



August 8, 2012

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

A handwritten signature in black ink, appearing to read "Will Kempton", is written over a horizontal line.

Subject: Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects

Overview

External audit firm Thompson, Cobb, Bazilio & Associates, PC, has completed audits of nine projects funded through the Combined Transportation Funding Program. The auditors questioned costs of \$677,015 incurred by the City of Stanton and offered recommendations to the cities of Costa Mesa, Santa Ana, Irvine, Placentia, and Laguna Niguel, to ensure compliance. In addition, the auditors issued a recommendation to Orange County Transportation Authority staff to enhance procedures related to timely project closeout. Finally, the Internal Audit Department issued a recommendation to Orange County Transportation Authority staff to amend language in master funding agreements and update guidelines to ensure clarity with regard to the right to audit.

Recommendations

- A. Receive and file financial and compliance audits of nine Combined Transportation Funding Program projects.
- B. Direct staff to amend master funding agreements and to update Combined Transportation Funding Program Guidelines to clarify language regarding the right to audit.
- C. Direct staff to implement recommendation related to timely project closeout.

Background

The Combined Transportation Funding Program (CTFP) was created by the Orange County Local Transportation Authority (OCLTA) to provide local agencies with a common set of guidelines (CTFP Guidelines) and project

selection criteria for a variety of funding programs. Cooperative agreements were executed with the cities to govern these expenditures.

OCLTA issued a CTFP “call for projects” on a biennial basis to all eligible local agencies, at which time agencies are required to submit an application to receive funding. Applications are reviewed and ranked using evaluation criteria developed for each program. The OCLTA’s Board of Directors approves projects and funding allocations.

The Fiscal Year 2011-12 Internal Audit Plan included CTFP project audits. The Internal Audit Department (Internal Audit) engaged external audit firm Thompson, Cobb, Bazilio & Associates, PC (TCBA) to conduct audits of nine CTFP projects closed from January 1, 2010 through March 31, 2011.

Discussion

Selection of Projects

Internal Audit obtained a listing of all CTFP projects closed from January 1, 2010 through March 31, 2011, from the Planning Division. From this population, Internal Audit selected nine projects for audit.

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

Total costs of projects in population:	\$57,224,461
Total costs of projects selected for audit:	24,811,447
Percentage of total closed project costs selected for audit:	43%

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

TCBA Findings and Recommendations

City of Stanton

TCBA questioned design and right-of-way engineering costs of \$677,015 incurred by the City of Stanton (Stanton) for a Katella Avenue smart street project. The project commenced in 1997 and a final report was submitted

by Stanton in June, 2009. The auditors cited Stanton's lack of evidence of competitive procurement and an appearance of conflict of interest because certain services were awarded to the same consultant that represented Stanton as the Director of Public Works and City Engineer. In addition, Stanton could not locate a contract to support \$255,432 in additional work awarded to this consultant, and the consultant's invoiced costs exceeded contractually obligated amounts by \$129,681. Stanton provided a written response disputing the auditor's findings and provided a legal opinion stating that no conflict of interest laws were violated. In its response, Stanton also highlighted a 1995 Cooperative Agreement (Agreement) between Stanton and OCLTA that states that an audit shall be performed within 90 days of receiving the final report from Stanton. See Attachment A for the detailed audit report and management response.

The 90 day limitation for completing an audit is insufficient, and provisions in Master Funding Agreements executed for Measure M2 projects indicate four years. Internal Audit staff consulted legal counsel to obtain an opinion regarding the audit language in the Agreement and whether reimbursement of questioned costs could be pursued. Legal counsel opined that OCLTA would likely be unsuccessful in legally enforcing a reimbursement (Attachment B).

To address possible limiting language in cooperative agreements, Internal Audit has made a recommendation that OCLTA staff review cooperative and/or master funding agreements and related CTFP Guidelines and pursue amendments and updates to ensure clarity with regard to the right to audit. Staff agreed to make the appropriate amendments and updates (Attachment C).

Cities of Costa Mesa, Santa Ana, Irvine, Placentia, and Laguna Niguel

The City of Costa Mesa (Costa Mesa) did not document its determination of cost allocation for invoices applicable to multiple projects. Costa Mesa also did not formally amend contracts to reflect new contractor personnel and approved hourly rates. TCBA recommended that, when one contractor is used for multiple projects, the contractor be required to identify costs by project on the invoices and that Costa Mesa ensure amendments are processed for any new personnel and/or revised hourly rates. Costa Mesa responded that these recommendations will be implemented for future projects (Attachment D).

The City of Santa Ana (Santa Ana) did not maintain documentation of its evaluation and decision that local agency forces could perform project work

more cost effectively or more timely than a contractor, as required by CTFP Guidelines. Santa Ana agreed to properly document this evaluation in the future (Attachment E).

The City of Irvine (Irvine) overstated project costs by \$2,138,689 in its final report; however, this reporting error did not result in over-billings to OCLTA since billings were based on actual costs in the general ledger. Irvine agreed to reconcile final project costs to the general ledger to prevent reporting errors (Attachment F).

TCBA noted that the cities of Placentia and Laguna Niguel did not submit project final reports to OCLTA within 180 days of project completion as required by CTFP Guidelines. The cities responded that, in the future, final reports will be submitted timely (Attachments G and H).

OCLTA Management

In connection with these audits, TCBA also recommended that OCLTA management enhance procedures to address the timeliness of final report submission and processing of final payments (Attachment I). Specifically, TCBA noted that final reports for two of the projects reviewed were not submitted within 180 days as required and that final payments related to seven of the projects were made between four and eleven months after submission of the final report. CTFP Guidelines indicate final payment will be made within 60 days, and files lacked adequate evidence to justify the delay. Management indicated that new methods of tracking and training methods have been implemented to ensure local agencies submit final reports in a timely manner. Also, management agreed to enhance procedures for documenting the reasons for payment delay and to evidence ongoing communications with local agencies.

There were no findings or recommendations related to the audits of projects by the cities of Anaheim and Brea (Attachments J, K, and L).

Summary

TCBA completed audits of nine projects funded through the CTFP. The auditors questioned costs of \$677,015 incurred by the City of Stanton, and offered recommendations to the cities of Costa Mesa, Irvine, Laguna Niguel, Placentia, and Santa Ana to ensure compliance. In addition, TCBA issued a recommendation to OCLTA staff to enhance procedures related to timely project closeout. Finally, Internal Audit issued a recommendation to OCLTA

staff to amend language in master funding agreements and update guidelines to ensure clarity with regard to the right to audit.

Attachments

- A. Combined Transportation Funding Program Financial and Compliance Audit, City of Stanton, Katella Avenue Smart Street Program Project from Knott Avenue to Stanton Channel (Engineering, Right-of-Way, and Construction), Project No. 97-STAN-SSP-2019
- B. Memorandum from Woodruff, Spradlin & Smart to Janet Sutter regarding Audit of City of Stanton; Combined Transportation Funding Program, dated July 12, 2012
- C. Memorandum from Serena Ng to Kia Mortazavi, regarding Supplemental Comments – CTFP Audits, dated July 19, 2012
- D. Combined Transportation Funding Program Financial and Compliance Audit, City of Costa Mesa, Fairview/I-405 Interchange Improvement Project (Construction), Project No. 05-CMSA-RIP-2102
- E. Combined Transportation Funding Program Financial and Compliance Audit, City of Santa Ana, Citywide Traffic Signal Coordination Project (Construction and Engineering), Project No. 03-SNTA-SIP-1212
- F. Combined Transportation Funding Program Financial and Compliance Audit, City of Irvine, MacArthur Boulevard at Red Hill Avenue Intersection Improvement Project (Construction), Project No. 05-IRVN-MPAH-2005
- G. Combined Transportation Funding Program Financial and Compliance Audit, City of Placentia, Metrolink Station / Transit Facility Project (Engineering), Project No. 03-PLAC-TDM-1196
- H. Combined Transportation Funding Program Financial and Compliance Audit, City of Laguna Niguel, Avery Parkway Eastbound Right Turn Lane at the I-5 Freeway Improvement Project (Construction), Project No. 00-LNIG-GMA-3121
- I. Letter from TCBA to OCLTA Board, regarding CTFP and Recommendations to OCLTA Staff, dated June 21, 2012
- J. Combined Transportation Funding Program Financial and Compliance Audit, City of Anaheim, Imperial Highway (Santa Ana Canyon Road to Orangethorpe Avenue) Project (Construction), Project No. 07-ANA-MPAH-2000
- K. Combined Transportation Funding Program Financial and Compliance Audit, City of Brea, Kraemer Boulevard at Birch Street Intersection Improvement Project (Construction), Project No. 03-BREA-IIP-1032

