



BART Silicon Valley Project – Phase I Invoicing Audit

Auditor General Report No. 2019-003

December 11, 2019

EXECUTIVE SUMMARY

Background

VTA's BART Silicon Valley Extension ("BART SV" or "Extension") is the 16-mile extension of the existing Bay Area Rapid Transit District ("BART") system by VTA into the Santa Clara County cities of San Jose, Milpitas and Santa Clara.

In November 2000, Santa Clara County voters approved Measure A, a 30-year half-cent sales tax devoted to enhancing the county's public transit system.

In November 2001, VTA and BART entered into a Comprehensive Agreement (Agreement) to construct, operate, and maintain the rail line and related facilities of the Extension to be primarily funded by the 2000 Measure A Sales Tax. In this agreement, BART committed to provide its expertise to assist in the design and construction of the extension, and for VTA to reimburse BART for its costs on these efforts. All costs submitted for reimbursement would be subject to agreed-upon terms, as noted in Implementation Letters. The Implementation Letters provide budgets for expected costs, as well as language regarding the costs to be considered acceptable for reimbursement.

Objective and Scope

The primary objectives of this review were to:

- Obtain an understanding of BART's process for invoice generation, including calculation of invoice amounts and determination of included costs.
- Evaluate compliance with contract terms; including reviewing individual invoices for compliance with the Comprehensive Agreement between VTA and BART.
- Review all 72 invoices totaling \$99.9 million submitted by BART to VTA for reimbursement between January 2016 and March 2019 and under the terms of the Agreement.
- Review policies and procedures; perform process walkthroughs with VTA staff, and evaluate the design of VTA's internal controls.
- Identify opportunities for process improvements, revenue enhancements, and cost controls.

Overall Rating (See Appendix A for definitions)

	Report Rating	Number of Observations by Risk Rating		
		High	Medium	Low
BART Invoicing Phase I	Low	0	1	2

Overall Summary and Review Highlights

VTA has provided considerable financial resources for the Silicon Valley Extension project. BART had submitted for reimbursement 388 invoices totaling \$176 million between April 2002 and March 2019. The invoices cover a wide-range of labor, consultant services, and project equipment.

An overall rating of *Low* was assigned to help management understand our assessment of the overall design of BART Silicon Valley Project – Phase I Invoicing process and controls.

We based our overall rating on three observations:

1. Late submission of invoices by BART which in turn delays VTA's review and approval processes significantly.
2. One invoice packet submitted by BART included combined line items which should be presented individually.
3. Agreed upon changes affecting one implementation letter have been not been documented.

Recommendations are provided for management's consideration, and management is responsible for the effective implementation of corrective action plans. We would like to thank management for its assistance and continued support during our project. Please address questions to Bill Eggert, Auditor General's Office, at Auditor.GeneralOffice@VTA.org.

DETAILED OBSERVATIONS

1. TIMELINESS OF INVOICE SUBMISSION AND PAYMENT

Observation: Late submission of invoices by BART significantly delays VTA's review and approval processes.

Recommendation: VTA should require BART to submit invoices on a monthly basis, and review the invoices submitted by BART on a timely basis.

Management's Action Plan:

Observation Rating: Medium

1.1 The Comprehensive Agreement states that VTA will pay BART on a monthly basis within 90 days of receipt of an invoice by the Accounts Payable department.

We noted in 36% of the invoices (or 26 out of 72 samples tested) were submitted for reimbursement by BART, between 2 and 24 months past the contractual period which the expenses occurred.

These delayed submissions greatly increase the amount of documentation for VTA to review in order to validate the reasonability of costs.

1.2 We noted in 8% of the invoices (or 6 out of 72 samples tested) had not been reviewed by VTA within the stipulated 90-day timeline. The amount of days that the six invoices exceeded the 90-day payment terms ranged from 10 to 17 days.

Untimely review and approval of reimbursements of BART invoices may lead to delayed payment and/or recording of expenses in incorrect accounting periods.

1.1 VTA should work with BART to develop a timeline or a better process for timely monthly submission as detailed in the Comprehensive Agreement.

Increasing the frequency of submissions may reduce the amount of documentation needed for review and approval by VTA.

1.2 VTA should review and approve invoices submitted by BART according to the payment terms stipulated in the Comprehensive Agreement.

VTA should consider revisiting the internal review process to identify any areas for potential improvement to reduce delays in payments.

1.1 Management agrees. VTA will request that BART submit invoices on an agreed upon schedule, preferably monthly, and that the invoices include the pertinent related documentation. Recently BART has been submitting invoices timelier due to requests from Accounts Payable and Project Management. VTA will formalize the request for BART to adhere to a billing schedule.

