



July 28, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Orange County Transportation Authority, Proposition 1B Bond Program, Project Number P2500-0008

Overview

The California Department of Finance has conducted an audit of Proposition 1B funds awarded to the Orange County Transportation Authority for the Lakeview Avenue Grade Separation, Brookhurst Street Improvements, La Pata Avenue Phase 1, and Laguna Niguel to San Juan Capistrano Passing Siding projects. The audit report found that expenditures were generally in compliance with project agreements and program guidelines; however, four observations were made related to unsupported contract change order expenditures, late submission of final delivery reports, reporting of project benefits/outcomes, and oversight of administering agencies' procurement processes. The results of the audit were transmitted to the California Department of Transportation, which will be responsible for developing a corrective action plan for final disposition of these observations and related recommendations.

Recommendation

Direct staff to work, as requested, with the California Department of Transportation on appropriate disposition of the observations and recommendations identified through the audit conducted by the California Department of Finance related to Proposition 1B projects.

Background

The Orange County Transportation Authority (OCTA) was awarded \$27.5 million in Proposition (Prop) 1B funds from the Trade Corridor Improvement Fund, \$8.5 million from the Prop 1B State-Local Partnership Program, and \$2 million

from the Prop 1B Intercity Rail Improvement Fund for the four construction projects.

Under an agreement with the California Department of Transportation (Caltrans), the Department of Finance (DOF) performs audits to determine whether expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans program guidelines, and applicable state and federal regulations, whether outputs were consistent with the project scopes and schedules, and whether outcomes were achieved and adequately reported in final delivery reports (FDR).

The audit was conducted virtually beginning in July 2020, and a final report was issued on June 2, 2021.

Discussion

The DOF concluded that expenditures were incurred and reimbursed in compliance with executed agreements, Caltrans guidelines, and applicable state and federal regulations, except for \$250,000 in contract change order expenditures related to flagging services for the Laguna Niguel to San Juan Capistrano Passing Siding (LN-SJC) project. The auditors also recommended OCTA ensure timely submission of FDRs and improve reporting of actual project benefits/outcomes. A final recommendation was made to strengthen oversight controls related to projects administered by local agencies.

OCTA management provided responses to the auditor observations and recommendations, and those responses are incorporated into the final audit report, as Attachment A. As detailed in the response, management is requesting reconsideration of the recommendation to remit \$250,000 to Caltrans for flagging expenditures incurred under the LN-SJC project, as additional documentation has been obtained to support these charges. Management acknowledged late delivery of FDRs for the two agency-administered projects and indicated that, going forward, OCTA does not plan on using state funds to support these types of subrecipient projects. Management disagreed with the auditor's observations related to reporting of project benefits for the Lakeview Grade Separation project and indicated that explanations provided in the FDR were consistent with those provided for other railroad grade separation projects. Regarding oversight of agency-administered projects, management reiterated that, going forward, there are no plans to use state funds to support subrecipient projects. If state funds are used, OCTA will ensure the local agency is the direct recipient of the funding allocation.

Caltrans, Division of Local Assistance, will be responsible for the final disposition of observations and recommendations. OCTA management will work with Caltrans staff, as requested, to assist in this exercise.

Summary

The DOF has conducted an audit of Proposition 1B funds awarded to OCTA for the following projects: Lakeview Avenue Grade Separation, Brookhurst Street Improvements, La Pata Avenue Phase 1, and the LN-SJC project.

Attachment

- A. Department of Finance California, Office of State Audits and Evaluations Confidential Draft Report, Orange County Transportation Authority Proposition 1B Bond Program, Project Number P2500-0008, Report No: 21-2660-025

Approved by:



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



Orange County Transportation Authority

Proposition 1B Bond Program

Project Number P2500-0008

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Chikako Takagi-Galamba, Manager
Anna Kyumba, CPA, Supervisor
Jeffrey Neller, Lead
Michael Painter

Final reports are available on our website at www.dof.ca.gov.

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



June 2, 2021

MarSue Morrill, Chief, Planning and Modal Office
Independent Office of Audits and Investigations
California Department of Transportation
1304 O Street, Suite 200
Sacramento, CA 95814

Final Report—Orange County Transportation Authority, Proposition 1B Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Orange County Transportation Authority's (OCTA) Proposition 1B projects listed below:

<u>Project Number</u>	<u>P Number</u>	<u>Project Name</u>
1212000004	P2500-0008	Lakeview Avenue Grade Separation
1213000166	P2500-0008	Brookhurst Street Improvements
1213000167	P2500-0008	La Pata Avenue Phase 1
0019000190	P2500-0008	Laguna Niguel to San Juan Capistrano Passing Siding

The enclosed report is for your information and use. OCTA's response to the report findings is incorporated into this final report. We appreciate OCTA's assistance and cooperation during the engagement. This report will be placed on our website.