- L. Combined Transportation Funding Program Financial and Compliance Audit, City of Brea, Imperial Highway Smart Street Program Project (Segment B) (Construction), Project No. 97-FULL-SSP-2010

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***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Stanton
Katella Avenue Smart Street Program Project
from Knott Avenue to Stanton Channel
(Engineering, Right-of-Way, and Construction)
Project No. 97-STAN-SSP-2019**

Submitted by

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Katella Avenue Smart Street Program Project from Knott Avenue to Stanton Channel (project) of the City of Stanton (the City), Project Number 97-STAN-SSP-2019 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were reasonable and allocable, 2) the City complied with competitive procurement 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, and adequately supported, except for \$677,015 of questioned costs related to A&E Consultants, an outside engineering consultant.
- The City has a competitive procurement procedure in place for the selection of contractors; however, the City did not maintain evidence of competitive procurement related to A&E Consultants.
- 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, except for the questioned costs related to A&E Consultants.
- The City established and maintained a separate fund number for the project.

BACKGROUND

In 1997, the Orange County Local Transportation Authority awarded \$4,246,631 (\$693,373 for engineering, \$442,035 for right-of-way, and \$3,111,223 for construction) to the City under the Smart Street Program. The awarded project was to widen and re-stripe lanes to accommodate three through lanes each direction on east-bound and west-bound of Katella Avenue from Knott Avenue to Stanton Channel. The project also included intersection improvements, curb and gutter improvements, sidewalk construction, construction of curb ramps and driveways, bus stop improvements, installation of detectable warning signs, traffic signal lighting improvements at intersections, adjustment of utility covers, and payment striping and markings. The actual costs incurred for the project totaled \$4,379,837 (\$761,311 for engineering, \$442,035 for right-of-way, and \$3,176,491 for construction), of which \$4,246,631 was funded by the CTFP and \$133,206 was funded by the City. The project began on July 1, 1997 and was completed on April 14, 2009.

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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Stanton charged a total of \$4,379,837 to the project, of which \$761,311 was for design and right-of way engineering work performed by outside contractors, \$442,035 was for right-of-way acquisition costs, and \$3,176,491 was for construction work performed by outside contractors. The project funding consisted of CTFP funds from OCLTA of \$4,246,631 (\$693,373 for engineering, \$442,035 for right-of-way, and \$3,111,223 for construction) and \$133,206 from the City of Stanton's other funds.

Of the \$761,311 of design and right-of-way engineering costs, \$744,953 was billed by A&E Consultants, \$8,858 by UMA Engineering, Inc., and \$7,500 by AKAL Consultants. Of the \$744,953 invoiced by A&E Consultants \$35,417 has not been paid by the City due to a dispute over the quality of the work provided by A&E Consultants. Thus, payments made to A&E Consultants total \$709,536 (\$744,953 - \$35,417). The CTFP funded \$693,373 of the total design and right-of-way engineering costs of \$761,311. The \$67,938 (\$761,311 - \$693,373) shortfall was funded by the City's other funds, and thus, CTFP funded \$677,015 (\$744,953 - \$67,938).

We found that all costs charged to the project were reasonable, allocable, and adequately supported, except for the costs related to A&E Consultants. With respect to A&E Consultants, our review disclosed the following:

A&E Consultant Services: No Evidence of Competitive Procurement and an Appearance of Conflict of Interest

The CTFP Manual requires the City to maintain evidence of competitive procurement for all contract expenses.

On August 12, 1997, the City awarded A&E Consultants \$49,800 for preparation of plans and specifications related to this CTFP project. At that time, the City had an existing professional services agreement with the sole proprietor of A&E Consultants to fulfill the duties of the City Director of Public Works and City Engineer. That agreement includes a clause that states "...should it be advantageous for the City to allow A&E Consultants to propose on, or directly negotiate for design and inspection service of particular projects...some (City Engineer) items would not be provided by A&E Consultants in order to avoid conflicts of interest". Documentation on file indicates the services for plans and specifications were not competitively bid, but were directly negotiated with A&E Consultants. The City was unable to provide evidence that preventive actions were taken to avoid a conflict of interest related to this procurement of services. In fact, the related Report to the City Council indicates that "...A&E Consultants have been closely involved in representing the interests of the City through development and finalization of the regional Smart Street Program concept and is uniquely qualified to provide implementation plans..."; indicating that A&E Consultants was both representing the City and the beneficiary of the design contract. The award was then processed as an amendment to the professional services agreement already in place with A&E Consultants.

In April 2002, while still utilizing A&E Consultants services to fulfill the Director of Public Works and City Engineer positions, the City issued another \$310,050 sole-source non-competitive task order to A&E Consultants for final engineering plans and specifications, and for right of way acquisition. The Report to the City Council again indicated that “A&E Consultants has been closely involved in the development...” of the project.

The City was Overbilled by A&E Consultants

Services provided by A&E Consultants included design and right-of-way engineering services. The City provided auditors with two A&E Consultant contract agreements and/or amendments for this work consisting of \$49,800, approved August 12, 1997, and \$310,050, approved April 9, 2002. The City provided a Report to the City Council on March 11, 2008 recommending that the design fee be increased by \$255,422 and the related minutes evidencing City Council’s action to increase fees. The total obligated amount per these documents was \$615,272 (\$49,800 + \$310,050 + \$255,422), which is \$129,681 (\$744,953 - \$615,272) less than the total A&E Consultants invoiced for the services provided. Thus, the City paid A&E Consultants \$94,264 (\$129,681 - \$35,417) over the obligated amount.

City was Unable to Locate A&E Consultant Contract

In March 2003, the City terminated its contract with A&E Consultants to fulfill the duties of the Director of Public Works and City Engineer. On March 11, 2008, the City provided a Report to the City Council recommending that the design fee for A&E Consultants be increased by \$255,422. However, the City could not locate the contract for this additional CTFP work. The CTFP guidelines require that original executed contracts be maintained for all contract expenses.

Questioned Cost

We questioned CTFP-funded costs of \$677,015 related to A&E Consultants due to the following reasons: 1) the City is unable to provide evidence of competitive procurement, 2) the City did not have evidence of preventive measures taken, if any, to avoid a conflict of interest, 3) A&E invoiced costs exceeded obligated amounts by \$129,681, and 4) the City was unable to locate a contract for \$255,432 for additional work awarded to A&E Consultants in March 2008.

City’s Response

See Attachment B for City’s response and Attachment C for related City Attorney’s opinion.

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements with all Contractors except for A&E Consultants. As previously mentioned above, the City could not show evidence of competitive bidding process.

Accounting and Cash Management Procedures

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

Project Completion

The project was completed in April 14, 2009 and a final report was submitted to OCLTA by the City on June 21, 2009, which is within 180 days after the project completion date.

Separate Project Fund

The City recorded costs of the project in the Measure M Fund, which is within the Capital Project Fund. The City tracked the project by using a separate Fund #220 for periods prior to FY 05/06, Fund #433 in FY 05/06 through December 31, 2006, and Fund #305 for periods after January 1, 2007.

