



**October 12, 2016**

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Financial and Compliance Audits of Eight Measure M2  
Comprehensive Transportation Funding Programs Projects

### **Overview**

Audits have been completed of eight projects funded through the Measure M2 Comprehensive Transportation Funding Programs. The audits were performed by external audit firm BCA Watson Rice LLP. The auditors recommended that management recover \$4,500 from the City of Laguna Niguel to reimburse an overpayment resulting from a calculation error in the city's final cost claim. Also, the auditors recommended that the City of Laguna Niguel enhance controls to ensure the accuracy of final cost claims, retention of appropriate supporting documentation, and proper review and coding of invoices.

The Internal Audit Department issued a supplemental recommendation to management to include procedures for monitoring the progress of local agencies' match expenditures under the Environmental Cleanup Program, which allows cities to meet match obligations through operations and maintenance expenditures up to ten years after project completion. Internal Audit also recommended that management report shortfalls to the Board of Directors in semi-annual review reports.

### **Recommendations**

- A. Receive and file financial and compliance audits of eight Comprehensive Transportation Funding Programs projects.
- B. Direct staff to recover \$4,500 from the City of Laguna Niguel.

- C. Direct staff to implement recommendation provided in the supplemental memo from Internal Audit related to the ongoing monitoring of local agencies' operations and maintenance expenditures under the Environmental Cleanup Program.

***Background***

Measure M2 (M2) includes a number of competitive grant programs that provide funding for regional streets and roads projects. These programs allocate funds through a competitive process and target projects that improve traffic flow by considering factors such as the degree of congestion relief, cost effectiveness, and project readiness, among other factors. The Comprehensive Transportation Funding Programs (CTFP) serves as the mechanism the Orange County Transportation Authority (OCTA) uses to administer the transit as well as the local streets and roads funding programs.

The Fiscal Year (FY) 2015-16 Internal Audit Plan included CTFP project audits. The Internal Audit Department (Internal Audit) engaged external audit firm BCA Watson Rice LLP (BCA) to conduct audits of eight projects closed during the period July 1, 2014 through March 31, 2016.

***Discussion***

Selection of Projects

Internal Audit obtained from the Planning Division a listing of all projects closed from July 1, 2014 through March 31, 2016. From this population, Internal Audit selected eight projects for audit.

Statistics for the population of projects closed and the sample selected for audit are as follows:

|                                                          |               |
|----------------------------------------------------------|---------------|
| Total allocation amounts of projects in population:      | \$ 29,718,566 |
| Total allocation amounts of projects selected for audit: | 18,879,860    |
| Percentage selected for audit:                           | 64%           |

The objectives of the audits were to determine whether the projects were completed in accordance with the program guidelines, applications, and agreements, costs charged to the project were eligible, reasonable, and allocable, records and documentation were adequately maintained, jurisdictions complied with competitive contracting requirements, and adequate accounting and cash management procedures were employed.

Auditor Findings and Recommendations

The City of Laguna Niguel (Laguna Niguel) made an error in the calculation of eligible change order costs. Instead of limiting costs to 10 percent of construction costs, or \$201,098, Laguna Niguel identified eligible change order costs of \$210,098. As a result, the claim for CTFP funding was overstated by \$4,500. The auditors recommended that OCTA management recover the \$4,500 in over-paid CTFP funds and management agreed (Attachment A).

The auditors also noted that Laguna Niguel did not have signed contract change orders for three construction change orders. Further, Laguna Niguel paid in excess of authorized amounts on another three construction change orders. However, after excluding these unsupported costs, the adjusted change order cost pool still exceeded the amount claimed by Laguna Niguel. In addition, the auditors identified costs included in the construction management and support cost pool that did not relate to the project. However, after excluding the non-project related costs, the adjusted construction management and support cost pool still exceeded the amount claimed by Laguna Niguel. Since actual costs exceeded the amounts claimed, no reimbursement of funding was necessary. However, the auditors recommended Laguna Niguel enhance controls to ensure the accuracy of final cost claims, retention of appropriate supporting documentation, and proper review and coding of invoices. Laguna Niguel responded that its current accounting procedures and recommendations ensure very tight controls on project dollars spent and tracked.