If you have any questions regarding this report, please contact Chikako Takagi-Galamba, Manager, or Anna Kyumba, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Nancy Shaul, Audit Manager, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation
Monty Laskosky, Auditor, Planning and Modal Office, Independent Office of Audits and Investigations, California Department of Transportation

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates these funds to the California Department of Transportation (Caltrans) to implement various programs.¹

CTC awarded the Orange County Transportation Authority (OCTA) \$27.5 million in Proposition 1B funds from the Trade Corridor Improvement Fund (TCIF), \$8.5 million from the State-Local Partnership Program (SLPP), and \$2.0 million from the Intercity Rail Improvement (IRI) funds for the following four construction projects:

- **Lakeview Avenue Grade Separation (1212000004)** – \$27.5 million in TCIF funds to reconstruct Lakeview Avenue as a bridge to allow vehicles to pass over the Burlington Northern Santa Fe Railway.
- **Brookhurst Street Improvements (1213000166)** – \$3.4 million in SLPP funds to widen Brookhurst Street from Ball Street to Katella Avenue, from four lanes to six lanes.
- **La Pata Avenue Phase 1 (1213000167)** – \$5.1 million in SLPP funds to construct a four-lane extension to close a 2.4 mile gap, from Calle Saluda to the existing terminus of La Pata Avenue at the northern boundary of the Prima Deshecha Landfill.
- **Laguna Niguel to San Juan Capistrano Passing Siding (0019000190)** – \$2 million in IRI funds to add 1.8 miles of new passing siding railroad track between the Laguna Niguel/Mission Viejo Metrolink Station and Trabuco Creek in San Juan Capistrano.

OCTA was required to provide dollar-for-dollar match for projects 1212000004, 1213000166, and 1213000167.

PROGRAM DESCRIPTIONS¹

TCIF: \$2 billion of bond proceeds made available to the TCIF to finance infrastructure improvements along corridors that have a high volume of freight movement. This program requires dollar-for-dollar match of local, federal, or private funds.

SLPP: \$1 billion of bond proceeds made available to the SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds.

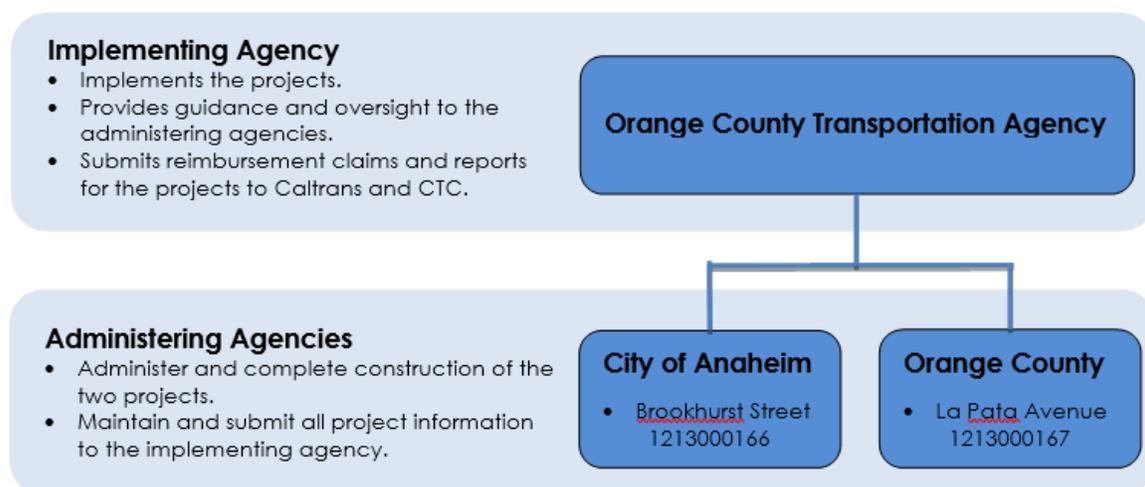
IRI: \$400 million of bond proceeds made available to the IRI for passenger rail improvements, including a minimum of \$125 million for procurement of additional intercity passenger railcars and locomotives.

¹ Excerpts obtained from the bond accountability website <https://bondaccountability.dot.ca.gov/>.

Construction for the projects is complete and the projects are operational, except for project 0019000190.

As the implementing agency, OCTA entered into two separate Master Funding Agreements requiring the City of Anaheim (City) and the County of Orange (County) (administering agencies) to administer and complete construction of projects 1213000166 and 1213000167. The Master Funding Agreements required OCTA to provide guidance and oversight to the administering agencies on local, state, and federal requirements and also to submit reimbursement claims and reports to Caltrans and CTC on their behalf. Figure 1 describes the relationship of OCTA and administering agencies and their projects.

Figure 1: Implementing Agency and Administering Agency Relationship



Source: Discussions with OCTA and Master Funding Agreements

SCOPE

As requested by Caltrans, the California Department of Finance, Office of State Audits and Evaluations, audited the projects described in the Background section of this report. The *Summary of Projects Reviewed*, including the audit period and the reimbursed expenditures, is presented in Appendix A.

The audit objectives were to determine whether:

1. Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.
2. Deliverables/outputs were consistent with the project scopes and schedules.
3. Benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the Final Delivery Reports (FDR).

