



September 12, 2012

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: State Transportation Improvement Program Planning, Programming, and Monitoring Program, Financial and Compliance Audit, Fiscal Year 2009-10

Overview

As required by an agreement with the California Department of Transportation, an independent audit of compliance with the State Transportation Improvement Program Planning, Programming, and Monitoring Program has been completed by the professional accounting firm of Bazilio Cobb Associates for the fiscal year 2009-10 project activities. The audit found that expenditures claimed were eligible and adequately supported.

Recommendation

Receive and file the Orange County Transportation Authority State Transportation Improvement Program Planning, Programming, and Monitoring Program, Financial and Compliance Audit, Fiscal Year 2009-10, Agreement No. PPM10-6071 (045).

Background

The State Transportation Improvement Program (STIP) is a multi-year capital improvement program of transportation projects on and off the California State Highway System, funded with revenues from the State Highway Account and other funding sources. The Planning, Programming, and Monitoring Program (PPM) is defined as “the project planning, programming, and monitoring activities related to development of the Regional Transportation Improvement Program and the STIP required by Government Code Section 14527 et. seq. and for the monitoring of project implementation...”

The Orange County Transportation Authority (OCTA) entered into Fund Transfer Agreement No. PPM10-6071(045) (Fund Transfer Agreement) on July 31, 2009, with the California Department of Transportation for reimbursement of its PPM

State Transportation Improvement Program Planning, Programming, and Monitoring Program, Financial and Compliance Audit, Fiscal Year 2009-10 **Page 2**

project in an amount not to exceed \$3,215,000, from monies appropriated in fiscal year 2009-10 for local assistance. In accordance with the Fund Transfer Agreement, an independent audit is required to provide assurance that the project funds were used in conformance with Article XIX of the California State Constitution.

Discussion

Fund Transfer Agreement No. PPM10-6071(045) provided reimbursement for OCTA's PPM project from monies appropriated in fiscal year 2009-10. The audit found that expenditures were reasonable, adequately supported, and in conformance with Article XIX of the California State Constitution, and that accounting and invoicing procedures were adequate to ensure that project costs incurred were in accordance with the Fund Transfer Agreement and Article XIX of the California State Constitution. The audit also found segregation of project costs to be adequate.

Summary

An independent audit on compliance with the STIP PPM has been completed by the professional accounting firm of Bazilio Cobb Associates. The detailed audit scope and results are included in the audit report at Attachment A.

Attachment

- A. Orange County Transportation Authority State Transportation Improvement Program Planning, Programming, and Monitoring Program, Financial and Compliance Audit, Fiscal Year 2009-10, Agreement No. PPM10-6071 (045)

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***ORANGE COUNTY TRANSPORTATION
AUTHORITY***

State Transportation Improvement Program
Planning, Programming, and Monitoring Program
Financial and Compliance Audit
Fiscal Year 2009–10

Agreement No. PPM10–6071(045)

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**STATE TRANSPORTATION IMPROVEMENT PROGRAM
PLANNING, PROGRAMMING, AND MONITORING PROGRAM
FISCAL YEAR 2009-10**

FINANCIAL AND COMPLIANCE AUDIT

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**INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE STATE TRANSPORTATION
IMPROVEMENT PROGRAM PLANNING, PROGRAMMING AND
MONITORING PROGRAM**

Janet Sutter, Executive Director
Internal Audit Department
Orange County Transportation Authority

We have completed our financial and compliance audit of Agreement No. PPM10-6071 (045) (Agreement) awarded to the Orange County Transportation Authority (OCTA) by the State of California Department of Transportation (Caltrans) to provide reimbursement of up to \$3,215,000 in funding under the Fiscal Year 2009-10 State Transportation Improvement Program (STIP) Planning, Programming, and Monitoring (PPM) Program (Program). The objectives of this audit were to determine whether 1) adequate documentation was maintained evidencing that costs claimed were reasonable, adequately supported, and eligible, 2) OCTA's accounting and invoicing procedures were adequate to ensure that project costs charged are in accordance with the Agreement and in conformance with *Article XLIX – Motor Vehicle Revenues* of the California State Constitution, 3) OCTA complied with the reporting requirements of the Agreement, and 4) the fund account set up by OCTA for the project was separately maintained.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. 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.

RESULTS IN BRIEF

- Based on our review of \$1,566,331 of sampled costs (48% of the \$3,281,968¹ in Program costs) charged to the STIP PPM for Fiscal Year 2009-2010, we found that the expenditures claimed were eligible expenditures and were adequately supported.
- Per the Agreement with Caltrans, OCTA had 60 days following the “completion of expenditures” or until August 29, 2012, to submit a Final Report of Expenditures to Caltrans. Since this audit report is part of the Final Report of Expenditures, OCTA plans to submit the Final Report of Expenditures, along with the claim for unbilled expenditures totaling \$2,828,866 to Caltrans by August 29, 2012.
- We found OCTA's accounting and invoicing procedures are adequate to ensure that project expenditures incurred are in accordance with the Agreement with Caltrans, and in

¹ See Schedule of STIP PPM Program Costs for detailed breakdown of costs.

conformance with *Article XIX – Motor Vehicle Revenues* of the California State Constitution. Our assessment was based on an internal control questionnaire, observations, interviews with OCTA finance officials, and the results of our expenditure testing.

- Based on our review of all seven (7) vendor contract files, we found adequate evidence of competitive bidding.
- Segregation of project costs was found to be adequate. Because OCTA is reimbursed for expenditures incurred for the Program on an actual cost reimbursement basis, no fund interest allocation was required.

