



**September 23, 2009**

**To:** Finance and Administration Committee

**From:** Will Kempton, Chief Executive Officer

**Subject:** State Transportation Improvement Program: Planning, Programming, and Monitoring Program, Fiscal Year 2006-07 Financial and Compliance Audit

### **Overview**

As required by an agreement with the California Department of Transportation, an independent audit of compliance with the State Transportation Improvement Program – Planning, Programming, and Monitoring Program has been completed by the professional accounting firm of Thompson, Cobb, Bazilio and Associates, PC for the fiscal year 2006-07 work program. The audit found no exceptions and there were no audit recommendations provided.

### **Recommendations**

Receive and file the State Transportation Improvement Program – Planning, Programming, and Monitoring Program, Fiscal Year 2006-07 Financial and Compliance Audit.

### **Background**

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

The Orange County Transportation Authority (OCTA) entered into Funding Agreement No. PPM07-6071(032) (Funding Agreement) on April 26, 2007, with the California Department of Transportation (Caltrans) to provide for \$1,531,000 in funding under the STIP/PPM for fiscal year 2006-07. Each year,

OCTA prepares a program of projects that is approved by Caltrans as part of the Funding Agreement. In accordance with the Funding Agreement, an independent audit is required to provide assurance that the STIP/PPM funds were used in conformance with Article XIX of the California State Constitution.

***Discussion***

Funding Agreement No. PPM07-6071(032) provided funding for the approved fiscal year 2006-07 work program. The audit found that expenditures were reasonable, adequately supported, and eligible and that accounting and invoicing procedures were adequate and in accordance with the Funding Agreement and *Article XIX – Motor Vehicle Revenues* of the California State Constitution. The audit also found that the fund account set up for the project was separately maintained, as required, and that OCTA has complied with the reporting requirements of the Funding Agreement. OCTA submitted the final report of expenditures, along with a final invoice of \$1,199 and a claim for retention withheld by Caltrans of \$38,801, on August 26, 2009.

***Summary***

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

***Attachment***

- A. Orange County Transportation Authority State Transportation Improvement Program Planning, Programming, and Monitoring Program Financial and Compliance Audit Fiscal Year 2006-07 Agreement No. PPM07-6071 (032)

**Prepared by:**



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***ORANGE COUNTY TRANSPORTATION  
AUTHORITY***

State Transportation Improvement Program  
Planning, Programming, and Monitoring Program  
Financial and Compliance Audit  
Fiscal Year 2006-07

Agreement No. PPM07-6071 (032)

Prepared by

**TCBA**

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**STATE TRANSPORTATION IMPROVEMENT PROGRAM  
PLANNING, PROGRAMMING, AND MONITORING PROGRAM  
FISCAL YEAR 2006-07**

**FINANCIAL AND COMPLIANCE AUDIT**

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

Kathleen O'Connell, Executive Director  
Internal Audit Department  
Orange County Transportation Authority

We have completed our financial and compliance audit of Agreement No. PPM07-6071 (032) (Agreement) awarded to the Orange County Transportation Authority (OCTA) by the State of California Department of Transportation (Caltrans) to provide reimbursement of up to \$1,531,000 in funding under Fiscal Year 2006-07 State Transportation Improvement Program (STIP) Planning, Programming, and Monitoring (PPM) Program (Program). The objectives of this audit were to determine whether 1) adequate documentation was maintained evidencing that costs were reasonable, adequately supported, and eligible, 2) OCTA's accounting and invoicing procedures were adequate to ensure that project costs charged are in accordance with Agreement and in conformance with *Article XIX – Motor Vehicle Revenues* of the California State Constitution, 3) OCTA complied with the reporting requirements of the Agreement, and 4) the fund account set up by OCTA for the project was separately maintained. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### RESULTS IN BRIEF

- Based on our review of \$880,180 of sampled costs (49% of the \$1,790,203 Program cost) charged to the STIP PPM for Fiscal Year 2006-07, we found that the expenditures claimed are eligible expenditures and are adequately supported.
- Per the Agreement with Caltrans, OCTA had 60 days following the "completion of expenditures" or until August 30, 2009, to submit a Final Report of Expenditures to Caltrans. Since this audit report is part of the Final Report of Expenditures, OCTA plans to submit the Final Report of Expenditures, along with the claim for retention of \$38,801 and unbilled expenditures totaling \$1,199, to Caltrans by August 30, 2009.