LIMITATIONS AND RESTRICTIONS

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

Torrance, California
June 6, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-992
Agency: City of Stanton
Project Title: Katella Avenue Smart Street Program Project from Knott Avenue to Stanton Channel
Project Status: Completed

<u>Project Number</u>	CTFP		Matching <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
	<u>Funding Provided</u>						
97-STAN-SSP-2019 (Engineering)	\$ 693,373	\$ -	\$ -	\$ 693,373	\$ 761,310	\$ -	\$ 677,015
97-STAN-SSP-2019 (Right-of-Way)	\$ 442,035	\$ -	\$ -	\$ 442,035	\$ 442,035	\$ -	\$ -
97-STAN-SSP-2019 (Construction)	\$ 3,111,223	\$ -	\$ -	\$ 3,111,223	\$ 3,176,491	\$ -	\$ -

CITY OF STANTON'S MANAGEMENT RESPONSE

The following is the City of Stanton response to draft Audit regarding Katella Avenue Smart Street, OCTA Project 97-STAN-SSP-2019.

The draft audit concludes that the OCTA should question design contract costs of the City in the sum of \$677,015. This recommendation is based on four conclusions.

First, the audit indicates that there was no evidence that a competitive procurement process was employed, or that it was advantageous for the City, to contract with its existing contract engineer A&E Consultants. The City respectfully disagrees. As an initial matter, there is no evidence that a competitive process was not employed by the City. Nothing in the agenda materials for the original contract states that proposals were not sought from other engineers, or that the proposed contract with A&E was being treated as a sole source contract. It simply recommends contracting with A&E based on its low price and expertise, which is the typical criteria for awarding design contracts. Moreover, the agenda report for the initial contract approval for A&E indicates that there was an advantage to the City in contracting with A&E, due to the very low contract price of less than \$50,000. This represented less than 3% of the total project costs authorized by OCTA. A&E was also in a unique position to provide the best services to the City because of its role as City Engineer (and hence knowledge of existing conditions) and understanding of the Smart Street Program requirements.

Professional services such as engineering design are typically not done by strict competitive bidding in any event, because awarding such contracts solely based on price, ignores the critical need for professional firms to be qualified to perform the unique services sought. Thus, even if the audit is correct that there was no "competitive procurement process" employed for the initial contract, there is also no evidence that the work could have been done for less or that the quality of the work performed suffered in any way.

Indeed, the total amount ultimately paid to A&E for design services was only slightly higher than the total amount authorized by OCTA for design and engineering work, an increase which can easily be accounted for by the long delay in project implementation and the changes in the project between the initial contract for design in 1997 and project completion in 2009. It should also be noted that if there was actually a conflict of interest on the part of A&E Consulting, the City would be the victim of that conflict. It should not be forced to repay funds in such circumstances.

The second conclusion on which the audit recommendation is based is that the City did not document the measures taken to avoid a potential for conflict of interest. The City also respectfully disagrees with this conclusion. The agenda report and related materials make very clear that the recommendation to award the design contract to A&E Consulting was made by the City Manager, and the report indicates that the report itself was prepared by the City Manager, not the contract engineer. The City Council approved the award of the contract, and the meeting minutes reflect that the item was approved as part of the City Council's Consent Calendar, which means that it was not removed for separate discussion and no verbal report would have been given concerning the contract. Thus, there was no presentation or other participation in the matter by A&E Consultants. While the City Engineering contract between the City and A&E does contain the quoted language regarding conflict in Attachment A, that contract did not involve OCTA as a party. The audit does

not identify any contract document between the City and OCTA which required that the City document the measures taken to avoid a potential conflict of interest. Therefore, the City's inability to show documentation, that it was not contractually required to create, does not demonstrate that the City failed to take appropriate steps to ensure that no conflict actually occurred. Indeed, there is no document which demonstrates that A&E performed any "city engineering services" in connection with its own work on the SSP Project.

In addition, once the original design contract was awarded, subsequent change orders would of necessity have to be awarded to the same design professional; no engineer would make changes to another engineer's plans. Thus the original contract payments and work product would have gone to waste had additional design work been competitively procured. Moreover, when the last contract change order was approved in 2008, A&E was no longer serving as the City's contract engineer, so there was neither the appearance of nor any actual conflict as to that change order.

The third conclusion in support of the auditor's recommendation is that costs invoiced by A&E exceeded the contracted for amount for services by \$129,681. While this statement is true, it does not justify questioning any payments actually made. There is no dispute that the City actually paid A&E the amount of \$709,536, less than the amount of A&E's billing to the City. The City disputed the additional amount billed and it was not paid. It is difficult to understand why the City should be punished for not paying for disputed work. Some of the funds paid to A&E were also for services rendered by their sub-consultants, on essentially a pass-through basis.

Finally, as to the contention that the City overpaid A&E the amount of \$94,264 above the contracted for amount for services, copies of all A&E invoices and payment checks (except for the final denied A&E invoice for \$35,416.69) were submitted to OCTA as part of the final report and were available to OCTA auditors. The auditor has not stated that A&E billing was incorrect, that the work was not actually necessary, or that it was not performed. There is no indication that the City actually overpaid A&E – simply that the contract was not amended to account for the additional funds. Change orders and sub-contractor invoices may account for the difference, but due to the passage of time since the payments were made, the City is unable to currently locate all the documents relating to the payments. It should also be noted that some A&E billings above the approved contract may have been due to the ongoing changes requested from A&E during the project meetings that were held at OCTA office with OCTA employees present in the project meetings including Harry Thomas and Kanwal Singh. As noted below, had the audit been performed in a timely manner, the City believes it would be able to provide contractual support for all the payments made to A&E. As it currently stands, the City will likely be unable to recover any overpayments made to A&E (or payments made in excess of authorized contracts) based on the statute of limitations and lack of documentation.

The final conclusion supporting the recommendation is that the City "could not locate" the March 2008 contract awarded A&E additional services for a price of \$255,422. Again, the City must respectfully disagree. The March 2008 change order was not a new contract, but simply a revision of the existing contract to take into account changes in scope and price based upon changes made in the project after the original contract was executed. No new contract was entered into or required, and the additional work was fully authorized by public approval of the City Council. All of the documents necessary to support the additional work and its costs were produced, and there is no dispute that the work was completed as required.

ATTACHMENT B

In addition, we note two other major issues the City has with the audit findings and recommendation. First, the City of Stanton served as lead agency on the project in order to assist OCTA with the project; the City successfully completed the project as required without seeking additional funds from OCTA. OCTA made the payments on the project to the City based upon the documentation submitted; if the documentation was inadequate, the payments should not have been approved at that time. The City stepped up to help with this important regional transportation project, did excellent work, and is now being punished for offering its assistance.

Second, and more importantly, the contract between the City and the OCTA provided that any audit of the City's compliance with the agreement and related policies and procedures was to occur within 90 days after the final report regarding the project was submitted to the Authority. The project at issue was completed on April 14, 2009 and the final report submitted on June 21, 2009, as noted in the audit. Paragraph 5 of the agreement reads:

Upon close-out of each PROJECT(s) under this Agreement and before final payment is processed, AUTHORITY, or other agents of AUTHORITY, may perform an audit to ensure that CTFP policies and procedures were followed. Such audit shall be performed within 90 days of AUTHORITY receiving the final report for each PROJECT(s). If the audit determines that any of the activities performed are ineligible for CTFP funding, AGENCY shall return the amount of funding used to perform ineligible activity to AUTHORITY.

Now, more than three years later, the City is being told that nearly three-quarters of a million dollars are being questioned based on an audit that is three years late. This delay has severely prejudiced the City because the City's required records retention period, for most if not all of the documents the auditors find lacking, passed long before the audit began.

Finally, as noted in the audit, the vast majority of project documentation, representing over 85% of the total project funds expended and all other accounting records are in good order. As conceded by the auditors, all project funds were spent on project related costs, and appropriate controls and approvals were in place. The City respectfully believes that the audit report should be received and filed and no further action should be taken with respect to this project.