In addition to the erroneous posting of project costs, the auditors identified 18 journal entries representing corrections to project costs coded in error. The auditors recommended that Laguna Niguel enhance controls to ensure proper coding and review of invoices. Laguna Niguel responded that new procedures were implemented in FY 2014-15 that require departments to properly code invoices and obtain at least two approvals.

Audits of selected projects by the cities of Anaheim, Fullerton, Newport Beach, Tustin, Westminster, and Huntington Beach, and by the County of Orange were also performed. No recommendations were made related to these audits. See Attachments B, C, D, E, F, G, and H.

Supplemental Recommendation

One of the projects audited was awarded under the Environmental Cleanup Program (ECP). As a match, the city pledged project operations and maintenance expenditures over the next 10 years; however, actual

expenditures in the first six months are much lower than the prorated share of the pledge estimate.

The ECP guidelines require local agencies to report their expenditures as part of the semi-annual review process, and OCTA staff tracks reported expenditures on internal spreadsheets. However, procedures for tracking and reporting the local agencies' expenditures and match progress have not been identified in the semi-annual review manual. As a supplemental recommendation at Attachment I, Internal Audit recommends that OCTA management include procedures for monitoring the progress of local agencies' operations and maintenance expenditures in the semi-annual review manual. In addition, Internal Audit recommended that procedures require shortfalls in match obligations to be reported to the Board of Directors through the semi-annual review reports. OCTA management agreed to update the semi-annual review manual accordingly.

### ***Summary***

Audits have been completed of eight projects funded through the CTFP. The external auditor, BCA, made recommendations to OCTA and Laguna Niguel and Internal Audit issued a supplemental recommendation to OCTA management.

### ***Attachments***

- A. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Laguna Niguel, Crown Valley Parkway (Cabot Road to Forbes Road) Widening Project (Construction), Project No. 11-LNIG-ACE-3534
- B. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Anaheim, Tustin Avenue and La Palma Avenue Intersection Project (Construction), Project No. 11-ANAH-ICE-3508
- C. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Fullerton, Bastanchury Road Corridor Traffic Signal Synchronization Project (Implementation), Project No. 11-FULL-TSP-3549
- D. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Newport Beach, Newport Boulevard Widening from Via Lido to 30th Street (Right-of-Way), Project No. 13-NBCH-ACE-3654

- E. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Tustin, Tustin Ranch Road Extension Project (Construction), Project No. 12-TUST-ACE-9004
- F. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Westminster, Bolsa Chica Road (Duncannon Avenue to Old Bolsa Chica Road) Widening Project (Construction), Project No. 12-WEST-ACE-3602
- G. Comprehensive Transportation Funding Programs Financial and Compliance Audit, City of Huntington Beach, Huntington Beach Catch Basin Retrofit Project (Construction), Project No. 14-HBCH-ECP-3742
- H. Comprehensive Transportation Funding Programs Financial and Compliance Audit, County of Orange, La Pata Avenue between Ortega Highway and Calle Saluda and Del Rio Extension Project (Engineering), Project No. 11-ORCO-ACE-3521
- I. Memo to Kia Mortazavi from Serena Ng dated September 29, 2016, Supplemental Recommendation - Comprehensive Transportation Funding Programs Audits

**Prepared by:**



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**Approved by:**



Janet Sutter  
Executive Director, Internal Audit  
714-560-5591

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Laguna Niguel  
Crown Valley Parkway (Cabot Road to Forbes Road) Widening Project  
(Construction)  
Project No. 11-LNIG-ACE-3534**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 5           |
| Attachment A – Schedule of Audit Results .....                       | 6           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Crown Valley Parkway (Cabot Road to Forbes Road) Widening Project (Project) of the City of Laguna Niguel (City), Project Number 11-LNIG-ACE-3534 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- The City overstated Project costs by \$9,000, resulting in an over-payment of CTFP funding of \$4,500.
- The City has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The City's accounting and cash management procedures and tracking of project costs at the project management level could be improved.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided funding to the City totaling \$1,278,907 for construction under Project No. 11-LNIG-ACE-3534 under the Arterial Capacity Enhancements program. The Project was to widen Crown Valley Parkway in the eastbound direction between Cabot Road and Forbes Road to add a fourth through lane and second left turn lanes from eastbound Crown Valley Parkway to northbound Forbes Road and westbound Crown Valley Parkway to southbound Forbes Road. Costs incurred for the Project totaled \$2,557,813 of which \$1,278,907 was funded by the CTFP under Project No. 11-LNIG-ACE-3534 and \$1,278,906 was funded by the City. The Project began in April 2012 and was completed on June 10, 2015. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$2,557,813 for the Project. The Project funding consisted of CTFP funds of \$1,278,907 under Project No. 11-LNIG-ACE-3534 and \$1,278,906 from the City's other funds. Under the current CTFP Guidelines, construction change orders are limited to 10% of construction costs and construction management and support costs are limited to 15% of eligible project costs. Project costs reported by the City included construction costs of \$2,010,984, change order costs of \$210,098, construction management and support costs of \$301,647, project materials costs of \$7,467, and permits and fees costs of \$27,617.