- We found OCTA's accounting and invoicing procedures were adequate to ensure that project expenditures incurred are in accordance with the Agreement with Caltrans, and in conformance with *Article XIX – Motor Vehicle Revenues* of the California State Constitution. Our assessment was based on an internal control questionnaire, observations and interviews with OCTA officials.
- Based on our review of two of the four vendor contract files, we found adequate evidence of competitive bidding.
- Segregation of project costs was found to be adequate. Because OCTA is reimbursed for expenditures incurred for the Program on an actual cost reimbursement basis, no fund interest allocation was required.

## **BACKGROUND**

On April 26, 2007 OCTA entered into Agreement No. PPM07-6071(032) (Agreement) with Caltrans to provide reimbursement of \$1,531,000 in funding for four projects/elements under the Program from funds allocated for fiscal year 2006-07. OCTA has submitted two invoices totaling \$1,529,801 under the Agreement. The first invoice for \$787,391 has been paid and the second invoice for \$742,410 has been paid less \$38,801 that was withheld by Caltrans for retention. The remaining budget of Program expenses that has not been invoiced to Caltrans is \$1,199. The four projects as listed in the attachment to this report have been completed.

## **PROCEDURES PERFORMED**

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

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

5. We obtained a detailed listing of Program expenditures and selected a statistical sample for testing. For the sample selected, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved Work Program and in accordance with the Agreement and *Article XIX - Motor Vehicle Revenues* of the California State Constitution requirements.
6. We assessed whether OCTA complied with the reporting requirements of the Agreement.

## **DETAILED RESULTS**

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

### **A. PROJECT COSTS AND CONTRACTOR DOCUMENTATION**

Based on our audit, costs charged to the STIP PPM for Fiscal Year 2006-07 are reasonable, adequately supported and eligible for the approved Fiscal Year 2006-07 Work Program. Our assessment is based on audit of \$880,180 in Program expenditures and audit of supporting documents to determine if expenses were properly supported, approved, recorded, and consistent with the approved Work Program.

### **B. REVIEW OF ACCOUNTING, REPORTING, AND INVOICING PROCEDURES**

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

Per the Agreement with Caltrans, OCTA has 60 days following the "completion of expenditures" or until August 30, 2009, to submit a Final Report of Expenditures to Caltrans. OCTA plans to submit the Final Report of Expenditures along with this audit report and claims for the \$38,801 in retention and unbilled expenditures of \$1,199 to Caltrans by August 30, 2009.

### **C. SEPARATE PROJECT FUND AND INTEREST ALLOCATION**

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

## **LIMITATIONS AND RESTRICTIONS**

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

Torrance, California  
August 14, 2009

*Thompson, Cobb, Bazilio & Associates, P.C.*

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
STATE TRANSPORTATION IMPROVEMENT PROGRAM  
PLANNING, PROGRAMMING AND MONITORING PROGRAM  
FISCAL YEAR 2006-07**

**Schedule of STIP PPM Program Costs**

<b>Project/Element</b>	<b>Costs Incurred</b>	<b>Disallowed Costs</b>	<b>Audited Costs</b>
Costa Mesa Freeway Access Study	\$ 274,979	\$ -	\$ 274,979
Costa Mesa Freeway Improvement Plan	446,713	-	446,713
OC/OLA Border Study	344,722	-	344,722
Ortega Hwy Improvement Plan	220,000	-	220,000
Staffing	503,789	-	503,789
<b>Total Costs</b>	<b>\$ 1,790,203</b>	<b>\$ -</b>	<b>\$ 1,790,203</b>
	Total FY 06/07 funding available		<u>\$ 1,531,000</u>
	Total reimbursed by Caltrans		<u>\$ 1,491,000</u>
	Amount due from Caltrans		<u>\$ 40,000</u>

Note: The \$40,000 amount due from Caltrans represents \$38,801 of retention withheld from the second invoice and \$1,199 of allowable Program expenses that have not yet been invoiced to Caltrans.