



*January 27, 2021*

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Comprehensive Transportation Funding Program, Oversight and Reporting Controls, Internal Audit Report No. 20-512

### **Overview**

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of oversight and reporting controls related to the Comprehensive Transportation Funding Program. Based on the audit, oversight and reporting controls are adequate; however, one recommendation has been made to ensure that all performance requirements of community-based transit circulator projects are incorporated into local agency agreements and monitored for compliance to standards.

### **Recommendation**

Direct staff to implement one recommendation provided in Comprehensive Transportation Funding Program, Oversight and Reporting Controls, Internal Audit Report No. 20-512.

### **Background**

The Comprehensive Transportation Funding Program (CTFP) represents a collection of Measure M2 grant programs offered to local agencies. Each program has specific objectives and requirements, as outlined in CTFP Guidelines (Guidelines). The Orange County Transportation Authority (OCTA) Board of Directors (Board) approves the evaluation criteria and authorizes issuance of the call for projects. Agencies submit applications that are reviewed and ranked by staff. All funding recommendations are then presented to the appropriate subcommittee of the Board (Committee), such as the Regional Planning and Highways Committee or the Transit Committee, and the Board for final approval.

OCTA staff conducts a comprehensive review of CTFP projects on a semi-annual basis. During the semi-annual review process, agencies may request project cancellation, updates to project estimates, adjustments to project delivery schedules, or other pertinent project adjustments. Requests for adjustments to project timelines and minor scope revisions may be approved by staff; however, more significant project adjustments/changes must conform to the Guidelines and must also be approved by the applicable Committee(s) and the Board. Semi-annual review reports are typically presented to the Board in June and December of each year and include project status updates and requests to approve adjustments to projects. During the semi-annual review process, staff will also verify project operations and maintenance requirements of applicable programs.

### ***Discussion***

On-time performance and customer satisfaction requirements of the Community-Based Transit Circulators Program are not outlined in agency cooperative agreements and are not monitored by staff. The Guidelines require that local agencies develop strategies to measure ridership satisfaction and on-time performance. According to the Guidelines, agencies must achieve 85 percent on-time performance on an ongoing basis and rider satisfaction of 90 percent. The Internal Audit Department (Internal Audit) noted that these requirements are not detailed in cooperative agreements executed with the cities and results are not being monitored for compliance. Internal Audit recommended management re-evaluate guideline requirements and amend Guidelines, cooperative agreements, and monitoring controls to ensure consistency and proper oversight. Management responded that amended Guidelines will be presented for approval by the Board on January 25, 2021, and upon approval, cooperative agreements and monitoring procedures will be updated to ensure consistency and proper oversight.

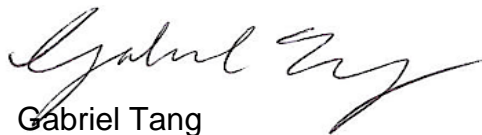
### ***Summary***

Internal Audit has completed an audit of CTFP oversight and reporting controls.

***Attachment***

- A. Comprehensive Transportation Funding Program, Oversight and Reporting Controls, Internal Audit Report No. 20-512

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# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Comprehensive Transportation Funding Program Oversight and Reporting Controls

### Internal Audit Report No. 20-512

January 13, 2021



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## **Conclusion**

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of oversight and reporting controls related to the Comprehensive Transportation Funding Programs (CTFP). Based on the audit, oversight and reporting controls are adequate; however, one recommendation has been made to ensure that all performance requirements of community-based circulator projects are incorporated into local agency agreements and monitored for compliance to standards.

## **Background**

### Comprehensive Transportation Funding Program

The CTFP represents a collection of Measure M2 (M2) grant programs offered to local agencies. OCTA issues calls for projects annually, or on an as needed basis, and selects projects for funding through a defined, competitive process. Programs in the CTFP include the Regional Capacity Program (Project O), the Regional Traffic Signal Synchronization Program (Project P), various transit programs (Projects S, T, V and W), and the Environmental Cleanup Program (Project X). Each program has specific objectives and requirements, as outlined in CTFP Guidelines.

Prior to issuance of a call for projects, OCTA staff develop, document, and present proposed evaluation criteria to be used to score and select projects for funding. The OCTA Board of Directors (Board) approves the evaluation criteria and authorizes issuance of the call for projects. Agencies submit applications that are reviewed and ranked by staff. Funding recommendations under Project O and Project P are first provided to the Technical Advisory Committee (TAC) for approval. The TAC is comprised of 35 representatives, one from each Orange County city, as well as the County of Orange, and a non-voting member from the California Department of Transportation. Similarly, funding recommendations under Project X are first provided to the Environmental Cleanup Allocation Committee (ECAC) for approval. The ECAC includes city managers, professors, city engineers, and water resource engineers from various agencies. All funding recommendations are then presented to the appropriate subcommittee of the Board (Committee), such as the Regional Planning and Highways Committee or the Transit Committee, and the Board for final approval.

