



FINANCIAL REVIEW

PRESENTATION TO ALAMEDA CTC
FINANCE AND ADMINISTRATION COMMITTEE

January 10, 2011

OUTLINE

- Purpose and Approach
- Major Findings:
 - Cost Allocation
 - Budgeting & Financial Condition
 - Local Exchange Funds
 - Policies & Procedures
- Recommendations

PURPOSE OF FINANCIAL REVIEW

- Merger provides a good opportunity to review essential functions
- Main goal is to identify 'hot spots' requiring immediate attention
- Management-level review, not a detailed audit

ANALYTICAL APPROACH

- Reviewed available documentation
- Conducted interviews of selected staff
- Studied relevant peer agency practices
- Documented gaps and discrepancies
- Developed list of recommended actions

FOUR AREAS REVIEWED

- Cost Allocation Plans
- Budgeting & Financial Condition
- Local Exchange Funds
- Financial Policies & Procedures

OVERVIEW:

COST ALLOCATION PLANS

- Needed if agency seeks reimbursement for indirect costs under federal or state grants
- Federal OMB Circular A-87 addresses the requirements for the use of indirect costs
- "Indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost."
- The indirect cost rate is the maximum amount that can be reimbursed; it is not the required amount.

KEY FINDINGS:

COST ALLOCATION PLANS

- Indirect cost rates/indirect cost allocation plans (ICAPs) are similar between the two agencies
- Different methods for charging costs to grants
 - ACCMA charges indirect costs to all grants that allow it; ACTIA does not
- ACCMA relies extensively on capturing direct and indirect costs from grants to support administrative and core functions
- ACTIA does not charge extensively to grants due to the availability of a sustainable and relatively stable revenue source, Measure B
- Future budgeting will be impacted by the indirect cost allocation approach used by Alameda CTC

KEY FINDINGS:

COST ALLOCATION PLANS

- Indirect Cost Allocation Rate =
Indirect Costs divided by Direct Costs
- Wide variation in these rates across agencies
- ICAP approval usually done by Caltrans

Agency	Indirect Cost Rate
ACCMA	129.25%
Solano Transportation Authority	50.13%
Santa Clara VTA (projects)	180.50%

RECOMMENDED ACTIONS:

COST ALLOCATION PLANS

- Develop written policy to clarify which charges are to be included in reimbursement requests
- Adopt unified approach to charging direct and indirect costs
- Begin discussions with Caltrans regarding consolidating the separate ICAPs into a single new ICAP
 - Pursue after consolidated ACTC budget in FY2012

KEY FINDINGS:

BUDGETING & FINANCIAL CONDITION

- Budgeting and budget monitoring are a challenge:
 - ACCMA’s budget contains significant amounts of project related restricted revenue
 - Amount of dedicated revenues for administration is small relative to current requirements
 - Individual staff must be aligned with anticipated revenues, which are project related (i.e., directly charged to projects)
 - Must plan over a year in advance to develop budget

KEY FINDINGS:

BUDGETING & FINANCIAL CONDITION

Sample Budgeting of Staff Costs and Revenues

Staff Member	Cost	Unrestricted Sources & ICAP	Project Grant #1	Project Grant #2	Project Grant #3
A. Bellboy	\$75,000	\$75,000	\$0	\$0	\$0
C. Dior	\$100,000	0	\$0	\$50,000	\$50,000
E. Friar	\$150,000	0	\$0	\$0	\$150,000
G. Hansen	\$100,000	\$50,000	\$25,000	\$25,000	\$0

KEY FINDINGS:

BUDGETING & FINANCIAL CONDITION

- Under current structure, staff must be closely aligned with revenues
 - Salaries and benefits for admin function were \$1.9 million in proposed FY2011 budget
 - Member dues for admin function were \$0.9 million in proposed FY2011 budget
 - Also need to fund capital staff when not working specifically on a project