ATTACHMENT C



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June 28, 2012

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Re: OCLTA Project Number 97-STAN-SSP-2019

This office serves as the City Attorney for the City of Stanton. We have been asked to provide an opinion as to whether certain contracts, and subsequent amendments, created a conflict of interest in violation of state law at the time they were entered into. Our opinion is limited to and based upon the facts recited herein and the law at the time of the transactions described.

On June 4, 1996 the City Council approved Resolution No. 96-30, approving the Katella Smart Street Implementation Plan. The Implementation Plan detailed upgrade of Katella Avenue between the I-605 freeway and SR-55 freeway. A Smart Street is designed to maximize the efficiency of motorists along the corridor. The City of Stanton was allocated Measure M funds from the Orange County Transportation Authority (OCTA) for design, right of way acquisition, and construction of the Katella Smart Street project. The City of Stanton was designated lead agency in design for two Katella Smart Street Projects.

On August 12, 1996, the City of Stanton entered into a professional services agreement with A & E Consultants, Inc. to provide City Engineering services. On August 12, 1997, the City entered into a separate professional services agreement to perform a preliminary engineering study for \$49,800. On April 9, 2002, the City of Stanton entered

Janet Sutter
Executive Director, Internal Audit
Orange County Transportation Authority
June 28, 2012
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into an agreement with A & E Consultants, Inc. to complete the design of the Katella Smart Street Project for \$310,050. This agreement was to prepare the final plans, specifications, and estimates required in the design of the project as well as to acquire the necessary ROW to implement the project.

On April 29, 2003, a Cooperative Agreement between the City of Stanton and the County of Orange was executed whereby the City of Stanton was to be the lead agency for the design and right of way acquisition for the Katella Avenue Smart Street segment from Knott Avenue to 150 feet west of Jean Street (WCL Anaheim), with the understanding that upon completion of PS&E, the County would assume the lead agency role for the construction of the said Katella Avenue Smart Street segment. On March 11, 2008, a scope increase was done for this contract for an additional \$255,422.45 to account for numerous design obstacles encountered during the process.

The limits of the project changed many times throughout the course of the project. After further review, there appears to be a typo in the Final Report for project 2019. The limits for design should have been Katella Avenue from "Knott to Magnolia" as opposed to "Knott to Stanton Channel". As OCTA has acknowledged, "Knott Avenue to Stanton Channel" represents the construction phasing break down and not the design phasing sequence. In 2002, the limits for design was changed to Knott to Magnolia which is why all subsequent contracts with A&E are delineated Katella Avenue from "Knott to Magnolia" for project 2019.

With this project background in mind, we analyze the facts specific to the process which was followed in awarding a contract to A&E Consulting. As noted above, after the City Council approved the Project Implementation Plan, it entered into a contract with A&E Consulting for Public Works/City Engineer services. In 1997, in connection with the Katella Smart Street Project ("the Project"), the City Manager received a proposal from A&E to do engineering work on the Project for the amount of \$49,800. While the City records are incomplete at the time of this opinion due to the passage of time and destruction of records pursuant to state and local law, the agenda report, contract and council minutes for this action were all available and reflect the following facts: The agenda report and related materials make very clear that the recommendation to award the design contract to A&E Consulting was made by the City Manager, and the report indicates that the report itself was prepared by the City Manager, not the contract engineer. The City Council approved the award of the contract, and the meeting minutes reflect that the item was approved as part of the City Council's Consent Calendar. Consent calendar items are considered without discussion, on one motion and vote. Thus, the minutes would reflect if any consent calendar item was removed for separate

Janet Sutter
Executive Director, Internal Audit
Orange County Transportation Authority
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discussion. Because it was not, no verbal report would have been given concerning the contract. Thus, there was no presentation or other "participation" (as that term is defined in the California Political Reform Act) in the matter by A&E Consultants. As a result, there was no violation of the conflict of interest rules set out in the Political Reform Act or the City's adopted conflict of interest code.

Subsequent agreements, amendments and change orders based on delays and new project requirements as noted above appear to have occurred in the same manner (i.e., without participation of A&E), or to have occurred after A&E was no longer under contract with the City to serve as Public Works Director/City Engineer, after April 2003.

In addition, the contracts were not prohibited contracts under California Government Code section 1090, et seq., because the decision as to whether or not to approve the contract for the Project design work did not rest with A&E or any of its owners, shareholders, employees, or anyone with a financial interest in it. The recommendations were made by the City Manager and the decisions were made by the City Council.

Thus, it is our opinion, based on these facts, that the contracts with A&E Consulting did not violate the applicable state or local conflict laws and appropriate steps appear to have been followed to ensure that no conflict was created.

Please do not hesitate to contact me if you have any questions.

Very truly yours,



Kimberly Hall Barlow
Stanton City Attorney

KHB:idm
Cc: Carol Jacobs, City Manager




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MEMORANDUM

TO: Janet Sutter
Executive Director, Internal Audit

FROM: Ken Smart 

DATE: July 12, 2012

RE: Audit of City of Stanton; Combined Transportation Funding Program

Thompson, Cobb, Bazilio & Associates, PC (TCBA), an accounting firm, recently completed an audit, per your request, of the City of Stanton's (Stanton) use of Combined Transportation Funding Program (CTFP) Measure M1 funds (Audit).

The audit reviewed the Katella Avenue Smart Street Program Project (Project) that was awarded to Stanton in 1997, was completed on April 14, 2009 and the final report was submitted by Stanton on June 21, 2009. Stanton's use of the funds for the Project was subject to the provisions of Cooperative Agreement No. C-95-992 between OCTA and Stanton (Agreement).

The Auditors questioned costs of \$677,015 based on Stanton's failure to provide (1) evidence of competitive procurement, (2) evidence of preventative measures to avoid conflicts of interest, (3) invoiced costs exceeding the contractually obligated amounts and (4) evidence of a written contract for additional work awarded in March 2008.

Stanton has submitted a written response to the Audit by disputing the bases for the findings. In addition, Stanton's response includes reference to Paragraph 5 of the Agreement, which provides as follows:

"5. Upon close-out of each PROJECT(s) under this Agreement and before final payment is processed, AUTHORITY, or other agents of AUTHORITY, may perform an audit to ensure that CTFP policies and procedures were followed. Such audit shall be performed within 90 days of AUTHORITY receiving the final report for each PROJECT(s). If the audit determines that any of the activities performed are ineligible for CTFP funding, AGENCY shall return the amount of funding used to perform ineligible activity to AUTHORITY."

Stanton correctly points out that the Agreement requires OCTA to conduct its Audit within 90 days of OCTA receiving the final report for the project, which in this case meant that an audit by OCTA should have been performed by September 19, 2009.

Janet Sutter
Executive Director, Internal Audit
July 12, 2012
Page 2

In conclusion, based on OCTA's failure to audit Stanton within the time limits as provided in the Agreement, as well as substantial questions as to the auditor's bases for the questioned costs, I believe OCTA would be unsuccessful in legally enforcing a reimbursement of these funds from Stanton as recommended by the Auditor.



INTEROFFICE MEMO

July 19, 2012

To: Kia Mortazavi, Executive Director
Planning

From: Serena Ng, Principal Internal Auditor
Internal Audit

Subject: **Supplemental Comments – CTFP Audits**

The Internal Audit Department (Internal Audit) engaged external audit firm Thompson, Cobb, Bazilio & Associates, PC (TCBA) to conduct audits of nine Combined Transportation Funding Programs (CTFP) projects closed from January 1, 2010 through March 31, 2011. At the conclusion of the audits, after consultation with legal counsel, it was determined that confusing and conflicting language in the Measure M1 (M1) cooperative agreements and CTFP Guidelines, under which the audited projects were bound, may restrict the Orange County Transportation Authority's (Authority) right to audit and/or recover funds identified as unallowable. As a result, Internal Audit undertook a review of the audit requirements included in the current master funding agreements for Measure M2 (M2) and the current CTFP Guidelines.