For the fiscal year (FY) 2018-19, a total of \$45.8 million in calls for projects were issued under Project O, Project P, the Safe Transit Stops Program, and Project X.

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Program Oversight and Reporting

OCTA staff conduct a comprehensive review of CTFP projects on a semi-annual basis. It is during the semi-annual project review (SAR) process that agencies may request project cancellation, updates to project estimates, adjustments to project delivery schedules, and any other pertinent project delivery adjustments. Requests for adjustments to project timelines and minor scope revisions may be approved by staff; however, more significant project adjustments/changes must conform to CTFP guidelines and must be approved by the TAC, as applicable, the appropriate Committee, and the Board. SARs are typically presented to the Board in June and December of each year, and include project status updates and requests to approve adjustments to CTFP projects.

It is also during the SAR process that staff verifies project operations and maintenance (O&M) requirements of applicable programs, such as Project X. Staff reviews documentation submitted by local agencies showing that required minimum maintenance expenditures are being made. O&M for the Community-Based Transit Circulator Program (Project V) is reported semi-annually through a separate (non-SAR) process, which typically occurs in January and July of each calendar year.

Project payments are typically released through an initial advance and a final reimbursement. Payment requests are submitted by agencies through OC Fund Tracker, an online grant application and payment system used by OCTA to administer M2 competitive programs. OCTA staff reviews payment requests to ensure sufficient supporting documentation has been provided. The payment is then provided to management for approval before processing.

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## **Objectives, Scope, and Methodology**

The objectives were to assess and test OCTA's monitoring and reporting controls related to CTFP projects.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.<sup>1</sup> The components and principles that were evaluated as part of this audit are:

- Control Environment
  - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Risk Assessment
  - OCTA specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- Control Activities
  - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Information and Communication
  - OCTA communicates with external parties regarding matters affecting the functioning of internal control.
- Monitoring
  - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The methodology consisted of testing a sample of applications to determine they were reviewed and ranked in accordance with Board-approved scoring criteria, were provided to the TAC/ECAC for approval, and were approved by the Committee and the Board; testing a sample of comprehensive semi-annual reviews of CTFP projects to determine if reviews are properly performed and supported, and information is accurately reported to the Board; testing a sample of O&M reviews of CTFP projects for evidence of review by staff in accordance with CTFP guidelines; and testing a sample of payments for evidence of review and authorization by OCTA staff.

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<sup>1</sup> See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.



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The scope was limited to applications received in response to calls for projects that occurred during FY 2018-19. The judgmental sample of 18 out of 66 applications was selected to provide coverage of different project types (O, P, W and X) and to include both funded and non-funded projects.

The scope also included semi-annual reviews of all active CTFP projects for September 2019 and March 2020. The judgmental sample of 105 out of 535 projects was selected to provide coverage of each type of SAR request, including submissions for no changes, agency requests for cost changes over ten percent, agency requests to amend project delivery dates, requests to transfer funding allocations, and cancellation requests.

The scope also included all active O&M reviews for Project X and Project V, from April 2019 to March 2020. For Project X, the judgmental sample of 24 out of 90 O&M expenditures provided even coverage of all funded projects. For Project V, the judgmental sample of 30 out of 74 projects provided even coverage from the June 2019, September 2019, December 2019, and March 2020 quarterly reviews.

Lastly, the scope included all payments issued in FY 2018-19 and FY 2019-20. The judgmental sample of 30 out of 141 expenditures was selected to provide coverage of different project types (Project O, Project P, Project X, etc.), payment types (Initial and Final), and different phases of the project (Engineering, Construction, Right-of-Way, Implementation, and Operations & Maintenance)

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## **Audit Comment, Recommendation, and Management Response**

### **Project V Performance Requirements**

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On-time performance and customer satisfaction requirements of Project V are not outlined in agency cooperative agreements and are not monitored by staff.

CTFP guidelines (guidelines) require that local agencies develop strategies to measure ridership satisfaction and on-time performance. Agencies must achieve 85 percent on-time performance on an ongoing basis, and rider satisfaction of 90 percent. Internal Audit noted that these requirements are not detailed in cooperative agreements executed with the cities and results are not being monitored for compliance.

#### **Recommendation 1:**

Internal Audit recommends management reevaluate guideline requirements and amend guidelines, cooperative agreements, and monitoring controls to ensure consistency and proper oversight.

#### **Management Response:**

The Planning Division will amend the Project V Guidelines to ensure that requirements in the guidelines are aligned with the type of community-based circulator services that have proven to be successful. Further, staff will amend the cooperative agreements to be consistent with the requirements of the updated Project V Guidelines. Staff will also include applicable customer satisfaction and on-time performance elements in the required regular reports in order to oversee this requirement and confirm compliance. An item is planned to go to the Board of Directors on January 25, 2021, that requests authorization to amend cooperative agreement and guidelines consistent with the findings in the audit.