The City made an error in the calculation of eligible change order costs. Instead of limiting costs to 10% of construction costs, or \$201,098, the City identified eligible change order costs of \$210,098. After correcting the error, we calculated an adjusted Project cost pool of \$2,548,813 and an adjusted CTFP funding amount of \$1,274,407. As a result, CTFP funding was over-paid by \$4,500.

In addition, the City did not have signed contract change orders for 3 of 11 construction change orders, totaling \$67,622. Also, payments related to another three change orders exceeded the authorized amounts by \$20,688. The City reported total construction change orders of \$366,926. After excluding \$88,310 of unsupported costs from total change orders, the adjusted change order pool of \$278,616 still exceeds the amount of change orders claimed by the City.

Testing of construction management and support costs identified Project costs of \$17,805 that did not relate to this Project. The City reported total construction management and support costs of \$606,605. After excluding the \$17,805 of non-Project related costs, the adjusted cost pool of \$588,800 still exceeds the amount of construction management and support costs claimed by the City.

### **Recommendation to OCLTA**

We recommend that OCLTA management recover \$4,500 in over-paid CTFP funds.

### **OCLTA's Management Response**

Planning staff will work with Finance staff to issue an invoice to the City for \$4,500 requesting CTFP funds back to OCTA.

### **Recommendation to the City**

We recommend the City enhance controls to ensure the accuracy of final cost claims, retention of appropriate supporting documentation for Project costs, and proper review and coding of invoices.

### City's Management Response

The City's current accounting procedures and recommendations ensure very tight controls on project dollars spent and tracked. The current and future project administrators will not show any discrepancies or misfiled information.

### **Compliance with Competitive Contracting Requirements**

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

### **Accounting and Cash Management Procedures**

In addition to the erroneous posting of \$17,805 in Project costs, as noted above, we noted 18 journal entries representing corrections to erroneous coding of Project costs.

### Recommendation

We recommend the City enhance controls to ensure proper coding and review of invoices.

### City's Management Response

The City implemented new procedures in FY 14/15 to require departments to properly code invoices and obtain at least two approvals. Therefore, safeguards are in place to ensure full compliance with OCTA guidelines in the future.

### **Project Completion**

The Project was completed on June 10, 2015 and the final report was submitted to OCLTA by the City on July 16, 2015, which is within 180 days after the project completion date.

### **Separate Project Fund**

The City recorded costs of the Project in the City Capital Projects Fund. The City tracked the Project costs by using a separate project cost unit (#5000-12) within the City Capital Projects Fund.

**LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
August 10, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2771  
**Agency:** City of Laguna Niguel  
**Project Title:** Crown Valley Parkway (Cabot Road to Forbes Road) Widening Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred<sup>2</sup></u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| 11-LNIG-ACE-3534      | \$ 1,278,907                         | \$ 1,278,906                             | \$ 2,557,813                        | \$ 2,548,813                          | \$ -                               | \$ 9,000 <sup>3</sup>       |

<sup>1</sup> A matching requirement of 50% of total project costs was required and met by the City.

<sup>2</sup> The City reported Project costs of \$2,557,813; however, we adjusted the Project costs downward to \$2,548,813 as discussed on Page 3.