Language on Review and Audit Requirements

The master funding agreement defines the specific terms and conditions and funding responsibilities between the Authority and agency for CTFP and Local Fair Share Program Net Revenues. Article 6 of the master funding agreement states that the "Authority and Agency shall maintain a complete set of records in accordance with generally accepted accounting principles. Upon reasonable notice, Agency shall permit the authorized representatives of the Authority to inspect and audit all work, materials, payroll, books, accounts, and other data and records of Agency for a period of four (4) years after final payment, or completion of audit by the Authority, or after final payment of debt service where local fair share revenues were pledged, whichever is longer. For purposes of audit, the date of completion of this Agreement shall be the date of Authority's payment of Agency's final billing (so noted on the invoice) under this Agreement." The language on audit requirements in the M2 funding agreements is an improvement over the M1 cooperative agreements, since it provides a right-to-audit for a period of four years after final payment. However, the last sentence appears confusing.

Additionally, Article 3 of the master funding agreement refers to an audit and or technical review to ensure that CTFP Guidelines, policies, and procedures were followed and indicates that such audit will be performed within 180 days of the Authority receiving the final report. The use of the term “audit” is not appropriate since Authority staff is referring to the desk and technical reviews performed by Planning staff.

The February 2012 CTFP Guidelines do not clearly distinguish between the desk reviews and technical reviews that Planning staff performs and the financial and compliance audits that Internal Audit or its designee performs. The guidelines are silent on the timing of the reviews and audits.

Recommendation:

Internal Audit recommends that management amend M2 master funding agreements and the CTFP Guidelines to clearly define desk reviews, technical reviews, and financial and compliance audits, and to identify the timing and requirements thereof. M2 master funding agreements and the related CTFP Guidelines should be consistent. Management may want to consider obtaining legal counsel opinion on revisions.

Management should also consider revisions to the M1 cooperative agreements with those jurisdictions that have current projects.

Management Response (Planning Division):

The M2 CTFP Guidelines have been updated for the 2013 Call for Projects and will be presented to the Board of Directors for review in August. The update will include changes to Chapter 10, Technical and Field Review section, as well as Chapter 11, Independent Audit Process Overview section; comments provided by Internal Audit have been incorporated. In addition, staff recommended changes to the M2 Master Funding Cooperative Agreement to coincide with the CTFP Guideline changes. The changes to the CTFP Guidelines and Master Funding Coop provide clear distinction between the requirements of the technical and field reviews versus an independent audit as well as allow a five year period for independent audits. Finally, the M1 Master Funding cooperative agreements are being revised to allow for a five year audit period after the Authority’s release of final payment.

c: Kurt Brotcke
Abbe McClenahan
Paul Rumberger
Janet Sutter

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Costa Mesa
Fairview/I-405 Interchange Improvement Project
(Construction)
Project No. 05-CMSA-RIP-2102**

Submitted by

TCBA

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Fairview/I-405 Interchange Improvement Project (project) of the City of Costa Mesa (the City), Project Number 05-CMSA-RIP-2102 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, and adequately supported; however, the City did not document its determination of cost allocation on invoices applicable to multiple projects and did not formally amend contracts to reflect new and approved hourly rates.
- 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 this 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 program number for the project.

BACKGROUND

In 2007, the Orange County Local Transportation Authority awarded \$2,687,000 to the City under the Master Plan of Arterial Highways Program. The awarded project was to widen and re-stripe the intersection of Orangethorpe/Esperanza and La Palma Avenue to allow for eight lanes of traffic and provide additional turning lanes. The project also widened the Santa Ana River bridge and bus turnouts at the intersection. The total costs incurred for the project were \$6,316,366, of which \$5,283,504 was funded by the CTFP (\$2,687,000 under Project No. 07-ANAH-MPAH-2000 and \$2,596,504 under Project 97-ANAH-SSP-2000) and \$1,032,862 was funded by the City. The project began on June 25, 2007 and was completed on February 26, 2009. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Costa Mesa charged a total of \$6,752,425 to the project, of which \$5,994,213 was for construction work performed by Griffith Company, \$709,050 was for construction management work performed by Lim & Nascimento Engineering Corporation (LAN Engineering), and \$49,162 was for construction work performed by the California Department of Transportation. The project funding consisted of CTFP funds from OCLTA of \$3,373,750 and \$3,378,675 from the City of Costa Mesa's other funds. We found that all costs charged to the project were reasonable, allocable, and adequately supported; however, we noted the following:

The City's contract with LAN Engineering covered construction management on two separate projects: Fairview Road/I-405 Interchange Widening and Harbor Boulevard Widening. The invoices received from LAN Engineering did not separate the costs of the work performed on the two separate projects. The City stated that due to the adjacent location as well as timing of the above two projects, they decided to contract with one company for construction management services. Upon receipt of an invoice, the City assessed the work performed on each project based on weekly meetings with LAN Engineering and allocated the payment accordingly. We verified that total costs allocated to the projects did not exceed the contract value or total invoices from LAN Engineering.

Additionally, we found that hourly rates billed by LAN Engineering differed from the hourly rates in the contract. In addition, the City paid invoices that included some personnel and hourly rates that were not included in the contract. The City stated that the contract was awarded to LAN Engineering in late 2006. However, there were project delays due to construction bids coming in very high. The projects finally began in January 2008, and there were some increases in hourly rates due to changes in wages. The City also stated that they substituted some personnel by using retired Caltrans staff at a lower cost to keep the overall costs level with the original proposal. We verified that the City had a time and materials contract with a not-to-exceed maximum amount with LAN Engineering, and that total costs invoiced by LAN Engineering and paid by the City were within the not-to-exceed amount. We also verified that the contract term was properly extended. However, the City did not process formal amendments to the contract that authorized the use of new rates.

Recommendations

For multiple projects with a single contractor, the City should require that the contractor invoice reflect its costs by project. The City should also ensure that it processes amendments for any new personnel and/or revised hourly rates.

City's Response

The City of Costa Mesa strives to implement Measure M projects in compliance with established guidance provided by the Combined Transportation Funding Program (CTFP). The City understands that with the utilization of one consultant for Fairview Road/I-405 and Harbor Boulevard/I-405, additional accounting controls could have been incorporated. In the future, the City will ensure that a single consultant or contractor performing on multiple projects clearly bill the City by project. In addition, any changes to the hourly rates by consultant will be documented with a change order or similar instrument.

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements with all contractors.

Accounting and Cash Management Procedures

The City established adequate controls to ensure that project funds were used only for the approved project costs. All costs charged to the project were reviewed and approved by the City Project Manager; however, the City lacked documentation on how invoiced costs on multiple projects were allocated, as mentioned above.

Project Completion

The project was completed on July 30, 2009 and the final report was submitted to OCLTA by the City on December 31, 2009, which is within 180 days after the project completion date.

Separate Project Fund

The City recorded costs of the project in the Measure M Construction Fund. The City tracked the project by using a separate program number (30112) and separate project number (300084) within the Measure M Construction Fund.

LIMITATIONS AND RESTRICTIONS

This report is intended solely for the information and use of management and the Board of Directors of the Orange County Local Transportation Authority and the City of Costa Mesa and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
May 25, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

<u>Cooperative No.:</u>	C-95-968								
<u>Agency:</u>	City of Costa Mesa								
<u>Project Title:</u>	Fairview/I-405 Interchange Improvement Project								
<u>Project Status:</u>	Completed								
		CTFP	Matching ¹	Total Funds	Costs	Unused	Questioned		
<u>Project Number</u>		<u>Funding</u>	<u>Required</u>	<u>CTFP + Match</u>	<u>Incurred</u>	<u>Fund</u>	<u>Costs</u>		
05-CMSA-RIP-2102		\$ 3,373,750	\$ 3,376,213	\$ 6,749,963	\$ 6,752,425	-	\$	-	-

¹ A minimum matching requirement of 50% of total project costs incurred was required and met.

