



September 14, 2016

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Audit of State Transportation Improvement Program Planning, Programming and Monitoring Program, Program Fiscal Year 2013-2014

Overview

As required by agreement with the California Department of Transportation, an independent audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program project has been completed by the professional accounting firm of BCA Watson Rice LLP. The audit found that project funds were used in conformance with Article XIX of the California State Constitution.

Recommendation

Receive and file as an information item.

Background

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

The Orange County Transportation Authority (OCTA) entered into Fund Transfer Agreement No. PPM14-6071(094) (Fund Transfer Agreement) on June 11, 2013, with the California Department of Transportation for

reimbursement of its PPM project in an amount not to exceed \$1,445,000, from monies appropriated in fiscal year 2013-14, for local assistance. In accordance with the Fund Transfer Agreement, an independent audit is required to provide assurance that the project funds were used in conformance with Article XIX of the California State Constitution.

Discussion

The audit found that STIP PPM project funds were used in conformance with Article XIX of the California State Constitution. The audit also found that the Schedule of Program Costs presents fairly, in all material respects, the revenue received and costs incurred by OCTA under the Fund Transfer Agreement.

Summary

An independent audit of the STIP PPM project has been completed by the professional accounting firm of BCA Watson Rice LLP. The detailed audit scope and results are included in the audit report at Attachment A.

Attachment

- A. Orange County Transportation Authority, State Transportation Improvement Program Planning, Programming and Monitoring Program, Program Fiscal Year 2013-2014, Agreement No. PPM14-6071(094)

Prepared by:

Serena K. Ng

Serena Ng
Senior Manager of Internal Audit
714-560-5938

Approved by:

Janet Sutter

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

ORANGE COUNTY TRANSPORTATION AUTHORITY

**State Transportation Improvement Program
Planning, Programming and Monitoring Program
Program Fiscal Year 2013-2014
Agreement No. PPM14-6071 (094)**

For the Period Covering July 1, 2013 to June 30, 2016



21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503
t: (310) 792-4640 f: (310) 792-4140

ORANGE COUNTY TRANSPORTATION AUTHORITY

State Transportation Improvement Program
Planning, Programming and Monitoring Program
Program Fiscal Year 2013-2014

For the Period Covering July 1, 2013 through June 30, 2016

Table of Contents

	<u>Page</u>
Independent Auditor’s Report.....	1
Schedule of Program Costs.....	3
Notes to Schedule of Program Costs	4
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Schedule of Program Costs Performed in Accordance with <i>Government Auditing Standards</i>	6
Independent Auditor’s Report on Compliance with the State Transportation Improvement Program Planning, Programming and Monitoring Program Fund Transfer Agreement No. PPM14-6071(094) and Article XIX of the California State Constitution	8

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Schedule of Program Costs

We have audited the accompanying Schedule of Program Costs incurred by the Orange County Transportation Authority (OCTA) under the State Transportation Improvement Program (STIP) Planning, Programming and Monitoring Program (PPM) Fund Transfer Agreement No. PPM14-6071(094) (Agreement) with the State of California, Department of Transportation (Caltrans) for the period covering July 1, 2013 through June 30, 2016, and the related Notes to the Schedule of Program Costs.

Management's Responsibility for the Financial Statements

The OCTA's management is responsible for the preparation and fair presentation of the Schedule of Program Costs in accordance with the methods of preparation described in Note 3. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule of Program Costs that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule of Program Costs based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Program Costs is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Program Costs. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the Schedule of Program Costs, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule of Program Costs in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule of Program Costs. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule of Program Costs referred to above presents fairly, in all material respects, the revenue received and costs incurred by OCTA under the Agreement for the period July 1, 2013 through June 30, 2016 in accordance with the basis of accounting described in Note 3.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 11, 2016 on our consideration of OCTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, including Article XIX of the California State Constitution. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control over financial reporting and compliance.



Torrance, CA
August 11, 2016

ORANGE COUNTY TRANSPORTATION AUTHORITY

State Transportation Improvement Program Planning, Programming and Monitoring Program Program Fiscal Year 2013-2014

Schedule of Program Costs For the Period Covering July 1, 2013 through June 30, 2016

Project Name	Invoiced Costs	Questioned Costs	Audited Costs	Project Status
Soundwall #10 Noise Barrier Scope Summary Report	\$ 26,836	\$ -	\$ 26,836	In Progress
Financial Programming, Analysis and Monitoring (C31819)	74,551	-	74,551	Complete
Financial Programming, Analysis and Monitoring (C53490)	37,022	-	37,022	In Progress
PCH Corridor Study	135,263	-	135,263	Complete
Bus Capital Plan Update	13,228	-	13,228	In Progress
Harbor Boulevard Transit Study	29,852	-	29,852	In Progress
Air Quality Planning Support (C22035)	9,030	-	9,030	Complete
Air Quality Planning Support (C53125)	21,930	-	21,930	In Progress
Transportation Modeling Support for OCTAM (C41328)	7,189	-	7,189	Complete
Transportation Modeling Support for OCTAM (C53326)	43,499	-	43,499	In Progress
On-Call Regional Programming Support	28,936	-	28,936	In Progress
Contribution to Local Streets and Roads Assessment	22,221	-	22,221	In Progress
OC Bikeways - District 5 Strategies (C31732)	341	-	341	Complete
OC Bikeways - District 3 Strategies (C41682)	49,265	-	49,265	Complete
GIS On-Call Services (A22566)	43,552	-	43,552	Complete
GIS On-Call Services (A22567)	45,175	-	45,175	Complete
Flexible Potential Staffing (FY 15-16)	1,587,431	-	1,587,431	
Total Costs Incurred	\$ 2,175,321	\$ -	\$ 2,175,321	
Total Funding Available for Program Year 13-14			\$ 1,445,000	
Total Amount Reimbursed by Caltrans			(218,030)	
Amount Due from Caltrans			\$ 1,226,970	

See accompanying notes to the schedule of program costs.

