





June 25, 2025

To: Finance and Administration Committee  For

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director 
Internal Audit

Subject: Project Controls, Internal Audit Report 25-513

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of the Project Controls function within the Capital Programs Division. Based on the audit, project changes are properly documented and approved, invoices are properly reviewed and approved, and project master schedules, monthly progress reports, and capital action plans are timely prepared and distributed. One recommendation has been made to improve verification of consultant-billed labor hours.

Recommendation

Direct staff to implement one recommendation provided in Project Controls, Internal Audit Report No. 25-513.

Background

Project Controls (PC) acts as an essential support function to the Capital Programs Division by developing and monitoring project schedules, budgets, and progress reports for the various capital improvement projects, and by performing detailed reviews of consultant invoices to support documentation prior to review and authorization for payment by management.

Program management procedures establish program control practices and outline key responsibilities of PC and project management staff. PC staff compiles and distributes project master schedules and monthly progress reports, reviews and approves project change requests, performs review of consultant invoices, and prepares capital action plan reports that are presented to the Board of Directors (Board) on a quarterly basis.

The Capital Action Plan (CAP) report presented to the Board on February 10, 2025, reflected 35 Measure M2-funded projects and four freeway projects, totaling approximately \$6.28 billion. The CAP also included the status of nine grade separation projects totaling \$0.73 billion, and 13 rail and station projects totaling \$1.17 billion.

Discussion

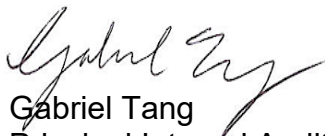
Staff should obtain timesheets to verify the accuracy of labor hours billed. Acceptance of manually prepared, summary-level labor hour reports increases the risk of overpayments and decreases the ability for project managers to assess the reasonableness of the hours being charged. PC management indicated they accept directions from individual project managers as to what is acceptable support for labor hours billed. Internal Audit recommended PC staff require timesheets to support labor hours billed and require Capital Programs Executive Director approval, rather than individual project manager approval, for exceptions to invoice review requirements. Management agreed and will implement the recommendation.

Summary

Internal Audit has completed an audit of the PC function within the Capital Programs Division and has offered one recommendation for improvement.

Attachment

- A. Project Controls, Internal Audit Report No. 25-513

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Project Controls

Internal Audit Report No. 25-513

June 10, 2025



Performed by: Gabriel Tang, CPA, Principal Internal Auditor
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Janet Sutter for

Distributed to: Jim Beil, Executive Director, Capital Programs
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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Project Controls
June 10, 2025**

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Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of Project Controls (PC). Based on the audit, project changes are properly documented and approved, invoices are properly reviewed and approved, and project master schedules, monthly progress reports, and capital action plans are timely prepared and distributed. One recommendation has been made to improve verification of consultant-billed labor hours.

Background

PC acts as an essential support function to the Capital Programs Division by developing and monitoring project schedules, budgets, and progress reports for the various capital improvement projects and by performing detailed reviews of consultant invoices to support documentation prior to review and authorization for payment by management.

Program management procedures establish program control practices and outline key responsibilities of PC and project management staff. Project master schedules are tracked and monitored within the Primavera system. PC staff compile project master schedules and prepare and distribute monthly progress reports for all active projects. The monthly progress reports provide summary data on the status of projects and highlight any changes made to project scope, budget, and/or schedule. Project managers request changes to the scope, budget, or schedule of a project using a Project Change Request form, which requires approval by the Capital Programs Director or Executive Director.

PC staff also perform reviews of invoices from highway project consultants and contractors, as well as invoices from OC Streetcar environmental and construction management consultants. Invoice reviews are documented using an Invoice Review Checklist which outlines items that are reviewed in accordance with the invoice review procedures, and includes the signatures of the staff involved, the appropriate account coding, and approval signatures as required by established payment authorization limits.

The Capital Action Plan (CAP) report is a summary of project master schedule information that is maintained and updated by the PC manager. The CAP is prepared and submitted quarterly to the Board of Directors (Board) at the first meeting in the second month following the status period cut-off.

The CAP presented to the Board on February 10, 2025, reflected 35 Measure M2 (M2) and four non-M2 freeway projects totaling approximately \$6.28 billion. The CAP also includes the status of nine grade separation projects totaling \$0.73 billion, and 13 rail and station projects totaling \$1.17 billion.

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Objectives, Scope, and Methodology

The objectives were to assess and test operations of the PC function within the Capital Programs Division.

The methodology consisted of testing project change requests to determine proper documentation and approval in accordance with program management procedures, testing project master schedules and monthly progress reports to assess timeliness of preparation and distribution, testing quarterly CAP reports to the Board to assess timeliness and accuracy, and testing of payments to determine compliance with procedures, evidence of review, accuracy of review, and timeliness of payments.

The scope included all project change requests, monthly project master schedules, and monthly progress reports issued, and all quarterly CAP reports presented to the Board during the period July 1, 2022, through February 28, 2025. The scope also included verification of monthly report distribution emails during the period from March 1, 2023 through February 28, 2025. The scope also included a judgmental sample of invoices paid during the period from July 1, 2022 through March 31, 2025. The judgmental sample was selected to provide coverage of different types of projects. Since the sample was non-statistical, any conclusions are limited to the sample items tested. The scope did not include invoice reviews for OC Streetcar or rail/station projects that are performed by consultants reporting to the relevant project management group. The scope also did not include invoices from Mott MacDonald, LLP, as the contracts for their services are included in the audit plan as a separate audit.

We conducted this performance 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.

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Audit Comment, Recommendation, and Management Response

Labor Cost Support

Staff should obtain time sheets to verify the accuracy of labor hours billed.

Testing identified two consultants that submit summary-level labor hour reports, rather than timesheets, to support labor hours billed. The summary-level payroll reports provided by one consultant are manually prepared, rather than system-generated. Acceptance of manually prepared, summary-level labor hour reports increases the risk of overpayments and decreases the ability for project managers to assess the reasonableness of the hours being charged.

Management stated that they accept directions from individual project managers as to what is acceptable support for labor hours billed.

Recommendation 1:

Internal Audit recommends staff obtain timesheets to support labor hours charged. Since PC functions as an independent control function, any exceptions to invoice review requirements should require approval of the Capital Programs Executive Director, rather than individual project managers.

Management Response:

Management agrees with the recommendation. While the current contract language for the two tested contracts does not explicitly mandate submission of timesheets with invoices, management recognizes the importance of this documentation for accountability and verification purposes. Under existing invoice review procedures for the Capital Programs Division, large consulting firms utilizing electronic timesheets and job-costing systems are allowed to submit automated payroll summary billing information. In alignment with the audit recommendation, PC staff will require vendors, consultants and their sub-consultants to submit timesheet backup with all future invoice submissions to support the accuracy of summary level labor hours invoiced.

Furthermore, PC serves as an independent control function and any exceptions to invoice review requirements will be elevated for approval by the Executive Director.