<sup>3</sup> The City overstated project costs by \$9,000, resulting in questioned costs of \$9,000 and an over-payment of CTFP funding of \$4,500.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Anaheim  
Tustin Avenue and La Palma Avenue Intersection Project  
(Construction)  
Project No. 11-ANAH-ICE-3508**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Tustin Avenue and La Palma Intersection Project (Project) of the City of Anaheim (City), Project Number 11-ANAH-ICE-3508 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA funded \$1,689,000 for Construction under Project No. 11-ANAH-ICE-3508 to the City under the Intersection Capacity Enhancements program. The Project was to widen and restripe approximately 2,200 feet along Tustin Avenue from Eagle Drive to the north and State Route 91 (SR-91) to the south, and approximately 1,600 feet along La Palma Avenue, which will relieve congestion along these roadways as well as at the westbound SR-91/Tustin Avenue freeway interchange. Costs incurred for the Project totaled \$10,277,751 of which \$1,689,000 was funded by the CTFP under Project No. 11-ANAH-ICE-3508 and \$8,588,751 was funded by the City. The Project began on April 16, 2013 and was completed on September 8, 2015. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$10,277,751 for the Project. The Project funding consisted of CTFP funds of \$1,689,000 under Project No. 11-ANAH-ICE-3508 and \$8,588,751 from the City's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

### **Accounting and Cash Management Procedures**

The City established adequate controls to ensure that project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the Project Manager.

### **Project Completion**

The Project was completed on September 8, 2015 and the final report was submitted to OCLTA by the City on December 11, 2015, which is within 180 days after the Project completion date.

### **Separate Project Fund**

The City recorded costs of the Project in the Special Revenue M2 CTFP Fund (Fund 274). The City tracked the Project costs by using a separate project cost unit (K898) within the Special Revenue M2 CTFP Fund.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
July 29, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2754  
**Agency:** City of Anaheim  
**Project Title:** Tustin Avenue and La Palma Avenue Intersection Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 11-ANAH-ICE-3508      | \$ 1,689,000                         | \$ 5,138,876                             | \$ 6,827,876                        | \$ 10,277,751             | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 50% of total project costs was required and met by the City.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Fullerton  
Bastanchury Road Corridor Traffic Signal Synchronization Project  
(Implementation)  
Project No. 11-FULL-TSP-3549**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Bastanchury Road Corridor Traffic Signal Synchronization Project (Project) of the City of Fullerton (City), Project Number 11-FULL-TSP-3549 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided the City funding totaling \$433,236 for construction under Project No. 11-FULL-TSP-3549 under the Regional Traffic Signal Synchronization Program. The Project was to improve and optimize signal synchronization timing along Bastanchury Road from Malvern Avenue to Valley View Avenue, which will improve the signal coordination along this heavily traveled corridor. Costs incurred for the Project totaled \$653,636 of which \$433,236 was funded by the CTFP under Project No. 11-FULL-TSP-3549 and \$220,400 was funded by the City. The Project began on December 6, 2011 and was completed on February 13, 2015. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$653,636 for the Project. The Project funding consisted of CTFP funds of \$433,236 under Project No. 11-FULL-TSP-3549 and \$220,400 from the City's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

### **Accounting and Cash Management Procedures**

The City established adequate controls to ensure that project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the City Engineer.

### **Project Completion**

The Project was completed on February 13, 2015 and the original final report was submitted to OCLTA by the City on July 29, 2015, which is within 180 days after the Project completion date. However, OCLTA requested a revised final report at a Semi Annual Review Meeting between OCLTA and City staff on February 29, 2016, and a revised final report was submitted by the City on April 26, 2016.