At the time of fieldwork in January 2021, construction was not complete for project 019000190. Since OCTA had not yet submitted the FDR and the approved project benefits/outcomes listed in the CTC Financial Vote List were not quantifiable metrics, we confirmed OCTA understood its need to report on the benefits/outcomes as listed in the Vote List.

In performing our audit, we considered internal controls significant to the audit objectives. See Appendix B for a list of significant internal control components and underlying principles.

OCTA's management is responsible for ensuring accurate financial reporting; compliance with executed project agreements, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable expenditures. Caltrans and CTC are responsible for the state-level administration of the programs.

METHODOLOGY

In planning the audit, we gained an understanding of the projects and respective programs, and identified relevant criteria, by interviewing Caltrans, OCTA, County, and City personnel, and reviewing the executed project agreements and amendments, Caltrans/CTC's bond program guidelines, and applicable state and federal regulations.

We conducted a risk assessment, including evaluating whether OCTA's, the County's and the City's key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key Internal controls evaluated focused on procurement, progress payment preparation, reimbursement request preparation, review and approval process for expenditures, project deliverables/outputs completion, and project benefits/outcomes reporting. Our assessment included conducting interviews with OCTA, County, and City personnel, observing processes, and testing transactions related to construction phase expenditures, contract procurement, project deliverables/outputs, and project benefits/outcomes. Deficiencies in internal control that were identified during our audit, and determined to be significant within the context of our audit objectives, are included in this report.

Additionally, we assessed the reliability of data from OCTA's financial system, ONESolution, the County's accounting and procurement system, CAPS+, and the City's accounting system, Enterprise Resource Planning. To assess the reliability of data generated by these systems, we interviewed OCTA, County, and City personnel, reviewed information process flows, examined existing reports, reviewed system controls, and performed data testing. We determined the data was sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether OCTA's Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements.</p>	<ul style="list-style-type: none"> • For projects 1212000004, 1213000166, and 1213000167, determined whether projects were appropriately advertised, evaluated, and awarded to the lowest, responsible bidder by reviewing construction contractor procurement records, such as project advertisements, bidding documents, and contracts, and comparing to OCTA's, the County's, and the City's policies and procedures and Caltrans Local Assistance Procedures Manual (LAPM) requirements. • For projects 1212000004 and 1213000166, determined whether the projects were appropriately advertised, evaluated, and awarded to the most qualified consultant by reviewing construction engineering procurement records, such as project advertisements, consultant proposals, scoring sheets, and contracts, and comparing to OCTA's and the City's policies and procedures and LAPM requirements. • Selected significant and high-risk cost category expenditures to verify compliance with the selected project requirements. Specifically, we selected expenditures from the Construction and the Construction Engineering categories: <ul style="list-style-type: none"> ○ For all four projects, selected the most quantitatively significant construction progress payments from each project's largest reimbursement claim. Specifically, we selected two items from each progress payment to determine if the reimbursed construction expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, and canceled checks, and comparing to relevant criteria. ○ For projects 1212000004 and 1213000166, selected the most quantitatively significant consultant expenditures from the largest reimbursement claim. Determined if the selected reimbursed consultant expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, consultant invoices, and canceled checks, and comparing to relevant criteria. ○ For project 1213000166, selected the most quantitatively significant City labor expenditures from the largest reimbursement claim. Determined if the selected reimbursed City labor expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by recalculating the claimed labor costs using salary rates obtained from the labor reports and hours worked from the approved timesheets. We also verified timesheet hours agreed to labor reports, and labor reports agreed to reimbursement claims.

Audit Objective	Methods
	<ul style="list-style-type: none"> ○ For projects 1212000004, 1213000166, and 1213000167, determined if selected match expenditures were allowable, authorized, project-related, incurred within the allowable time frame, and supported, by reviewing accounting records, progress payments, quantity count sheets, daily engineer logs, engineers' invoices, labor reports, and copies of checks, and comparing project reimbursed amounts with project expenditure reports. In addition, we verified the source of funds used to meet the match requirement complied with TCIF and SLPP guidelines • For projects 1212000004, 1213000166, and 001900190, selected quantitatively significant contract change orders (CCO). Determined if selected CCOs were authorized, within the scope of work, not a contract duplication, completed, and supported, by reviewing the CCOs, daily extra work reports, contractor correspondence, progress payments, and accounting records. • For all four projects, evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the executed project agreements by reviewing a list of other funding sources, project accounting records, vendor activity reports, and the chart of accounts; and performed analytical procedures to identify possible duplicate payments.
<p>Objective 2: To determine whether deliverables/outputs were consistent with the projects' scopes and schedules.</p>	<ul style="list-style-type: none"> • For the three completed projects, 1212000004, 1213000166, and 1213000167, determined whether project deliverables/outputs were consistent with the project scopes by reviewing the Project Programming Requests (PPR), executed project agreements, Notice of Completions, and Google Map images to verify project existence. • For the three completed projects, evaluated whether selected project deliverables/outputs were completed on schedule as described in the PPRs by reviewing the Notice of Completions, FDRs and Caltrans quarterly progress reports. • For the interim project 019000190, determined whether there is a system in place to report actual project deliverables/outputs by reviewing supporting documentation to confirm consistency with the project scope. • For the interim project, determined whether selected project deliverables/outputs were on schedule by reviewing project files, project agreements or approved amendments, and quarterly reports.