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Santa Ana
Citywide Traffic Signal Coordination Project
(Construction and Engineering)
Project No. 03-SNTA-SIP-1212**

Submitted by

TCBA

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Citywide Traffic Signal Coordination Project (project) of the City of Santa Ana (the City), Project Number 03-SNTA-SIP-1212 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, 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 this project.
- Most of the work related to the project was performed by City staff rather than outside contractors based on the City's decision that the project would be completed more efficiently by using City staff. However, the City did not maintain documentation supporting its decision as required by OCLTA CTFP guidelines.
- 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 activity code for the project.

BACKGROUND

In 2003, the Orange County Local Transportation Authority awarded \$250,000 (\$230,000 Construction and \$20,000 Engineering) to the City under the Signal Improvement Program. The awarded project was to re-evaluate existing traffic signal timing plans and implement new traffic timing plans that would synchronize as many traffic signals along each arterial as possible and thus, achieve optimal performance. The total costs incurred for the project were \$342,500, of which \$250,000 was funded by the CTFP (\$230,000 for Construction and \$20,000 for Engineering) and \$92,500 was funded by the City. The project began on March 1, 2008 and was completed on July 6, 2010. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Santa Ana charged a total of \$342,500 to the project, of which \$308,955 was for work performed by the City, \$26,855 was for work performed by National Data Survey, \$5,618 was for work performed by Trafficware, and \$1,072 was for work performed by Ridge Engineering, Inc. The project funding consisted of CTFP funds from OCLTA of \$250,000 (\$230,000 for construction and \$20,000 for engineering) and \$92,500 from the City of Santa Ana's general fund. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

OCLTA's CTFP guidelines require that the City document its evaluation and decision that local agency forces could perform project work more cost effectively or more timely than a contractor. The City did not maintain this documentation.

Recommendation

We recommend in the future, the City document its evaluation and decision to utilize local agency forces, as required by CTFP guidelines.

City's Response

The City completed an analysis to determine that it was more cost effective to perform the work using City forces; however, the analysis was not documented. In the future, the City will document such evaluations and decisions as required by the guidelines.

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

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 July 6, 2010 and a final report was submitted to OCLTA on September 16, 2010, which is within 180 days of the project completion date.

Separate Project Fund

The City recorded costs of the project in the Capital Projects Fund. The City tracked the project by using a separate activity code #085016 within the Capital Projects Fund.

LIMITATIONS AND RESTRICTIONS

This report is intended solely for the information and use of management and the Board of Directors of the Orange County Local Transportation Authority and the City of Santa Ana and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California
April 18, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-990
Agency: City of Santa Ana
Project Title: Citywide Traffic Signal Coordination
Project Status: Completed

<u>Project Number</u>	CTFP Funding <u>Provided</u>	Matching ¹ <u>Required</u>	Total Funds CTFP + Match <u>CTFP + Match</u>	Costs Incurred <u>Incurred</u>	Unused Fund Balance <u>Balance</u>	Questioned Costs <u>Costs</u>
03-SNTA-SIP-1212	\$ 250,000	\$ 68,500	\$ 318,500	\$ 342,500	\$ -	\$ -

¹ A minimum matching requirement of 20% of total project costs incurred was required.

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Irvine
MacArthur Boulevard at Red Hill Avenue Intersection Improvement Project
(Construction)
Project No. 05-IRVN-MPAH-2005**

Submitted by

TCBA

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the MacArthur Boulevard at Red Hill Avenue Intersection Improvement Project (project) of the City of Irvine (the City), Project Number 05-IRVN-MPAH-2005 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Final project costs reported to OCLTA by the City of Irvine were overstated by \$2,138,689.
- 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 this 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 unit number for the project.

BACKGROUND

In 2003, the Orange County Local Transportation Authority awarded \$10,512,426 to the City under the Intersection Improvement Program. The awarded project was to widen the intersection at MacArthur Boulevard and Red Hill Avenue. The improvements along this widening area included signal upgrades, curb and gutter upgrades and landscaping. The total costs incurred for the project were \$25,574,200, of which \$10,512,426 was funded by the CTFP and \$15,061,774 was funded by the City. The project began on April 18, 2007 and was completed on September 18, 2009. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The final project costs reported to OCLTA by the City of Irvine were overstated by \$2,138,689. City officials indicated that this error was due to double reporting of contract retention in the final project cost report. This was a reporting error and did not result in over billings to OCLTA since billings were based on actual costs per the general ledger.

The adjusted final total project cost was \$25,574,200 (\$27,712,889 - \$2,138,689), of which \$24,826,949 was for work performed by contractors, \$501,479 was for administrative labor costs incurred by the City, and \$245,772 was for materials and supplies. The project funding consisted of CTFP funds from OCLTA of \$10,512,426 and \$15,061,774 from the City of Irvine's other funds. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

Recommendation

Final project reporting should be reconciled to the actual amount recorded in the general ledger.

City's Response

While the actual costs of the project were accurately recorded in the financial system, the final report double counted contract retention, which was held in a separate escrow account. The use of a separate escrow account entails the payment of the retention to the escrow agent simultaneously with the payments to the contractor. At the completion of the project, the retention is released to the contractor, which is the reason for the duplication. The Senior Accountant reconciles the financial information in the report to the general ledger. The Senior Accountant will continue to coordinate with the various departments to ensure all final reports are reviewed in Fiscal Services prior to submission.

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

Accounting and Cash Management Procedures

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

Project Completion

The project was completed on September 18, 2009 and a final report was submitted to OCLTA on February 22, 2010, which is within 180 days of the project completion date.

Separate Project Fund

The City recorded costs of the project in the Special Revenue Fund (Fund 123, Code 25 - Irvine Business Complex). The City tracked the project by using a separate unit project number #323540 within Fund 123, Code 25.

LIMITATIONS AND RESTRICTIONS

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

Torrance, California
May 9, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-976
Agency: City of Irvine
Project Title: MacArthur Boulevard at Red Hill Avenue Intersection Improvement Project
Project Status: Completed

<u>Project Number</u>	CTFP Funding <u>Provided</u>	Matching ¹ <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
05-IRVIN-MPAH-2005	\$ 10,512,426	\$ 12,787,100	\$ 23,299,526	\$ 25,574,200	\$ -	\$ -

¹ A minimum matching requirement of 50% of total project costs incurred was required and met by the City.

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Placentia
Metrolink Station / Transit Facility Project
(Engineering)
Project No. 03-PLAC-TDM-1196**

Submitted by

TCBA

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE REVIEW

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Metrolink Station/Transit Facility Project (project) of the City of Placentia (the City), Project Number 03-PLAC-TDM-1196 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, 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 this 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 object code for the project.
- The City did not submit the Final Report to OCLTA within 180 days of the project completion date, as required by CTFP guidelines.

BACKGROUND

In 2003, the Orange County Local Transportation Authority awarded \$192,198 to the City under the Transportation Demand Management Program. The awarded project was to expand multi-modal transit options for regional travel by establishing new transit connections to existing Metrolink stations. The total costs incurred for the project were \$256,264, of which \$192,198 was funded by the CTFP and \$64,066 was funded by the City. The project began on July 15, 2003 and was completed on March 25, 2010. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Placentia charged a total of \$256,264 to the project, of which \$222,000 was for work performed by KFM Engineering Professional Services, \$20,116 was for work performed by Converse Consultants, and \$14,148 was for work performed by Ninyo & Moore. The project funding consisted of CTFP funds from OCLTA of \$192,198 and \$64,066 from the City of Placentia's general fund. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

Accounting and Cash Management Procedures

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

Project Completion

The project was completed on March 25, 2010 and a final report was submitted to OCLTA by the City on October 14, 2010, which is over 180 days after the project completion date.

OCLTA's CTFP guidelines require that the City submit a final report to OCLTA within 180 days after the project completion date.