### **Separate Project Fund**

The City recorded costs of the Project in the Special Revenue Capital Projects Fund (Fund 74). The City tracked the Project costs by using a separate project cost unit (46009) within the Special Revenue Capital Projects Fund.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
August 5, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2763  
**Agency:** City of Fullerton  
**Project Title:** Bastanchury Road Corridor Traffic Signal Synchronization Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 11-FULL-TSP-3549      | \$ 433,236                           | \$ 130,727                               | \$ 563,963                          | \$ 653,636                | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 20% of total project costs was required and met by the City.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Newport Beach  
Newport Boulevard Widening from Via Lido to 30<sup>th</sup> Street  
(Right-of-Way)  
Project No. 13-NBCH-ACE-3654**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Newport Boulevard Widening from Via Lido to 30<sup>th</sup> Street Project (Project) of the City of Newport Beach (City), Project Number 13-NBCH-ACE-3654 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided funding to the City totaling \$3,048,413 for right-of-way acquisitions under Project No. 13-NBCH-ACE-3654 under the Arterial Capacity Enhancements program. The Project was to widen the roadway to accommodate a third northbound lane between 30<sup>th</sup> Street and 32<sup>nd</sup> Street and a third southbound lane between Via Lido and 32<sup>nd</sup> Street, which required full right-of-way acquisitions from two parcels on the west side of Newport Boulevard at the 32<sup>nd</sup> Street Intersections. Costs incurred for the Project totaled \$6,349,851 of which \$3,048,413 was funded by the CTFP under Project No. 13-NBCH-ACE-3654 and \$3,301,438 was funded by the City. The Project began in May 2013 and was completed on October 6, 2014. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$6,349,851 for the Project. The Project funding consisted of CTFP funds of \$3,048,413 under Project No. 13-NBCH-ACE-3654 and \$3,301,438 from the City's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

The Project funds were used primarily for the acquisition of required right-of-way and easements. Thus, compliance with competitive contracting requirements was not applicable for this Project.

### **Accounting and Cash Management Procedures**

The City established adequate controls to ensure that project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the City Engineer.

### **Project Completion**

The Project was completed on October 6, 2014 and the final report was submitted to OCLTA by the City on November 20, 2014, which is within 180 days after the Project completion date.

### **Separate Project Fund**

The City recorded costs of the Project in the Special Revenue Measure M Fund (Fund 284). The City tracked the Project costs by using a separate project cost unit (7284) within the Special Revenue Measure M Fund.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
July 19, 2016

ORANGE COUNTY TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2776  
**Agency:** City of Newport Beach  
**Project Title:** Newport Boulevard Widening from Via Lido to 30th Street  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 13-NBCH-ACE-3654      | \$ 3,048,413                         | \$ 3,174,926                             | \$ 6,223,339                        | \$ 6,349,851              | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 50% of total project costs was required and met by the City.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Tustin  
Tustin Ranch Road Extension Project  
(Construction)  
Project No. 12-TUST-ACE-9004**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Tustin Ranch Road Extension Project (Project) of the City of Tustin (City), Project Number 12-TUST-ACE-9004 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided the City funding totaling \$9,437,070 for construction under Project No. 12-TUST-ACE-9004 under the Arterial Capacity Enhancements (ACE) program and State Local Partnership Program (SLPP). The Project was a construction of a new six-lane major arterial roadway extension of Tustin Ranch Road between Walnut Avenue and Warner Avenue, which will significantly improve the overall traffic circulation for residents and 105,000 employees working in the area including two major employment centers, Tustin Legacy and the Irvine Business Complex. Costs incurred for the Project totaled \$24,312,312 of which \$9,437,070 was funded by ACE and SLPP under Project No. 12-TUST-ACE-9004 and \$14,875,242 was funded by the City. The Project began in June 2012 and was completed on June 3, 2014. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$24,312,312 for the Project. The Project funding consisted of \$4,510,035 in ACE and \$4,927,035 in SLPP funds under Project No. 12-TUST-ACE-9004 and \$14,875,242 from the City's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

### **Accounting and Cash Management Procedures**

The City established adequate controls to ensure that Project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the Project Manager.

### **Project Completion**

The Project was completed on June 3, 2014 and the final report was submitted to OCLTA by the City on June 16, 2014, which is within 180 days after the project completion date.