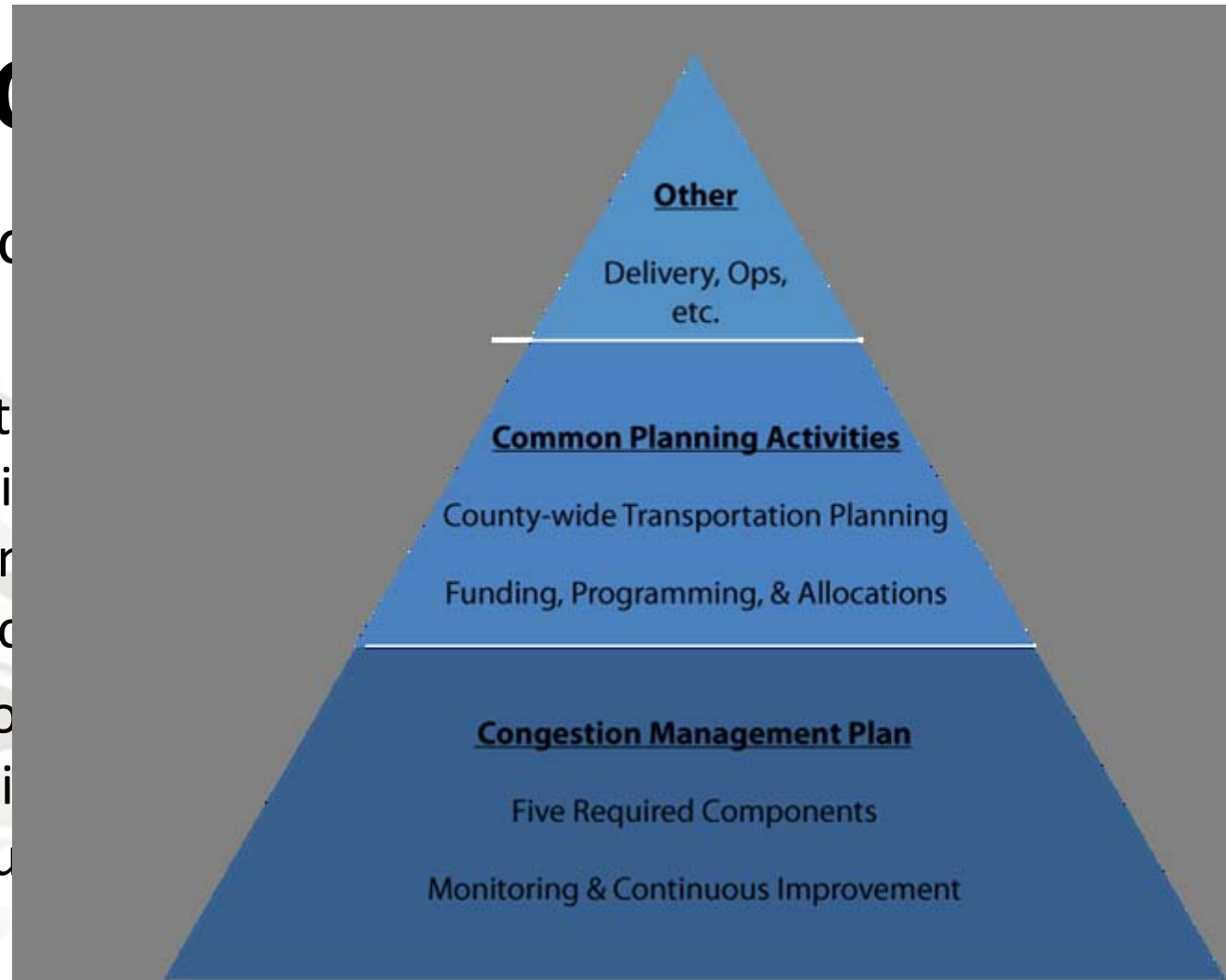
BUDGETING & FINANCIAL CONDITION

- Resource allocation is undifferentiated
 - Unclear what resources are required to accomplish core functions vs. what resources are episodic and/or project-driven
 - Project delivery functions of ACCMA appear to be diminishing, but commitment of resources is not
 - Need further information about core CMA activities to align required expenses and available revenues