Recommendation

We recommend the City submit Final Reports to OCLTA within 180 days after the project completion date.

City's Response

In the future, the City will adhere to the OCLTA CTFP guidelines and submit the Final Report to OCLTA within 180 days of project completion.

Separate Project Fund

The City recorded costs of the project in the Capital Projects Fund. The City tracked the project by using a separate object code #4210 within the Capital Projects Fund.

LIMITATIONS AND RESTRICTIONS

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

Torrance, California

April 9, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-987

Agency: City of Placentia

Project Title: Metrolink Station / Transit Facility Project

Project Status: Completed

	CTFP Funding <u>Provided</u>	Matching ¹ <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
03-PLAC-TDM-1196	\$ 192,198	\$ 64,066	\$ 256,264	\$ 256,264	\$ -	\$ -

¹ A minimum matching requirement of 25% of total project costs incurred was required.

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Laguna Niguel
Avery Parkway Eastbound Right Turn Lane at the I-5 Freeway
Improvement Project
(Construction)
Project No. 00-LNIG-GMA-3121**

Submitted by

TCBA

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Avery Parkway Eastbound Right Turn Lane at the I-5 Freeway Improvement Project (project) of the City of Laguna Niguel (the City), Project Number 00-LNIG-GMA-3121 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, 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 this 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 account code for the project.
- The City did not submit the Final Report to OCLTA within 180 days of the project completion date, as required by CTFP guidelines.

BACKGROUND

In 2000, the Orange County Local Transportation Authority awarded \$180,000 to the City under the Growth Management Areas Program. The awarded project was to widen Avery Parkway on the south side from Camino Capistrano to the I-5 southbound on-ramp and to construct traffic signals at Avery Parkway and the I-5 southbound ramps. The total costs incurred for the project were \$200,916, of which \$180,000 was funded by the CTFP and \$20,916 was funded by the City. The project began on October 1, 2004 and was completed on February 22, 2006. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Laguna Niguel charged a total of \$200,916 to the project for work performed by Steiny and Company, Inc. The project funding consisted of CTFP funds from OCLTA of \$180,000 and \$20,916 from the City of Laguna Niguel's other funds. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

Accounting and Cash Management Procedures

The City established adequate controls to ensure that project funds were used only for the 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 22, 2006 and a final report was submitted to OCLTA on August 13, 2008, which is over 180 days after the project completion date.

OCLTA's CTFP guidelines require that the City submit a final report to OCLTA within 180 days after the project completion date.

Recommendation

We recommend the City submit Final Reports to OCLTA within 180 days after the project completion date.

City's Response

In the future, the City of Laguna Niguel will submit Final Reports to OCLTA within 180 days after the project completion date.

Separate Project Fund

The City recorded costs of the project in the Capital Improvement Program Fund. The City tracked the project by using a separate account code #800.673 within the Capital Improvement Program Fund.

LIMITATIONS AND RESTRICTIONS

This report is intended solely for the information and use of management and the Board of Directors of the Orange County Local Transportation Authority and the City of Laguna Niguel and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California

May 1, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-979
Agency: City of Laguna Niguel
Project Title: Avery Parkway Eastbound Right Turn Lane at I-5 Freeway Improvements Project
Project Status: Completed

<u>Project Number</u>	CTFP Funding <u>Provided</u>	Matching ¹ <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
00-LNIG-GMA-3121	\$ 180,000	\$ -	\$ 180,000	\$ 200,916	\$ -	\$ -

¹ There was no City matching requirement.

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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June 21, 2012

Board of Directors
Orange County Local Transportation Authority
600 S. Main Street
Orange, California 92868

In planning and performing our financial and compliance audit of the following nine Combined Transportation Funding Program (CTFP) projects awarded by the Orange County Local Transportation Authority (OCLTA), we considered OCLTA’s internal control structure to the extent necessary to design our audit procedures. An audit is not designed to provide assurance on the internal control structure for other purposes.

<u>Jurisdiction</u>	<u>CTFP Grant Number</u>	<u>Reporting Period</u>
City of Anaheim	07-ANAH-MPAH-2000	June 25, 2007 through February 26, 2009
City of Brea	03-BREA-IIP-1032	November 3, 2008 through July 7, 2009
City of Brea	97-FULL-SSP-2010	December 3, 2007 through November 17, 2009
City of Costa Mesa	05-CMSA-RIP-2102	January 2, 2008 through July 30, 2009
City of Irvine	05-IRVN-MPAH-2005	April 18, 2007 through September 18, 2009
City of Laguna Niguel	00-LNIG-GMA-3121	October 1, 2004 through February 22, 2006
City of Placentia	03-PLAC-TDM-1196	July 15, 2003 through March 25, 2010
City of Santa Ana	03-SNTA-SIP-1212	March 1, 2008 through July 6, 2010
City of Stanton	97-STAN-SSP-2019	July 1, 1197 through April 14, 2009

During our audits we noted a matter that we believe presents an opportunity for OCLTA to further strengthen its internal controls in its administration and oversight of the CTFP program. This matter does not present a significant deficiency, material weakness in internal control or material instance of noncompliance.

OCLTA Should Strengthen Controls to Ensure Timely Submission of Final Reports and Processing of Final Payments

CTFP Guidelines require cities to submit final reports within 180 days of project completion and OCLTA to make final payment within 60 days of receiving the final report and adequate supporting documentation.

In January 2010, auditors recommended that OCLTA develop procedures to help ensure that all cities receiving CTFP funds submit final reports within 180 days of project completion, as required. We noted that two of the nine cities reviewed did not submit their final report within

the time allotted. Further, we noted that final payment for seven out of nine projects was not made within 60 days. In these cases, the final payment was processed between 4 and 11 months after the city provided a final report.

OCLTA indicated that delays resulted from review of final report details and possible ineligible costs and that staff was in contact with the cities to obtain additional information; however, the files did not include documentation to evidence ongoing efforts and communications.

Recommendation

We recommend that OCLTA work with cities to establish procedures to ensure that final reports are submitted within 180 days of project completion.

We also recommend that OCLTA establish procedures to ensure that any delays in final payment are adequately documented.

Management Response

Local agencies must provide adequate documentation to OCTA for final report payments. Final reports submitted by local agencies often lack required information for final payments, and staff requests follow-up information by phone or email. However, staff does not currently file/record all phone communications with local agencies related to follow-up on required information. Instead, a monthly log of outstanding final payments and related issues is maintained by OCTA staff. The log is updated monthly and used to make monthly calls or emails to local agencies related to outstanding information. In response to this audit, staff will add more detailed information to the monthly log related to communications with local agencies on required final payment documentation. Further, staff has also implemented new tracking and training methods in order to ensure local agencies submit final reports within 180 days of project completion.

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

Thank you for the opportunity to serve OCLTA. We appreciate the courtesy and cooperation extended to us during our audit.

Sincerely,

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

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Anaheim
Imperial Highway (Santa Ana Canyon Road to Orangethorpe Avenue) Project
(Construction)
Project No. 07-ANAH-MPAH-2000**

Submitted by

TCBA

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Imperial Highway (Santa Ana Canyon Road to Orangethorpe Avenue) Project (project) of the City of Anaheim (the City), Project Number 07-ANAH-MPAH-2000 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, 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 this 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 unit number for the project.