BACKGROUND

On July 31, 2009 OCTA entered into Agreement No. PPM10-6071(045) (Agreement) with Caltrans to provide reimbursement of \$3,215,000 in funding for PPM activities under the Program from funds allocated for fiscal year 2009-10. PPM activities included 1) Planning - developing strategies to address the short and long term multimodal transportation needs of both Orange County and the region, 2) Programming - consultant, management and staff support to prioritize, allocate, program and manage federal, state, and local funds for transportation improvements through the county transportation improvement program, and 3) Transportation monitoring, data management, and analysis - consultant and staff support to meet the state and federal transportation data collection and monitoring requirements.

OCTA submitted four invoices totaling \$386,134 under the Agreement which were paid by Caltrans. The remaining budget of Program expenses that has not yet been invoiced to Caltrans totals \$2,828,866. The PPM activities listed in the Schedule of STIP PPM Program Costs have been completed.

PROCEDURES PERFORMED

We performed the following procedures to ensure that OCTA had complied with the Agreement and *Article XIX - Motor Vehicle Revenues* of the California State Constitution requirements:

1. We reviewed the Agreement between OCTA and Caltrans to obtain an understanding of the Program and STIP PPM funding requirements.
2. We obtained and reviewed contract files for contracts issued by OCTA under the Program to identify contract provisions pertinent to our audit and to verify evidence of competitive bidding.
3. We reviewed fund accounting procedures established by OCTA to account for Program transactions.
4. We assessed OCTA's accounting, reporting and invoicing procedures based on an internal control questionnaire, observations, and interviews with OCTA personnel.

5. We obtained a detailed listing of Program expenditures and selected a statistical sample for testing. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved PPM Activities Plan and in accordance with the Agreement and *Article XIX - Motor Vehicle Revenues* of the California State Constitution requirements.
6. We assessed whether OCTA complied with the reporting requirements of the Agreement. We reviewed the Final Report of Expenditures, including a final invoice and determined whether the final invoice reported actual costs expended in accordance with Attachment A of the Agreement, and that the Final Report of expenditures states that the PPM funds were used in conformance with Article XIX of the California State Constitution and for PPM purposes as defined in the Agreement. We also verified whether both the Final Report of Expenditures and the final invoice were submitted no later than 60 days following the completion of expenditures.

DETAILED RESULTS

Based on the audit procedures performed, we found the following:

A. PROJECT COSTS AND CONTRACTOR DOCUMENTATION

Based on our audit, costs charged to the STIP PPM for Fiscal Year 2009-10 were found to be reasonable, adequately supported, in conformance with *Article XIX – Motor Vehicle Revenues* of the California State Constitution and eligible for the approved Fiscal Year 2009-10 PPM Activities Plan. Our assessment is based on our audit of \$1,566,331 (48% of the \$3,281,968 total Program expenditures) in Program expenditures and supporting documents to determine if expenses were properly supported, approved, recorded, and consistent with the approved PPM Activities Plan.

B. REVIEW OF ACCOUNTING, REPORTING, AND INVOICING PROCEDURES

We found OCTA’s accounting and invoicing procedures were adequate to ensure that project costs incurred were in accordance with the Agreement, and in conformance with *Article XIX – Motor Vehicle Revenues* of the California State Constitution. Our assessment was based on a review of an internal control questionnaire, observations, and interviews with OCTA personnel, and testing of selected Program expenses.

Per the Agreement with Caltrans, OCTA has 60 days following the “completion of expenditures” or until August 29, 2012, to submit a Final Report of Expenditures to Caltrans. OCTA plans to submit the Final Report of Expenditures along with this audit report and claim for the \$2,828,866 in unbilled expenditures to Caltrans by August 29, 2012.

C. SEPARATE PROJECT FUND AND INTEREST ALLOCATION

Based on our sample testing of Program costs and understanding of OCTA’s accounting and

invoicing procedures through an internal control questionnaire, observations, and interviews with OCTA personnel, segregation of project costs was found to be adequate. Additionally, because OCTA is reimbursed for expenditures incurred for the Program on an actual cost reimbursement basis, no fund interest allocation was required.

LIMITATIONS AND RESTRICTIONS

This report is intended solely for the information and use of Orange County Transportation Authority and the State of California Department of Transportation and is not intended to be and should not be used by anyone other than this specified party.

Torrance, California
July 31, 2012

Bazilia Cobb Associates

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSPORTATION IMPROVEMENT PROGRAM
PLANNING, PROGRAMMING AND MONITORING PROGRAM
FISCAL YEAR 2009-10**

Schedule of STIP PPM Program Costs

Project/Activities	Costs Incurred	Disallowed Costs	Audited Costs
On-Call Regional Planning Support	\$ 75,700	\$ -	\$ 75,700
Planning Support Services	53,143	-	53,143
Noise Barrier Scope	173,134	-	173,134
Air Quality Conformity Support	22,985	-	22,985
Planning Support Services	83,402	-	83,402
Financial Programming Analysis, Monitoring and Support Services	28,683	-	28,683
Soundwall Program	5,422	-	5,422
System-wide Transit Study	93,498	-	93,498
OC / Ontario Airport Study	64,285	-	64,285
Staffing	2,681,716	-	2,681,716
Total	\$ 3,281,968	\$ -	\$ 3,281,968

Total FY 2009/10 funding available	<u>\$ 3,215,000</u>
Total reimbursed by Caltrans	<u>386,134</u>
Amount due from Caltrans	<u>\$ 2,828,866</u>

Note: The \$2,828,866 due from Caltrans represents unbilled expenditures under invoice No. 5, which has not yet been submitted to Caltrans.