1.2 VTA has a process in place for invoice review. However, this process is impaired due to late submission of invoices by BART. The six invoices that were not paid timely, were paid an average of only 13 days past the 90-day payment term. Three of the invoices submitted by BART lacked sufficient documentation and were short-paid. Project Managers for the other three invoices sought to get supporting documentation for the invoices, which caused the delay in payment. With BART's compliance of submitting invoices on a scheduled timeline, VTA will be able to process invoices more timely, and in line with the agreed upon payment terms.

Responsible Party: Deputy Director, SVRT/BART Project Controls

Target Date: Feb 2020

2. INVOICE PACKET DOCUMENTATION

Observation: One invoice packet submitted by BART included combined line items, which should have been presented individually.

Recommendation: VTA should require BART to submit reimbursement documentation aligned with the corresponding Implementation Letter.

Management’s Action Plan:

Observation Rating: Low

2.1 We noted that one invoice packet that had a discrepancy between the number of budget line items and the corresponding Implementation Letter.

Upon further review, it was noted the \$25,000 travel expense budget had been combined with other administrative budgets such as contract preparation, procurement, equipment delivery and legal. The combined budget totaled \$1,234,550.

BART stated that the budget items were combined because only two non-equipment purchases were made, and no travel expenses were submitted to date.

While there were no travel expenses submitted for reimbursement, separated budgets would better assist project managers in the monitoring of costs.

2.1 VTA should continue to closely review all documentation received from BART. Such discrepancies should be communicated to BART to help improve the invoicing process.

Combining budget line items, despite being similar in nature, hinders the purpose of having separated budget line items. Separated budgets increase the ease of analysis through transparency while promoting economy by adhering to budget limits.

Furthermore, if costs overruns were to occur combined budgets may obfuscate those overages, which may lead to delays on remedial actions.

2.1 Management agrees that separated budgets increases the ease of analysis through transparency. VTA will request BART to submit reimbursement documentation aligned with the corresponding Implementation Letter budget line items.

Note that despite the item description of “Allowance for Engineering, Equipment Delivery and Travel”, no travel was included in the amount charged to, or paid, by VTA.

The supporting documentation was reviewed prior to payment and was found to be sufficient to support the Invoice amount for lines 9 and 10 of \$195,000.

Responsible Party: Deputy Director, SVRT/BART Project Controls

Target Date: Feb 2020

3. IMPLEMENTATION LETTER CHANGES

Observation: Agreed upon changes affecting one Implementation Letter were not documented.

Recommendation: VTA should document any verbal agreements which alter the original terms of an Implementation Letter.

Management's Action Plan:

Observation Rating: Low

3.1 Implementation Letter #23 dated September 2012 set forth the terms between VTA and BART for the payments that BART makes to Pacific Gas & Electric Company (PG&E) for the power supply for two stations located in Milpitas and San Jose.

On February 2018, BART submitted an invoice for the reimbursement of \$180,000 for payments that BART made to PG&E for the service connections of these two stations.

We noted the addresses of the two stations described in the implementation letter were different from the addresses shown on the PG&E bills.

The addresses per the Implementation Letter were:

- o 555 E. Capitol Ave, Milpitas, CA
- o 1600 Berryessa Rd, San Jose, CA

However, the addresses on the PG&E bills were:

- o 416 Railroad Ct, Milpitas, CA
- o 670 Montague Expressway BART Garage

BART stated that the discrepancies were due to changes in engineering plans once construction began.

3.1 VTA should document any verbal agreements which alter the original terms of an Implementation Letter.

Lack of documentation for changes to implementation letters exposes both VTA and BART to unnecessary financial and legal risk should unforeseen negative events occur.

3.1 Management agrees. VTA will note the correct address on the invoices at the time of review.

Responsible Party: Deputy Director, SVRT/BART Project Controls

Target Date: As invoices are received by VTA

APPENDIX A—RATING DEFINITIONS

Observation Risk Rating Definitions		Report Rating Definitions	
Rating	Definition	Rating	Explanation
Low	Process improvements exist but are not an immediate priority for VTA. Taking advantage of these opportunities would be considered best practice for VTA.	Low	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
Medium	Process improvement opportunities exist to help VTA meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	Medium	Certain internal controls are either: <ul style="list-style-type: none"> Not in place or are not operating effectively, which in the aggregate, represent a significant lack of control in one or more of the areas within the scope of the review. Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.
High	Significant process improvement opportunities exist to help VTA meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception presents. This opportunity should be addressed immediately.	High	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist which have the potential to create situations that could significantly impact the control environment. <ul style="list-style-type: none"> Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed. Significant non-compliance with laws and regulations. High risk observations which are pervasive in nature.
Not Rated	Observation identified is not considered a control or process improvement opportunity but should be considered by management or the board, as appropriate.	Not Rated	Adequate internal controls are in place and operating effectively. No reportable observations were identified during the review.



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