Audit Objective	Methods
<p>Objective 3: To determine whether benefits/outcomes, as described in the executed project agreements or approved amendments, were achieved and adequately reported in the FDRs.</p>	<ul style="list-style-type: none"> • For the three completed projects, 1212000004, 1213000166, and 1213000167, determined whether project benefits/outcomes were achieved by comparing actual project benefits/outcomes in the FDRs with the expected project benefits/outcomes described in the executed project agreements or approved amendments. • For project 1212000004 and 121300166, evaluated whether project benefits/outcomes for emissions reductions and a volume to capacity (V/C) ratio described in the executed project agreement or approved amendments were adequately reported and supported in the FDRs by reviewing studies. • For the interim project 019000190, confirmed OCTA understood its need to report on the benefits/outcomes as listed in the Vote List.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed agreements, except as noted in Findings 1 and 4.

We also obtained reasonable assurance the completed projects' deliverables/outputs were consistent with the project scopes and schedules. Although projects 1212000004, 1213000166, and 1213000167 were behind schedule, OCTA, appropriately informed Caltrans and CTC of the delays. For the interim project 0019000190, we confirmed OCTA has a system in place to report actual project deliverables/outputs. Additionally, project 0019000190 is expected to be completed on schedule. However, the FDRs for projects 1213000166 and 1213000167 were not submitted timely, as noted in Finding 2.

Additionally, we obtained reasonable assurance the project benefits/outcomes, as described in the executed project agreements or approved amendments, were adequately reported in the FDRs, and OCTA achieved the expected project benefits/outcomes as described in the executed project agreements, except as noted in Finding 3.

For interim project 0019000190, we confirmed OCTA understood its need to report on the benefits/outcomes as listed in the Vote List.

FINDINGS AND RECOMMENDATIONS

Finding 1: Unsupported Contract Change Order Expenditures

OCTA claimed and was reimbursed \$250,000 for unsupported CCO expenditures for project 0019000190. Specifically, CCO expenditures of \$250,000 for flagging services were unsupported. The total approved amount for CCO No. 2 was \$2,300,000; however, only \$250,000 was claimed for reimbursement. According to OCTA, the amount of the CCO reimbursed was an estimate paid in advance, whereby the advance was to be tracked and drawn down on a monthly basis. OCTA maintained a daily flagging log for the flagger services and it also provided five invoices which included other services in addition to the flagging services. However, there was no audit trail to trace the invoiced amounts to the log and to confirm which invoiced amounts were claimed against the advance payment. For instance, there were no reconciliations between the log and the flagging service activities reported on the invoices.

LAPM, Chapter 5, section 5.2, states that amounts claimed must reflect the cost of completed work, and section 5.5, requires all supporting backup documentation to be maintained for costs incurred and claimed for reimbursement in the project files.

Claiming unsupported costs places a greater financial burden on statewide taxpayers for transportation projects that primarily benefit local taxpayers, increases oversight monitoring and post audit resolution costs, and reduces the number of fundable Proposition 1B transportation projects.

Recommendations:

- A. Remit \$250,000 to Caltrans.
- B. Ensure a clear audit trail exists for claimed CCO expenditures. The audit trail should facilitate the tracing of claimed expenditures to the source documents and include clearly documented explanations for corrections and revisions.

Finding 2: Final Delivery Reports Not Submitted Timely

OCTA did not submit FDRs timely. For projects 1213000166 and 1213000167, the FDRs were not submitted to Caltrans within six months of the projects becoming operable. The FDR for project 1213000166 was due in December 2015, but was submitted to Caltrans in March 2018, while the FDR for project 1213000167 was due in July 2017, but was submitted to Caltrans in July 2018. According to OCTA, the FDRs were delayed due to OCTA’s definition of when a project is complete and when the FDR should be submitted. OCTA relied on the City and its Comprehensive Transportation Funding Program guidelines rather than Proposition 1B program requirements.

SLPP Guidelines, section 14, require the FDR be submitted within six months of the project becoming operable (Notice of Completion date, excluding segmented projects to where the segment is deemed complete).

Late submission of reports decreases transparency of the status of a project and prevents Caltrans/CTC’s ability to timely review the completed project’s scope, final costs, project schedule, and performance outcomes/benefits.

Recommendations:

- A. Review project agreements and program guidelines to ensure a clear understanding of the reporting requirements.
- B. Submit FDRs for completed projects to Caltrans within the specified time frames as required by developing and implementing appropriate project reporting processes.

Finding 3: Improvements Needed in Reporting Project Benefits/Outcomes

The project benefits/outcomes approved by Caltrans/CTC were not adequately reported in the FDRs for projects 1212000004 and 1213000166. Specifically:

- For project 1212000004, OCTA reported in the Supplemental FDR that it was not able to provide actual metrics for emissions reductions. According to OCTA, the actual benefits could not be compared to the proposed benefits of the baseline agreement since emissions data from the South Coast Air Quality Management District are based on year 2025 projections and the projections change over time.