### **Separate Project Fund**

The City recorded costs of the Project in the Special Revenue Measure M2 Fund (Fund 139) and Capital Projects Fund (Fund 200). The City tracked the Project costs by using a separate project cost unit (70100 and 70203) within the Special Revenue Measure M2 and Capital Projects Funds.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
July 22, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2786  
**Agency:** City of Tustin  
**Project Title:** Tustin Ranch Road Extension Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 12-TUST-ACE-9004      | \$ 9,437,070                         | \$ 12,156,156                            | \$ 21,593,226                       | \$ 24,312,312             | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 50% of total project costs was required and met by the City.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Westminster  
Bolsa Chica Road (Duncannon Avenue to Old Bolsa Chica Road)  
Widening Project  
(Construction)  
Project No. 12-WEST-ACE-3602**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Bolsa Chica Road (Duncannon Avenue to Old Bolsa Chica Road) Widening Project (Project) of the City of Westminster (City), Project Number 12-WEST-ACE-3602 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided funding to the City totaling \$464,700 for construction under Project No. 12-WEST-ACE-3602 under the Arterial Capacity Enhancements program. The Project was to widen Bolsa Chica Road from north of Duncannon Avenue to Old Bolsa Chica Road, which will eliminate lane drop issues and result in enhanced mobility while providing a significant safety improvement for the corridor. Costs incurred for the Project totaled \$621,363 of which \$464,700 was funded by the CTFP under Project No. 12-WEST-ACE-3602 and \$156,663 was funded by the City. The Project began on November 13, 2013 and was completed on December 23, 2014. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$621,363 for the Project. The Project funding consisted of CTFP funds of \$464,700 under Project No. 12-WEST-ACE-3602 and \$156,663 from the City's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

We reviewed documentation provided by the City evidencing that competitive contracting requirements were complied with.

### **Accounting and Cash Management Procedures**

The City established adequate controls to ensure that Project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the City Engineer.

### **Project Completion**

The Project was completed on December 23, 2014 and the final report was submitted to OCLTA by the City on January 29, 2015, which is within 180 days after the project completion date.

### **Separate Project Fund**

The City recorded costs of the Project in the Special Revenue CIP and Long Term Project Costs Fund. The City tracked the Project costs by using a separate project cost unit (#132600) within the Special Revenue CIP Long Term Project Costs Fund.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
July 28, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2788  
**Agency:** City of Westminster  
**Project Title:** Bolsa Chica Road (Duncannon Avenue to Old Bolsa Chica Road) Widening Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 12-WEST-ACE-3602      | \$ 464,700                           | \$ 155,341                               | \$ 620,041                          | \$ 621,363                | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 25% of total project costs was required and met by the City.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**City of Huntington Beach  
Huntington Beach Catch Basin Retrofit Project  
(Construction)  
Project No. 14-HBCH-ECP-3742**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the Huntington Beach Catch Basin Retrofit Project (Project) of the City of Huntington Beach (City), Project Number 14-HBCH-ECP-3742 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the City complied with competitive contracting requirements, 3) the City's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the City to account for Measure M2 transactions and expenditures, and 7) the City's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City piggy-backed on a County of Orange contract, which went through a competitive bidding process.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The City established and maintained a separate cost center for the Project.
- The City submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided funding to the City totaling \$182,894 for construction under Project No. 14-HBCH-ECP-3742 under the Environmental Cleanup Program. The Project was to retrofit 110 catch basins with Bio Clean's Round Curb Inlet Filters, which will facilitate the capture and removal of debris in close proximity to the source and prevent it from entering the receiving water. Costs incurred for the Project to date totaled \$184,376 of which \$182,894 was funded by the CTFP under Project No. 14-HBCH-ECP-3742 and \$1,482 was funded by the City. The Project began in January 2014 and was completed on July 3, 2015. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed City invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and City Documentation**

The City incurred costs totaling \$184,376 to date for the Project. The Project funding consisted of CTFP funds of \$182,894 under Project No. 14-HBCH-ECP-3742 and \$1,482 from the City's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

The City piggy-backed on a County of Orange (County) contract with vendor Bio Clean. The City provided evidence of the County's competitive bidding process resulting in the award to Bio Clean. Thus, it was determined that competitive contracting requirements were met by piggy-backing on the County's competitive award to Bio Clean.

### **Accounting and Cash Management Procedures**

The City established adequate controls to ensure that Project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the Project Manager.

### **Project Completion**

The Project was completed on July 3, 2015 and the final report was submitted to OCLTA by the City on December 23, 2015, which is within 180 days after the Project completion date.

### **Separate Project Fund**

The City recorded costs of the Project in the Special Revenue OCTA Grant Fund (Fund 873). The City tracked the Project costs by using a separate project cost unit (90014) within the OCTA Grant Fund.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the City and is not intended to be and should not be used by anyone other than these specified parties.