KEY FINDINGS:

BUDGETING & FINANCIAL CONDITIONS

- Peer review: of similar CMAs
 - List of activities from authorized work plans, reports, websites, etc.
 - Activities grouped into core vs. significant vs. occasional funding



RECOMMENDED ACTIONS:

BUDGETING & FINANCIAL CONDITION

- Evaluate current agency activities for each of the three levels of mission:
 - Quantify expenses and identify available revenues for each activity
 - Assess the financial capacity to fund each activity with a focus on fully funding the core functions
 - Consider pursuing additional revenue sources to ensure that the core mission is funded from a stable and sustainable funding source
 - For those functions or activities that are not in the core mission, consider staffing through consultants or temporary staff

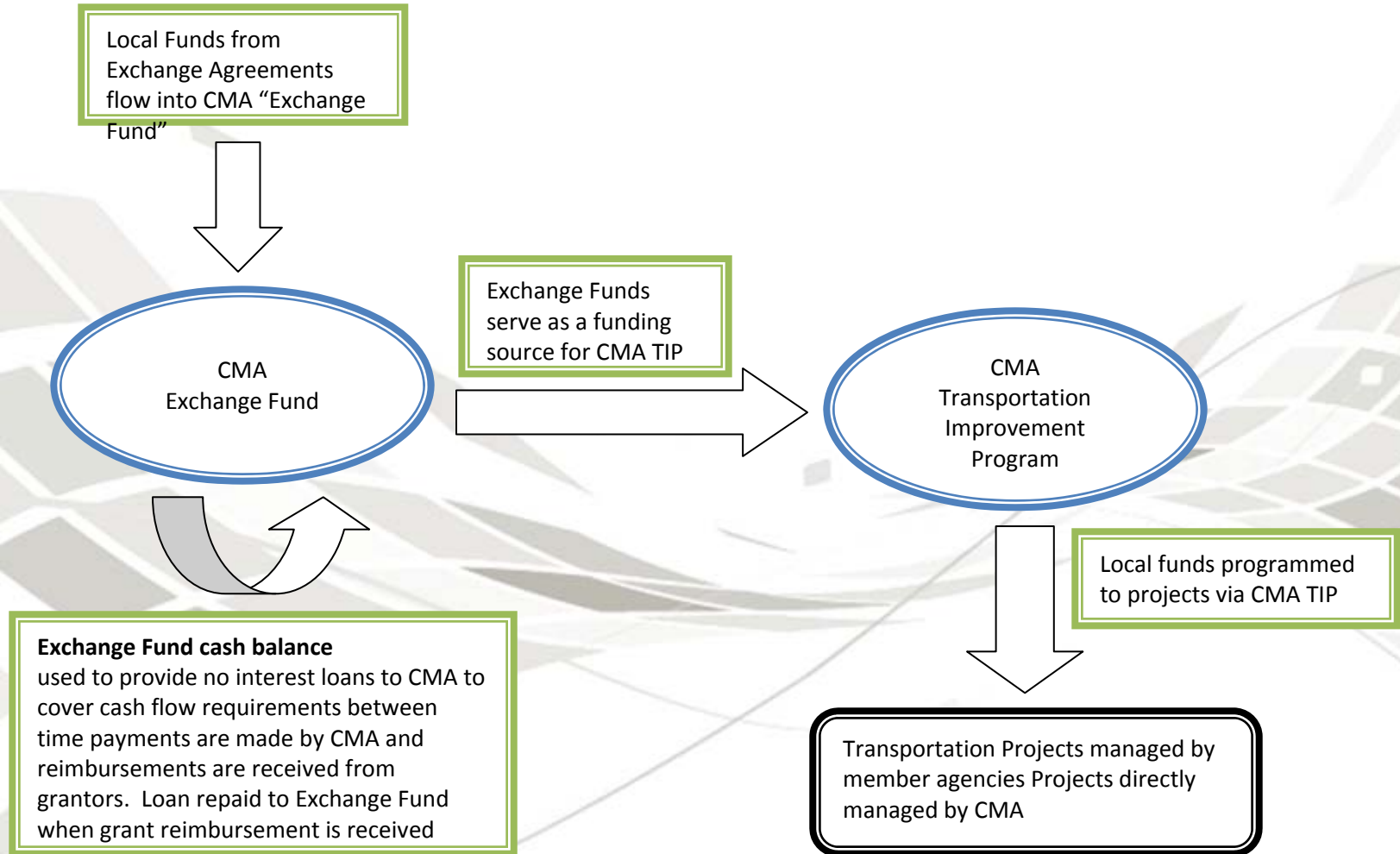
KEY FINDINGS:

LOCAL FUND EXCHANGES

- Program overview:
 - Purpose: Create a pool of local funds that can be exchanged for state or federal funds to expedite delivery of projects
 - Modeled on similar programs by MTC and others
 - More frequent and more aggressively use than other CMAAs due to ACCMA's lack of a stable revenue source
 - ACCMA offers incentive: local agencies receive more restricted federal/state monies than they give up in unrestricted local allocation, or vice versa
 - ACCMA charges a 'brokerage fee' to administer the exchange

KEY FINDINGS:

LOCAL FUND EXCHANGES



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LOCAL FUND EXCHANGES

- Legal counsel found neither express authorization for nor explicit prohibition against exchanges; other agencies have raised no objections
- Potential policy issues:
 - Ultimate recipients of local fund may get less than original programmed Federal/State amounts
 - Program currently used for cash flow flexibility
 - No written policies & procedures covering exchanges
 - Funds are co-mingled by ACCMA, restricting ability to track final sources and uses of exchanged funds

RECOMMENDED ACTIONS:

LOCAL FUND EXCHANGES

- Develop written policies and procedures to provide guidance and consistency
- Clarify how the “brokerage fee” revenue amounts are determined and uses of the money within the ACCMA budget
- Confirm whether local funds could be encumbered with grant requirements

KEY FINDINGS:

POLICIES & PROCEDURES

- No significant gaps in financial policies documented or used by ACCMA and/or ACTIA
- Twenty policy areas were reviewed
- Fifteen policy areas either are generally consistent or similar between the agencies

KEY FINDINGS:

POLICIES & PROCEDURES

- Five areas had policies that differ in terms of detail, content, or approach:
 - Cost Allocation – addressed previously
 - Year End Accruals – different level of detail
 - Budgeting – different level of detail
 - Disbursements – content/approach differs
 - Investments – content/approach differs

RECOMMENDED ACTIONS:

POLICIES & PROCEDURES

- Adopt a single policies and procedures manual, similar to ACCMA's current practice
- For policy areas with single and/or similar documents, consider formalized adoption
- For policy areas that differ, work to reconcile discrepancies and create single, unified policy

SUMMARY OF FINDINGS

- No fatal flaws
- Budgeting challenges and alignment of expenses and revenues need to be addressed in the near term to achieve long term financial sustainability
- Policy reconciliation and documentation of procedures would facilitate consistent and accurate budgeting and administration
- Additional research could support consolidation of cost allocation procedures, funding stability for CMA core functions, and formalized methods for local fund exchanges

RECOMMENDED NEXT STEPS

- Develop single ICAP for ACTC for FY 2012
- Analyze core function expenses & resources to support budget analysis and long term sustainability
- Document policies & procedures for Local Funds Exchange
- Prepare recommendations for consolidated policies & procedures for Board consideration