- For project 121300166, the FDR indicated a traffic volume of 29,000 vehicles with a capacity of 56,300, which results in a V/C ratio of 0.52. However, the traffic study dated September 2017 indicates a volume of 36,960, resulting in a V/C ratio of 0.656 (36,960/56,300).

TCIF Guidelines, section 17, and SLPP Guidelines, section 14, state within six months of the project becoming operable, the implementing agency will provide a FDR to CTC on the scope of the completed project, including performance outcomes derived from the project as compared to those described in the project baseline agreement.

Additionally, the Proposition 1B Project Close-out Process Update 2016 states benefits not available at the time of the FDR must be reported in the Supplemental FDR.

Inaccurate information on the FDR decreases the transparency of the project outcomes and prevents CTC from reviewing the success of the projects based on the agreed upon projected benefits/outcomes.

Recommendations:

- A. Review project agreement and program guidelines to ensure a clear understanding of the reporting requirements and to ensure data is available to report actual project benefits/outcomes in FDRs.
- B. Report the actual benefits/outcomes based on traffic studies/data in the projects' FDRs.

Finding 4: Oversight of Administering Agency's Contract Procurement Needs Improvement

OCTA should improve its oversight to ensure agencies administering state funds adhere to Caltrans requirements for contract procurement. Specifically, for project 1213000166, the City did not retain sufficient documentation:

- *Construction Contract:* The date and time stamp log to support timeliness of submittals for bid responses were not available for our review of the City's \$7.7 million contract for project construction. Of the \$7.7 million contract, the City was reimbursed \$2,412,562 for contract expenditures with Proposition 1B funds.
- *Consultant Contract:* The scoring sheets illustrating the evaluation of Request for Proposals (RFPs) to established criteria were not available for our review of a \$900 thousand consultant contract for project construction engineering services. Of the \$900 thousand, the City was reimbursed \$173,623 for consultant expenditures with Proposition 1B funds.

According to the City, it was unable to locate the documents from archives.

LAPM, Chapter 10, section 10.1.8, requires project records and documentation be kept for three years after payment of the final federal or state voucher. The records to be retained consist of the RFPs, Request for Qualifications, advertisement records, identification of the selection committee members, evaluation and ranking records, and records of negotiations.

Master Funding Agreements, Article 6, Audit and Inspection, require the implementing and administering agencies to maintain a complete set of records in accordance with generally accepted accounting principles. The implementing agency will inspect and audit all work and records of the administering agencies for a period of four years after final payment or completion of audit, or after final payment of debt service where local fair share revenues were pledged, whichever is longer.

The City may be accepting bids after the bid deadline and may not evaluate bids adequately to ensure a fair and unbiased contract procurement process.

Recommendation:

- A. Strengthen oversight procedures to ensure administering agencies comply with LAPM and applicable laws on procurement document retention, including:
 - Maintain records of negotiations for a minimum of three years after final payment and as required by Master Funding Agreements.
 - Develop and implement procurement policies and procedures to ensure compliance with the LAPM and applicable laws.

The following acronyms are used throughout Appendix A.

- Burlington Northern Santa Fe: BNSF
- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- City of Anaheim: City
- County of Orange: County
- Final Delivery Report: FDR
- Intercity Rail Improvement: IRI
- Orange County Transportation Authority: OCTA
- State-Local Partnership Program: SLPP
- Trade Corridors Improvement Fund: TCIF
- Union Pacific Railroad: UPRR

Summary of Projects Reviewed

Project Number	Expenditures Reimbursed	Project Status	Expenditures In Compliance	Deliverables/ Outputs Consistent	Benefits/ Outcomes Achieved	Benefits/ Outcomes Adequately Reported	Page
1212000004	\$27,344,133	C	Y	Y	P	P	A-1
1213000166	\$2,963,135	C	Y	Y	N	N	A-2
1213000167	\$5,110,000	C	Y	Y	Y	Y	A-3
0019000190	\$1,607,222	I	P	Y	N/A ¹	N/A ¹	A-4

Legend

C = Construction is complete and the project is operational.

I = Construction is not complete.

N = No

P = Partial

Y = Yes

N/A¹ = Not Applicable; the FDR had not been submitted as of January 2021, the end of our audit fieldwork. The project is still under construction.

Project Number: 1212000004

Project Name: Lakeview Avenue Grade Separation

Program Name: TCIF

Project Description: Raise Lakeview Avenue from grade level to 24 feet above the BNSF rail lines. A bridge will be constructed on Lakeview Avenue that spans the Orangethorpe Avenue, the BNSF rail lines, and the County Flood Control right of way. In addition, a modified loop type connector road will also be constructed to convey vehicles from Lakeview Avenue to Orangethorpe Avenue.

Audit Period: May 7, 2013 to June 30, 2019 for audit objective 1²
May 7, 2013 to October 19, 2017 for audit objectives 2 and 3³

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$ 23,976,425
Construction Engineering	3,367,708
Total Proposition 1B Expenditures	\$ 27,344,133

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements. Additionally, the match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in June 2017. At the time of our fieldwork in January 2021, project deliverables/outputs were consistent with the project scope and schedule. The FDR was submitted in October 2017 and a supplemental FDR was submitted in March 2020. Additionally, the project was behind schedule and completed 18 months late; however, OCTA appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR except for emissions reductions as noted in Finding 3.