BACKGROUND

In 2007, the Orange County Local Transportation Authority awarded \$2,687,000 to the City under the Master Plan of Arterial Highways Program. The awarded project was to widen and re-stripe the intersection of Orangethorpe/Esperanza and La Palma Avenue to allow for eight lanes of traffic and provide additional turning lanes. The project also widened the Santa Ana River bridge and bus turnouts at the intersection. The total costs incurred for the project were \$6,316,366, of which \$5,283,504 was funded by the CTFP (\$2,687,000 under Project No. 07-ANAH-MPAH-2000 and \$2,596,504 under Project 97-ANAH-SSP-2000) and \$1,032,862 was funded by the City. The project began on June 25, 2007 and was completed on February 26, 2009. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Anaheim charged a total of \$6,316,366 to the project, of which \$6,060,225 was for work performed by various contractors, \$254,514 was for administrative labor costs incurred by the City, and \$1,627 was for printing and shipping. The project funding consisted of CTFP funds from OCLTA of \$5,283,504 (\$2,687,000 from Project No. 07-ANAH-MPAH-2000 and \$2,596,504 from Project 97-ANAH-SSP-2000) and \$1,032,862 from the City of Anaheim's other funds. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

Accounting and Cash Management Procedures

The City established adequate controls to ensure that project funds were used only for the 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 26, 2009 and the Notice of Completion was filed on March 23, 2009. The final report was submitted to OCLTA by the City on September 9, 2009, which is within 180 days after acceptance of the Notice of Completion.

Separate Project Fund

The City recorded costs of the project in the Measure M Fund. The City tracked the project by using a separate unit number #K823 within the Measure M Fund.

LIMITATIONS AND RESTRICTIONS

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

Torrance, California
March 21, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-965
Agency: City of Anaheim
Project Title: Imperial Highway (Santa Ana Canyon Road to Orangethorpe Avenue) Project
Project Status: Completed

	CTFP Funding <u>Provided</u>	Matching ¹ <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
07-ANAH-MPAH-2000	\$ 2,687,000	\$ -	\$ 2,687,000	\$ 6,316,366	\$ -	\$ -

¹ There was no City matching requirement.

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Brea
Kraemer Boulevard at Birch Street Intersection Improvement Project
(Construction)
Project No. 03-BREA-IIP-1032**

Submitted by

TCBA

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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Headquarters: Washington, DC

**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Kraemer Boulevard at Birch Street Intersection Improvement Project (project) of the City of Brea (the City), Project Number 03-BREA-IIP-1032 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, 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 this 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 unit number for the project.

BACKGROUND

In 2003, the Orange County Local Transportation Authority awarded \$825,205 to the City under the Intersection Improvement Program. The awarded project was to widen the intersection of Kraemer Boulevard at Birch Street to allow for additional northbound and southbound left-turn lanes, a third southbound and northbound through lane, a third westbound through lane and a dedicated eastbound right-turn lane. The project also widened the west side of Kraemer Boulevard from Birch Street to the Loftus Flood Control Channel owned by the Orange County Flood Control District. The improvements along this widening area included a new curb and gutter, a pedestrian bridge and street lighting. The total costs incurred for the project were \$1,031,506, of which \$825,205 was funded by the CTFP and \$206,301 was funded by the City. The project began on November 3, 2008 and was completed on July 7, 2009. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Brea charged a total of \$1,031,506 to the project, of which \$965,081 was for work performed by Hillcrest Contracting, \$58,673 was for work performed by the City, and \$7,752 was for work performed by Harrington Geotechnical Engineering. The project funding consisted of CTFP funds from OCLTA of \$825,205 and \$206,301 from the City of Brea's general fund. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

Accounting and Cash Management Procedures

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

Project Completion

The project was completed on July 7, 2009 and a final report was submitted to OCLTA by the City on September 23, 2009, which is within 180 days of the project completion date.

Separate Project Fund

The City recorded costs of the project in the Capital Improvement Fund. The City tracked the project by using a separate unit number #7270 within the Capital Improvement Fund.

LIMITATIONS AND RESTRICTIONS

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

Torrance, California

May 3, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-966

Agency: City of Brea

Project Title: Kraemer Boulevard at Birch Street Intersection Improvement Project

Project Status: Completed

<u>Project Number</u>	CTFP Funding <u>Provided</u>	Matching ¹ <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
03-BREA-IIP-1032	\$ 825,205	\$ 206,301	\$ 1,031,506	\$ 1,031,506	\$ -	\$ -

¹ A minimum matching requirement of 20% of total project costs incurred was required and met by the City.

***ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY***

**Combined Transportation Funding Program
Financial and Compliance Audit**

**City of Brea
Imperial Highway Smart Street Program Project (Segment B)
(Construction)
Project No. 97-FULL-SSP-2010**

Submitted by

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**COMBINED TRANSPORTATION FUNDING PROGRAM
FINANCIAL AND COMPLIANCE AUDIT**

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL AND COMPLIANCE AUDIT

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have completed our financial and compliance audit of the Imperial Highway Smart Street Program Project (project) of the City of Brea (the City), Project Number 97-FULL-SSP-2010 awarded by the Orange County Local Transportation Authority (OCLTA) under the Combined Transportation Funding Program (CTFP). The objectives of this audit were to determine whether 1) costs charged to the project were 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 CTFP agreement, and 5) all records and documentation related to the project were adequately 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

We found that:

- Costs charged to the project were reasonable, allocable, 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 this 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 unit number for the project.

BACKGROUND

In 1997, the Orange County Local Transportation Authority awarded \$2,564,237 to the City under the Smart Street Program. The awarded project included re-striping of six (6) lanes between Harbor Boulevard and Berry Street, median modifications at the Puente intersection, and construction of bus pads, bus turnouts and sound walls at various locations. The total costs incurred for the project were \$3,279,441, of which \$3,195,671 was funded by the CTFP (\$2,564,237 under Project No. 97-FULL-SSP-2010 and \$631,434 under Project No. 97-BREA-SSP-2008) and \$83,770 was funded by the City. The project began on December 3, 2007 and was completed on November 17, 2009. (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, verify evidence of competitive bid procedures, review contractor invoices, payments, and change order documents, and to identify the date of contract completion.
3. We identified fund accounting procedures used by the City to account for Measure M revenues and expenditures.
4. We reviewed project 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 contract and/or CTFP requirements.
6. For work performed by local agency forces, we reviewed documents to determine if the decision that local agency forces could perform the work most cost effectively or more timely than a contractor was documented in accordance with CTFP guidelines.
7. We reviewed project expenditures to determine that the project was completed in accordance with the CTFP application.

DETAILED RESULTS

Our review disclosed the following:

Project Costs and Contractor Documentation

The City of Brea charged a total of \$3,279,441 to the project, of which \$3,170,930 was for work performed by contractors, \$88,980 was for land acquisition, \$16,383 was for administrative labor costs incurred by the City, and \$3,148 was for materials and supplies. The project funding consisted of CTFP funds from OCLTA of \$3,195,671 (\$2,564,237 under Project No. 97-FULL-SSP-2010 and \$631,434 under Project No. 97-BREA-SSP-2008) and \$83,770 from the City of Brea's other funds. We found that all costs charged to the project were reasonable, allocable, and adequately supported. (See Attachment A for detailed results).

Compliance with Competitive Contracting Requirements

The City provided documentation showing that it had complied with competitive contracting requirements.

Accounting and Cash Management Procedures

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

Project Completion

The project was completed on November 17, 2009 and a final report was submitted to OCLTA by the City in April 2010, which is within 180 days of the project completion date.

Separate Project Fund

The City recorded costs of the project in the Capital Improvement Fund. The City tracked the project by using a separate unit number #7254 within the Capital Improvement Fund.

LIMITATIONS AND RESTRICTIONS

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

Torrance, California
May 17, 2012

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

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
 COMBINED TRANSPORTATION FUNDING PROGRAM

SCHEDULE OF AUDIT RESULTS

Cooperative No.: C-95-966

Agency: City of Brea

Project Title: Imperial Highway Smart Street Program (Segment B)

Project Status: Completed

<u>Project Number</u>	CTFP Funding <u>Provided</u>	Matching' <u>Required</u>	Total Funds <u>CTFP + Match</u>	Costs <u>Incurred</u>	Unused Fund <u>Balance</u>	Questioned <u>Costs</u>
97-FULL-SSP-2010	\$ 2,564,237	\$ -	\$ 2,564,237	\$ 3,279,441	\$ -	\$ -

¹ There was no City matching requirement.