Torrance, California  
August 9, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2765  
**Agency:** City of Huntington Beach  
**Project Title:** Huntington Beach Catch Basin Retrofit Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 14-HBCH-ECP-3742      | \$ 182,894                           | \$ 102,878                               | \$ 285,772                          | \$ 184,376                | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 36% of total project costs was required. In accordance with the CTFP guidelines, the City pledged \$102,878 (36%) match of future in-kind services for ongoing operation and maintenance of the project over the next ten years, beginning in January 2015. In-kind services are to be reported to OCTA semi-annually in March and September of each year. As of December 2015, the City contributed \$1,482 of in-kind match for operations and maintenance. Thus, \$101,396 of in-kind match remains outstanding.

# **ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY**

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## **Comprehensive Transportation Funding Programs Financial and Compliance Audit**

**County of Orange  
La Pata Avenue between Ortega Highway and Calle Saluda and Del Rio  
Extension Project  
(Engineering)  
Project No. 11-ORCO-ACE-3521**



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**COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS  
FINANCIAL AND COMPLIANCE AUDIT**

**TABLE OF CONTENTS**

|                                                                      | <u>Page</u> |
|----------------------------------------------------------------------|-------------|
| Independent Auditors' Report on Financial and Compliance Audit ..... | 1           |
| Results in Brief .....                                               | 1           |
| Background .....                                                     | 2           |
| Procedures Performed .....                                           | 2           |
| Detailed Results .....                                               | 3           |
| Limitations and Restrictions .....                                   | 3           |
| Attachment A – Schedule of Audit Results .....                       | 4           |

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT**

Board of Directors  
Orange County Local Transportation Authority  
Orange, California

We have completed a financial and compliance audit of the La Pata Avenue between Ortega Highway and Calle Saluda and Del Rio Extension Project (Project) of the County of Orange (County), Project Number 11-ORCO-ACE-3521 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were eligible, reasonable and allocable, 2) the County complied with competitive contracting requirements, 3) the County's accounting and cash management procedures were adequate to ensure that project funds were used only for costs chargeable to the project and were tracked separately within the accounting system, 4) the project was completed in accordance with the approved application and CTFP agreement, 5) all records and documentation related to the project were adequately maintained, 6) a separate fund was set up by the County to account for Measure M2 transactions and expenditures, and 7) the County's use of interest earnings on CTFP funds was in compliance with the Measure M Ordinance.

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**

We found that:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The County has a competitive procurement procedure in place for the selection of contractors, and adhered to this procedure for the selection of contractors under the Project.
- The County's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The Project was completed in accordance with the CTFP agreement.
- The County established and maintained a separate cost center for the Project.
- The County submitted the Final Report to OCLTA within 180 days of the Project completion date, as required by CTFP guidelines.

## **BACKGROUND**

The OCLTA provided funding to the County totaling \$2,250,000 for engineering under Project No. 11-ORCO-ACE-3521 under the Arterial Capacity Enhancements program. The Project was to widen La Pata Avenue from three to five lanes from approximately 750 feet south of Ortega Highway to the existing road terminus at the County's Prima Deshecha landfill and to construct a new four lane roadway extension between the Prima Deshecha landfill to Calle Saluda. Costs incurred for the Project totaled \$6,449,994 of which \$2,250,000 was funded by the CTFP under Project No. 11-ORCO-ACE-3521 and \$4,199,994 was funded by the County. The Project began in November 2011 and was completed on March 12, 2014. (See Attachment A for detailed results).

## **PROCEDURES PERFORMED**

We performed the following procedures:

1. We reviewed the Project agreement to obtain an understanding of the Project and CTFP requirements.
2. We obtained and reviewed Project contract files to identify contract provisions and verify evidence of competitive bid procedures, reviewed County invoices, payments, and change order documents, and identified the date of contract completion.
3. We identified fund accounting procedures used by the County to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detail listing of the Project's expenditures and judgmentally selected a sample for review. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved budget and in accordance with the contract and/or CTFP requirements.
6. For construction phase work performed by local agency personnel, we reviewed documents to determine if the decision that local agency personnel could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for acquisition costs charged to the Project, and we performed a review to ensure that excess parcels acquired with program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed Project expenditures to determine that the Project was completed in accordance with the CTFP application.