² The audit period end date reflects the last date costs were incurred per the last reimbursement invoice submitted to and approved by Caltrans.

³ The audit period end date reflects the FDR submission date.

Project Benefits/ Outcomes Category	Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the Supplemental FDR	Benefits/ Outcomes Achieved
Safety	Grade separations completely separate automobiles and other traffic from trains, eliminating the potential for a grade crossing collision.	By eliminating the at-grade crossing, trains are no longer interacting with vehicles, pedestrians, and bicyclists. The project has eliminated: 1) Pedestrians walking across tracks 2) Emergency vehicle delays 3) Potential for train/vehicle collisions	Yes
Velocity	With the construction of the grade separation, vehicles traveling would be able to maintain a more consistent speed within this segment of the roadway because the delay and conflict associated with the at-grade crossing would be eliminated.	Since trains are no longer interacting with vehicles, railroad and vehicle velocities have improved by eliminating delays and potential train/vehicle collisions.	Yes
Throughput	The Annual Average Daily Traffic will increase from 23,100 to 30,500 in 2030. Current at-grade crossing is forecasted to cause 5.4 hours of daily delay for trucks in 2030 a 141 percent increase of existing condition. Grade separation will eliminate conflict.	Since trains are no longer interacting with vehicles, truck throughput has improved by eliminating delays at grade crossing.	Yes
Reliability	The reliability of travel and goods movement at or near at-grade rail crossings is influenced by two factors: delay and safety. Delay due to the at-grade crossing would be eliminated and the separation of the railway from the roadway would improve safety resulting in increased reliability.	Since trains are no longer interacting with vehicles, goods movement reliability has improved by eliminating delays and potential train/vehicle collisions.	Yes
Congestion Reduction	The existing total traffic delay (vehicle-hours/day) due to the rail crossing is 44.9 hours and this is expected to increase to 108.2 in 2030. The grade separation would eliminate the delay due to the rail crossing.	Since trains are no longer interacting with vehicles, congestion is reduced since vehicle delays at the grade crossing is eliminated.	Yes

Project Benefits/ Outcomes Category	Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the Supplemental FDR	Benefits/ Outcomes Achieved
Emissions Reductions	ROG Emission Benefits (0.16 kilograms/day) CO Emission Benefits (2.22 kilograms/day) NOx Emission Benefits (0.14 kilograms/day) PM Emission Benefits (0.01 kilograms/day)	Not Adequately Reported.	No

Project Number: 1213000166

Project Name: Brookhurst Street Improvements

Program Name: SLPP

Project Description: The project is located in the City on Brookhurst Street from Ball Road to Katella Avenue. The project will widen Brookhurst Street from a four lane facility to six lanes, including three northbound through lanes and two southbound through lanes transitioning to three southbound through lanes midway between Chanticleer Road and Cerritos Avenue; install six-foot-wide-northbound and southbound Class II bikeways, as well as new raised and landscaped medians along the one-mile segment from Midland Lane to Ball Road.

Audit Period: May 7, 2013 to March 16, 2016 for audit objective 1⁴
May 7, 2013 to March 7, 2018 for audit objectives 2 and 3⁵

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$ 2,412,563
Construction Engineering	550,572
Total Proposition 1B Expenditures	\$ 2,963,135

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations cited in the executed project agreements. Additionally, the match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in June 2015. At the time of our fieldwork in January 2021, project deliverables/outputs were consistent with the project scope and schedule. As noted in Finding 2, the FDR was due in December 2015, but was submitted in March 2018, 27 months late. Additionally, the project was behind schedule and completed 22 months late; however, OCTA, appropriately updated Caltrans and CTC of the delay.

⁴ The audit period end date reflects the last date costs were incurred per the last reimbursement invoice submitted to and approved by Caltrans.

⁵ The audit period end date reflects the FDR submission date.

Benefits/Outcomes

Actual project benefits/outcomes were not adequately reported in the FDR. As noted in Finding 3, OCTA could not provide a post-assessment study to support the project benefits/outcomes reported in the FDR.

Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the Supplemental FDR	Benefits/Outcomes Achieved
The improvements will add capacity and relieve traffic congestion in this segment. The Level of Service (LOS) is expected to improve to A with a V/C ratio of 0.54. Without the Project, LOS in this segment is expected to remain a D with a V/C ratio of 0.81.	The project improved capacity of the roadway and provided traffic congestion relief. The daily capacity of a six lane facility is 56,300 vehicles. The V/C ratio is 0.52, equaling to a LOS of A.	No

Project Number: 1213000167

Project Name: La Pata Avenue Phase 1

Program Name: SLPP

Project Description: The project is to construct a four-lane extension to close a 2.4 mile gap, from Calle Saluda to the existing terminus of La Pata Avenue at the northern boundary of the Prima Deshecha Landfill.

