Significant Deficiency

The significant deficiency indicates that MPRs filed by NCTD either do not include all required information related to project status or do not provide sufficient detail regarding project activities.

TFC has made the three (3) recommendations below, to which NCTD will implement the following corrective actions within 120 days following receipt of the Final Report from the FTA.

Recommendation No. 1

Consider revisions to policies and procedures to ensure that all required data elements in the MPRs are included.

Corrective Action No. 1: NCTD will revise its Administrative Policy FIN-5042 to include not only the required data elements but also sufficient project-related details such as reasons for change in project scope and timelines or budget revisions. NCTD will also update its Project Delivery Manual to ensure all the required project-related information are properly documented and reported with the MPRs.

Recommendation No. 2

Remind project management staff that sufficient details regarding project activities should be included in the MPRs particularly when moving projects between awards.

Corrective Action No. 2: The Capital Project Manager includes reminders of the required key project information for the MPRs in notices to project managers for upcoming report due dates. NCTD will develop training courses for project managers, accounting managers, and contracting officers, which will include the requirements for documenting and reporting the necessary detailed project information when preparing the MPRs.

Recommendation No. 3:

Institute a quality assurance process to ensure that all required fields in the MPR spreadsheets are populated; sufficient details are provided to describe project changes, funding changes, and project status; and project updates discuss the status of all open Activity Line Items (ALIs) in accordance with the requirements of FTA Circular 5010.IE.

Corrective Action No. 3: While NCTD has already established multiple layers of review conducted by the Capital Project Manager and the Chief Financial Officer to ensure MPR spreadsheets contain the required project data, NCTD will implement the following steps:

- Improve the review process by checking and verifying the financial status of projects against the ALIs. This review will be performed by the Capital Project Manager and the Accounting Manager – Grants and Projects.
- Add two (2) new data fields to the project tracking spreadsheet to show any budget changes and the associated reason. The data fields will be populated by the project managers. This will help better track budget changes for projects.

NCTD's goal is to achieve a higher level of quality assurance by instituting the above steps to ensure sufficient and accurate project details are included with the MPRs.

2. NCTD Responses to the Three (3) Advisory Comments

The Draft Report included the three (3) advisory comments provided below and NCTD's related responses:

Advisory Comment No. 1:

NCTD's budgeting processes for programming funds could be improved.

NCTD Response No. 1: While NCTD closely follows the budget development and grant administration processes prescribed by various policies (i.e., Board Policy No. 17, FIN-5042, and FIN-5043), the few inadvertent mismatch instances between the award amount and the budget amount in the budget tracking sheets reflect the unallocated grant amount that was not programmed into any project. Unallocated grant amounts result from project savings that are released after the completion of the project and are available for use by other projects as available. NCTD will change its approach on unallocated grant amounts by including these with the budget tracking spreadsheet so that it reconciles with the FTA award agreements.

Advisory Comment No. 2:

NCTD should maintain supporting documentation of employee benefit elections.

NCTD Response No. 2: NCTD has re-trained its Human Resources (HR) staff to ensure that the required supporting documents are kept with each personnel file. The continued training of new and existing HR staff will reinforce the proper filing of supporting documents.

Advisory Comment No. 3:

NCTD should revise terminology used to describe the various types of contract change orders.

NCTD Response No. 3: NCTD uses the term "change order" solely to refer to changes to construction contracts, while the FTA uses the term broadly to refer to any contract change that causes an increase to the amount of a contract that has been previously funded or approved by the FTA. NCTD uses several terms to describe changes to non-construction contracts that can change the contract value. These include "supplemental agreements," "modifications," and "amendments." These terms appear in NCTD's Board Policy No. 19, as well as its Procurement Manual. NCTD will take the following actions based on TFC's recommendation:

- Train staff preparing MPRs that a "change order" includes any document that increases the amount of an FTA-funded contract that has been previously approved by the FTA. For clarity, this will not include Task Order Agreements or Amendments as these transactions, issued under the master contract, do not increase the maximum amount of the master contract.
- For the next updates of Board Policy No. 19 and the Procurement Manual (within the next 12 months), NCTD will simplify the terminology used to describe changes to contracts and include clarifications to prevent confusion by staff.

NCTD appreciates the opportunity to participate in the FTA's Financial Management Oversight Program and to receive helpful FTA recommendations and guidance resulting from this review. NCTD strives to continuously improve processes to its financial management system in order to comply with 2 CFR Part 200 and FTA Circular 5010.1E requirements. If you need any additional information, please contact NCTD's Compliance Officer, Suzan Ehdaie via e-mail at sehdaie@nctd.org or at (760)966-6776.

Sincerely,



Matthew O. Tucker,
Executive Director

cc: Charlene Lee Lorenzo, Director, FTA
Jed Stancato, Senior Manager, TFC Consulting, Inc.
Lori A. Winfree, General Counsel, NCTD
Eun Park-Lynch, Chief Financial Officer, NCTD
Julie Wiley, Chief of Procurement and Contracts Administration, NCTD
Scott Loeschke, Deputy Chief Development Services, NCTD
Tyler Farrar, Capital Program Manager, NCTD
Pete Kovacevic, Accounting Manager - Projects and Grants, NCTD
Suzan Ehdaie, Compliance Officer, NCTD