## **DETAILED RESULTS**

Our audit disclosed the following:

### **Project Costs and County Documentation**

The County incurred costs totaling \$6,449,994 for the Project. The Project funding consisted of CTFP funds of \$2,250,000 under Project No. 11-ORCO-ACE-3521 and \$4,199,994 from the County's other funds. We found that all costs charged to the Project were reasonable, allocable, and adequately supported.

### **Compliance with Competitive Contracting Requirements**

We reviewed documentation provided by the County evidencing that competitive contracting requirements were complied with.

### **Accounting and Cash Management Procedures**

The County established adequate controls to ensure that Project funds were used only for approved Project costs. All costs charged to the Project were reviewed and approved by the Project Manager.

### **Project Completion**

The Project was completed on March 12, 2014 and the final report was submitted to OCLTA by the County on April 17, 2014, which is within 180 days after the Project completion date.

### **Separate Project Fund**

The County recorded costs of the Project in the Special Revenue OC Road Fund (Fund 115) under OC Public Works Department No. 080.

## **LIMITATIONS AND RESTRICTIONS**

This report is intended solely for the information and use of management and Board of Directors of the OCLTA and the County and is not intended to be and should not be used by anyone other than these specified parties.

*BCA Watson Rice, LLP*

Torrance, California  
August 17, 2016

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY  
 COMPREHENSIVE TRANSPORTATION FUNDING PROGRAMS

SCHEDULE OF AUDIT RESULTS

**Cooperative No.:** C-1-2758  
**Agency:** County of Orange  
**Project Title:** La Pata Avenue between Ortega Highway and Calle Saluda and Del Rio Extension Project  
**Project Status:** Completed

| <u>Project Number</u> | <u>CTFP<br/>Funding<br/>Provided</u> | <u>Matching<sup>1</sup><br/>Required</u> | <u>Total Funds<br/>CTFP + Match</u> | <u>Costs<br/>Incurred</u> | <u>Unused<br/>Fund<br/>Balance</u> | <u>Questioned<br/>Costs</u> |
|-----------------------|--------------------------------------|------------------------------------------|-------------------------------------|---------------------------|------------------------------------|-----------------------------|
| 11-ORCO-ACE-3521      | \$ 2,250,000                         | \$ 3,224,997                             | \$ 5,474,997                        | \$ 6,449,994              | \$ -                               | \$ -                        |

<sup>1</sup> A matching requirement of 50% of total project costs was required and met by the County.



*INTEROFFICE MEMO*

September 29, 2016

To: Kia Mortazavi, Executive Director

From: Serena Ng, Senior Manager  
Internal Audit

Subject: **Supplemental Recommendation – Comprehensive  
Transportation Funding Programs Audits**

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) engaged external audit firm BCA Watson Rice LLP to conduct audits of eight Comprehensive Transportation Funding Programs (CTFP) projects closed from July 1, 2014 through March 31, 2016.

One of the projects audited was the Huntington Beach Catch Basin Retrofit Project, No. 14-HBCH-ECP-3742, under the Environmental Cleanup Program (ECP). Under the agreement, the City of Huntington Beach (City) will provide \$102,878 in matching project operations and maintenance expenditures over the next 10 years. According to the report, in the first six months, the City provided \$1,482 in operations and maintenance support.

The ECP is the only CTFP program that allows for agencies to meet their matching obligation through future operations and maintenance expenditures. The ECP guidelines require the local agencies to report their expenditures on Form 10-17 as part of the semi-annual review process, and OCTA staff tracks reported expenditures on internal spreadsheets. However, internal procedures for tracking and reporting the local agencies' expenditures and match progress have not been identified in the semi-annual review manual.

**Recommendation:**

Internal Audit recommends management include procedures for monitoring the progress of local agencies' operations and maintenance expenditures in the semi-annual review manual. Procedures should include the addition of a semi-annual review checklist item for receipt, review, and tracking of the Form 10-17's. Procedures should also require that short-falls in match obligations be reported to the Board of Directors in the semi-annual review reports.

**Management Response (Planning Division):**

Planning staff will update the semi-annual review manual to include checklist items documenting tracking and reporting of Form 10-17. Local agencies have reported any short-falls to date. Should these short-falls develop at the end of the 10-year period, these issues will be included in the semi-annual review.

c: Kurt Brotcke  
Sam Kaur  
Janet Sutter