Audit Period: May 7, 2013 to January 12, 2017 for audit objective 1⁶
May 7, 2013 to July 23, 2018 for audit objectives 2 and 3⁷

Project Status: Construction is complete and the project is operational.

Schedule of Proposition 1B Expenditures

Category	Reimbursed
Construction	\$ 5,110,000
Total Proposition 1B Expenditures	\$ 5,110,000

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC's program guidelines, and applicable state and federal regulations cited in the executed project agreements. Additionally, the match requirement was met.

Deliverables/Outputs

The construction phase of the project was completed in January 2017. At the time of our fieldwork in January 2021, project deliverables/outputs were consistent with the project scope and schedule. As noted in Finding 2, the FDR was due in July 2017, but was submitted in July 2018, 12 months late. Additionally, the project was behind schedule and completed 21 months late; however, OCTA appropriately updated Caltrans and CTC of the delay.

Benefits/Outcomes

Actual project benefits/outcomes were adequately reported in the FDR. Additionally, the County achieved the expected project benefits/outcomes as described in the executed project agreement or approved amendments.

⁶ The audit period end date reflects the last date costs were incurred per last reimbursement invoice submitted to and approved by Caltrans.

⁷ The audit period end date reflects the FDR submission date.

Expected Benefits/Outcomes Reported in the Project Agreement	Actual Benefits/Outcomes Reported in the FDR	Benefits/Outcomes Achieved
<p>Improve region's livability and economic competitiveness by improving the overall traffic circulation for residential and employment centers. Improve congestion on parallel routes and decrease travel time for commuters and residents. Project will include bicycle and pedestrian facilities.</p>	<p>The project improves the overall traffic circulation for residential and employment centers and reduces congestion on parallel routes and decreases travel time for commuters and residents. Project includes bicycle and pedestrian facilities.</p>	<p>Yes</p>

Project Number: 0019000190

Project Name: Laguna Niguel to San Juan Capistrano Passing Siding

Program Name: IRI

Project Description: The project is to add 1.8 miles of new passing siding railroad track between the Laguna Niguel/Mission Viejo Metrolink Station and Trabuco Creek in San Juan Capistrano.

Audit Period: May 7, 2013 to January 31, 2020 for audit objective 1⁸
May 7, 2013 to January 29, 2021 for audit objectives 2 and 3⁹

Project Status: Construction is not complete.

Schedule of Proposition 1B Expenditures

Category	Reimbursed	Unallowable Expenditures
Construction	\$ 1,607,222	\$ 250,000
Total Proposition 1B Expenditures	\$ 1,607,222	\$ 250,000

Results:

Compliance–Proposition 1B Expenditures

Proposition 1B expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans/CTC program guidelines, and applicable state and federal regulations cited in the executed project agreements, except for \$250,000 in unallowable contract change orders, as noted in Finding 1.

Deliverables/Outputs

Target completion for the construction phase of this project is March 2021 with target close-out in March 2022. At the time of fieldwork in January 2021, project deliverables/outputs were consistent with the project scope and schedule as stated in the fiscal year 2020-21 first quarter progress report submitted to Caltrans and OCTA has a system in place to report actual project deliverables/outputs upon project completion. The project is on schedule and OCTA has appropriately updated Caltrans and CTC of the project status.

Benefits/Outcomes

Actual project benefits/outcomes have not been reported because the project has not been completed and the FDR had not been submitted at the time of our audit fieldwork in January 2021. However, OCTA understands its need to report on the benefits/outcomes as listed in the Vote List.

⁸ The audit period end date reflects the last date costs were incurred per last reimbursement invoice submitted to and approved by Caltrans.

⁹ The audit period end date reflects the end fieldwork date.

We considered the following internal control components and underlying principles significant to the audit objectives:

Internal Control Component	
Control Activities	<ul style="list-style-type: none"> • Management designs control activities to achieve objectives and respond to risks. • Management implements control activities through policies.
Information and Communication	<ul style="list-style-type: none"> • Management uses quality information to achieve the entity's objectives. • Management externally communicates necessary quality information to achieve the entity's objectives.
Monitoring	<ul style="list-style-type: none"> • Management establishes and operates monitoring activities to monitor the internal control system and evaluates the results.



AFFILIATED AGENCIES

Orange County
Transit District

Local Transportation
Authority

Service Authority for
Freeway Emergencies

Consolidated Transportation
Service Agency

Congestion Management
Agency

April 30, 2021

Ms. Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814-3706

**Subject: Response to Orange County Transportation Authority,
Proposition 1B Audit**

Dear Ms. McCormick:

On March 23, 2021, the Department of Finance, Office of State Audits and Evaluations conducted a formal exit conference to discuss the Proposition 1B Draft Audit Report findings and recommendations. The draft audit report was received on April 19, 2021.

Enclosed is the Orange County Transportation Authority's (OCTA) response to the Proposition 1B Draft Audit Report. The enclosed document provides responses to each of the following four findings discussed in the draft report:

1. Unsupported Contract Change Order Expenditures
2. Final Delivery Reports Not Submitted Timely
3. Improvements Needed in Reporting Project Benefits/Outcomes
4. Oversight of Administering Agency's Contract Procurement Needs Improvement

I understand that OCTA's response will be incorporated into the final audit report. If you have any questions or need additional information, please contact Janet Sutter, Executive Director, at (714) 560-5591 or jsutter@octa.net.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Darrell E. Johnson', is written over a light blue circular background.