ORANGE COUNTY TRANSPORTATION AUTHORITY

State Transportation Improvement Program Planning, Programming and Monitoring Program Program Fiscal Year 2013-2014

Notes to Schedule of Program Costs For the Period Covering July 1, 2013 through June 30, 2016

1. GENERAL INFORMATION

On June 11, 2013, the Orange County Transportation Authority (OCTA) entered into Fund Transfer Agreement No. PPM14-6071(094) (Agreement) with the State of California, Department of Transportation (Caltrans) under the State Transportation Improvement Program (STIP) Planning, Programming and Monitoring Program (PPM). PPM activities included:

- Planning – Developing strategies to address the short and long-term multimodal transportation needs of both Orange County and the region, and to guide the expenditure of federal, state and local transportation funds;
- Programming – Consultant, management and staff support to prioritize, allocate, program and manage federal, state and local funds for transportation improvements through the county transportation improvement program, including the regional component of the STIP and the Orange County’s component of the Regional Transportation Improvement Program (RTIP); and
- Transportation Monitoring, Data Management, and Analysis – Consultant and staff support to meet the state and federal transportation data collection and monitoring requirements, thereby providing the analytical basis for countywide planning and programming decisions, as well as to monitor the development and delivery of transportation projects programmed through the STIP and RTIP.

OCTA is required to comply with the Agreement and to ensure that STIP PPM funds are used in conformance with Article XIX of the California State Constitution, and for PPM purposes as defined in the Agreement.

2. BASIS OF PRESENTATION

The accompanying Schedule of Program Costs includes revenue received and costs incurred under the Agreement for the period July 1, 2013 through June 30, 2016. Because the Schedule of Program Costs presents only a selected portion of the operations of OCTA, it is not intended to and does not present the net position, changes in net position, or cash flows of OCTA. The information in the Schedule of Program Costs is presented in accordance with the requirements specified by Caltrans, accounting principles generally accepted in the United States of America, and is specific to the aforementioned Agreement.

ORANGE COUNTY TRANSPORTATION AUTHORITY

State Transportation Improvement Program Planning, Programming and Monitoring Program Program Fiscal Year 2013-2014

Notes to Schedule of Program Costs For the Period Covering July 1, 2013 through June 30, 2016

3. BASIS OF ACCOUNTING

The Schedule of Program Costs is reported on the modified accrual basis of accounting. The expenditures reported therein are recognized following the cost principles contained in the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

4. REVENUE AND RECEIVABLE FROM CALTRANS

On March 22, 2016, OCTA received a \$218,030 reimbursement for costs incurred under the Agreement. As of the date of this report, OCTA had not yet received the remaining \$1,226,970 reimbursement for costs incurred under the Agreement. The amount due from Caltrans represents a receivable for eligible costs incurred.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF A SCHEDULE OF PROGRAM COSTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Program Costs of the Orange County Transportation Authority (OCTA) representing revenue received and costs incurred under the State Transportation Improvement Program (STIP) Planning, Programming and Monitoring Program (PPM) Fund Transfer Agreement No. PPM14-6071(094) (Agreement) with the State of California, Department of Transportation (Caltrans) for the period July 1, 2013 through June 30, 2016, and the related Notes to the Schedule of Program Costs, and have issued our report thereon dated August 11, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedule of Program Costs, we considered OCTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule of Program Costs, but not for the purpose of expressing our opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of OCTA's Schedule of Program Costs will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant

deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's Schedule of Program Costs is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule of Program Costs amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Audit Standards*.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCTA's internal control or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering OCTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BCA Watson Rice, LLP

Torrance, CA
August 11, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
THE STATE TRANSPORTATION IMPROVEMENT PROGRAM
PLANNING, PROGRAMMING AND MONITORING PROGRAM
FUND TRANSFER AGREEMENT NO. PPM14-6071(094) AND
ARTICLE XIX OF THE CALIFORNIA STATE CONSTITUTION**

The Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the Orange County Transportation Authority's (OCTA's) compliance with the State Transportation Improvement Program (STIP) Planning, Programming and Monitoring Program (PPM) Fund Transfer Agreement No. PPM14-6071(094) (Agreement) with the State of California, Department of Transportation (Caltrans) and Article XIX of the California State Constitution applicable to OCTA's STIP PPM Program for the period July 1, 2013 through June 30, 2016.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of OCTA's management.

Auditor's Responsibility

Our responsibility is to express an opinion on OCTA's compliance based on our audit.

We conducted our audit in compliance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Agreement and Article XIX of the California State Constitution. Those standards, the Agreement and Article XIX of the California State Constitution require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the STIP PPM Program occurred. An audit includes examining, on a test basis, evidence about OCTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of OCTA's compliance with those requirements.

Opinion

In our opinion, OCTA complied, in all material respects, with the Agreement and Article XIX of the California State Constitution as applicable to the STIP PPM Program, and project funds were used in conformance with Article XIX of the California State Constitution for the period July 1, 2013 through June 30, 2016.

BCA Watson Rice, LLP

Torrance, CA
August 11, 2016