



March 9, 2011

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: State Transportation Improvement Program: Planning, Programming, and Monitoring Program, Fiscal Year 2007-08 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 & Associates, PC for the fiscal year 2007-08 work program. The audit found no exceptions and there were no audit recommendations provided.

Recommendation

Receive and file the Orange County Transportation Authority State Transportation Improvement Program: Planning, Programming, and Monitoring Program, Financial and Compliance Audit, Fiscal Year 2007-08, Agreement No. PPM08-6071 (033).

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. PPM08-6071(033) (Funding Agreement) on September 20, 2007, with the California Department of Transportation (Caltrans) to provide for

\$1,531,000 in funding under the STIP PPM for fiscal year 2007-08. 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. PPM08-6071(033) provided funding for the approved fiscal year 2007-08 work program. The audit found that expenditures were reasonable, adequately supported, and eligible and that accounting and invoicing procedures were adequate to ensure that project costs incurred were in accordance with the Funding Agreement and *Article XIX – Motor Vehicle Revenues* of the California State Constitution. The audit also found segregation of project costs to be adequate. Since the audit report is part of the Final Report of Expenditures, OCTA plans to submit the Final Report of Expenditures, along with the claim for unbilled expenditures, totaling \$41,059 to Caltrans by March 1, 2011.

Summary

An independent audit on compliance with the STIP PPM has been completed by the professional accounting firm of Thompson, Cobb, Bazilio & 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 2007-08, Agreement No. PPM08-6071 (033)

Approved by:



Janet Sutter
Acting Executive Director, Internal Audit
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ORANGE COUNTY TRANSPORTATION AUTHORITY

**State Transportation Improvement Program
Planning, Programming, and Monitoring Program
Financial and Compliance Audit
Fiscal Year 2007-08**

Agreement No. PPM08-6071(033)

Submitted by:

TCBA

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**STATE TRANSPORTATION IMPROVEMENT PROGRAM
PLANNING, PROGRAMMING, AND MONITORING PROGRAM
FISCAL YEAR 2007-08**

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

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

We have completed our financial and compliance audit of Agreement No. PPM08-6071 (033) (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 the Fiscal Year 2007-08 State Transportation Improvement Program (STIP) Planning, Programming, and Monitoring (PPM) Program. The objectives of this audit were to determine whether 1) adequate documentation was maintained evidencing that costs claimed were reasonable, adequately supported, and eligible, 2) OCTA's accounting and invoicing procedures were adequate to ensure that project costs charged are in accordance with the Agreement and in conformance with *Article 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 \$1,283,124 of sampled costs (55% of the \$2,341,175¹ in Program costs) charged to the STIP PPM for Fiscal Year 2007-2008, 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 March 1, 2011, to submit a Final

¹ See Schedule of Program Costs below for detailed breakdown of costs.

Report of Expenditures to Caltrans. Since this audit report is part of the Final Report of Expenditures, OCTA plans to submit the Final Report of Expenditures, along with the claim for unbilled expenditures totaling \$41,059 to Caltrans by March 1, 2011.

- 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 finance officials.
- Based on our review of all 4 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 September 20, 2007 OCTA entered into Agreement No. PPM08-6071(033) (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 2007-08. OCTA submitted two invoices totaling \$1,489,941 under the Agreement. The two invoices for \$953,846 and \$536,095 have been paid by Caltrans. The remaining budget of Program expenses that has not been invoiced to Caltrans is \$41,059. 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 2007-08 are reasonable, adequately supported and eligible for the approved Fiscal Year 2007-08 Work Program. Our assessment is based on our audit of \$1,283,124 in Program expenditures and 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 a review of an internal control questionnaire, observations, and interviews with OCTA personnel, and testing of selected Program expenses.

Per the Agreement with Caltrans, OCTA has 60 days following the "completion of expenditures" or until March 1, 2011, 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 \$41,059 in unbilled expenditures to Caltrans by March 1, 2011.

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
February 8, 2011

Thompson, Cobb, Bazilia & Associates, P.C.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSPORTATION IMPROVEMENT PROGRAM
PLANNING, PROGRAMMING AND MONITORING PROGRAM
FISCAL YEAR 2007-08**

Schedule of STIP PPM Program Costs

Project/Element	Costs Incurred	Disallowed Costs	Audited Costs
Central County Major Investment Study	\$ 966,389	\$ -	\$ 966,389
Air Quality Conformity Support	40,661	-	40,661
NBSSRs and NSRs	38,986	-	38,986
Staffing	1,295,139	-	1,295,139
Total Program Costs	\$ 2,341,175	\$ -	\$ 2,341,175
Total FY 07/08 funding available			\$ 1,531,000
Total reimbursed by Caltrans			\$ 1,489,941
Amount due from Caltrans			\$ 41,059