Darrell E. Johnson
Chief Executive Officer

DEJ:js
Enclosure

Response to Finding 1 – Unsupported Contract Change Orders (CCO)

Management requests reconsideration of the recommendations based on additional supporting documentation received from Metrolink. Metrolink provided additional supporting documentation with timesheets for both of their flagging services contractors to support the CCO expenditures in question. The supporting documentation from Metrolink's approved invoices clearly identified the flagging support expenditures under their project number "881885 – Laguna Niguel – San Juan Capistrano Passing Siding." The backup invoices provide the staff name, hours worked, billing rate, and other direct costs, totaling \$267,518.17 for the months following the \$250,000 deposit in November 2019. These Metrolink invoices were verified against OCTA's daily flagging log to verify the flagging personnel charged to the project matches the flagger present for the period in question. Due to the volume of documentation, OCTA can provide a link to the information for the California Department of Transportation's (Caltrans) review and reconsideration of the recommendation. OCTA would also like to coordinate with Metrolink and Caltrans to ensure all the parties understand the required documentation to support billing for Metrolink flagging services.

Response to Finding 2 – Final Delivery Reports Not Submitted Timely

Please note that due to the City of Anaheim (City) and the County of Orange being subrecipients of funds, OCTA took the necessary time to ensure expenditures and reimbursement requests from the City complied with all requirements and were eligible expenditures through the State and Local Partnership Program Guidelines and Caltrans Local Assistance Programming Guidelines and Caltrans Local Assistance Procedures Manual. OCTA acknowledges that the report was not submitted timely. In the future, OCTA does not plan on using state funds to support subrecipient projects. If state funds are used, OCTA will work with Caltrans and the California Transportation Commission to make the local agency the direct recipient of the funding allocation and the implementing agency.

Response to Finding 3 – Improvements Needed in Reporting Project Benefits/Outcomes

Project No. 1212000004: Management disagrees with the recommendation and statements contained in Appendix 1. The actual benefit explanation in the Final Delivery Report (FDR) is consistent with other railroad grade separation project FDRs constructed by OCTA, and those FDRs were approved by the Trade Corridors Improvement Fund Program Lead from Caltrans. During the audit, OCTA was able to obtain a memorandum that reported air emissions reductions from the Air Quality Management District (AQMD). The air emissions reductions and AQMD memorandum were included in the Supplemental FDR which was provided to the lead auditor in March 2021, and it is our understanding that no further action is required to address emissions reductions on this project.

Project No. 121300166: OCTA submitted the traffic volume of 29,000, consistent with the information that was provided by the City. The City has since indicated that the 2018 counts they provided to OCTA were collected on Monday May 8, 2018, which was a day in which school was not in session and did not correctly represent the project. Corrected count information was not provided to OCTA to correct the FDR. During the audit, the City indicated that the 2017 count of 36,960 is the correct value that should be used. In the future, OCTA does not plan on using state funds to support subrecipient projects. If state funds are used, OCTA will work with Caltrans and the California Transportation Commission to make the local agency the recipient of the funding allocation and the implementing agency and therefore responsible for reporting on the project directly.

Response to Finding 4 – Oversight of Administering Agency’s Contract Procurement Needs Improvement

OCTA has discussed this finding with the City. The City is aware of this finding and will ensure that it maintains this documentation in the future. Moving forward, OCTA does not plan on using state funds to support subrecipient projects. If state funds are used, OCTA will work with Caltrans and the California Transportation Commission to make the local agency the recipient of the funding allocation and the implementing agency.

OCTA's response to the draft report has been reviewed and incorporated into the final report. We acknowledge OCTA's willingness to implement recommendations. In evaluating OCTA's response, we provide the following comments where OCTA disagrees with our findings:

Finding 1: Unsupported Contract Change Order (CCO) Expenditures

OCTA requested reconsideration of the documentation provided by Metrolink to support costs totaling \$267,518 for the CCO for project 0019000190. The additional documentation referenced in OCTA's response had already been provided and reviewed prior to the draft report issuance. No additional documentation or information was submitted with OCTA's response. Based upon the documentation and information reviewed, there continues to be no audit trail to reconcile the advanced amount of \$250,000 to actual costs incurred; therefore, the finding and recommendations will remain unchanged.

Finding 3: Improvements Needed in Reporting Project Benefits/Outcomes

OCTA disagrees actual metrics for emission reductions for project 1212000004 were not adequately reported as stated in Appendix A-1. Finance acknowledges OCTA provided a Supplemental FDR that included emission reductions data from the Air Quality Management District for year 2019. However, the Supplemental FDR did not mention when the actual benefits will be available. The Proposition 1B Project Close-out Process Update 2016 states that if benefits are not available at the time of the FDR, it should be noted when they will be available, and benefits not available at the time of the FDR must be reported in the Supplemental FDR. Therefore, the finding and recommendations will remain unchanged.