



September 12, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Two handwritten signatures in blue ink are visible. The first signature is larger and more prominent, appearing to be "Darrell E. Johnson". The second signature is smaller and positioned below the first, appearing to be "Janet Sutter".

Subject: Audit of State Transportation Improvement Program Planning, Programming and Monitoring Program, Program Fiscal Year 2015-2016

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. PPM16-6071(113) (Fund Transfer Agreement) on July 1, 2015, with the California Department of Transportation for reimbursement of its PPM

project in an amount not to exceed \$831,000, from monies appropriated in fiscal year 2015-16, 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 2015-2016, Agreement No. PPM16-6071(113)

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ORANGE COUNTY TRANSPORTATION AUTHORITY

**State Transportation Improvement Program
Planning, Programming and Monitoring Program
Program Fiscal Year 2015-2016
Agreement No. PPM16-6071 (113)**

For the Period Covering July 1, 2015 to June 30, 2018



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ORANGE COUNTY TRANSPORTATION AUTHORITY

State Transportation Improvement Program
Planning, Programming and Monitoring Program
Program Fiscal Year 2015-2016

For the Period Covering July 1, 2015 through June 30, 2018

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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. PPM16-6071(113) (Agreement) totaling \$831,000 with the State of California, Department of Transportation (Caltrans) for the period covering July 1, 2015 through June 30, 2018, and the related Notes to the Schedule of Program Costs.

Management's Responsibility for the Schedule of Program Costs

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 judgment, 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, 2015 through June 30, 2018 in accordance with the basis of accounting described in Note 3.

Emphasis of Matter

As discussed in Note 2, the Schedule of Program Costs presents only the STIP PPM revenue and costs of OCTA for the period July 1, 2015 through June 30, 2018 and does not purport to, and does not, present the net position, changes in net position, or cash flows of OCTA. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 1, 2018 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.

BCA Watson Rice, LLP

Torrance, CA
August 1, 2018

ORANGE COUNTY TRANSPORTATION AUTHORITY

State Transportation Improvement Program Planning, Programming and Monitoring Program Program Fiscal Year 2015-2016

Schedule of Program Costs For the Period Covering July 1, 2015 through June 30, 2018

Project Name	Invoiced Costs	Questioned Costs	Audited Costs	Project Status
Air Quality Planning Support	\$ 9,945	\$ -	\$ 9,945	Complete
Harbor Boulevard Transit Study	5,374	-	5,374	Complete
I-5 HOV Extension between Avenida Pico and the San Diego County Line PSR/PDS	46,555	-	46,555	In Progress
Transit Master Plan	222,823	-	222,823	Complete
Freeway Chokepoint Study	43,273	-	43,273	Complete
Flexible-Potential Staffing – Labor Charges FY 2017-18	580,825	-	580,825	
Total Costs Incurred	\$ 908,795	\$ -	\$ 908,795	
Total Funding Available for Program Year 15-16			\$ 831,000	
Total Amount Reimbursed by Caltrans			<u>(141,571)</u>	
Amount Due from Caltrans			<u>\$ 689,429</u>	

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 2015-2016

Notes to Schedule of Program Costs For the Period Covering July 1, 2015 through June 30, 2018

1. GENERAL INFORMATION

On July 1, 2015, the Orange County Transportation Authority (OCTA) entered into Fund Transfer Agreement No. PPM16-6071(113) (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 county-wide 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, 2015 through June 30, 2018. 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 2015-2016

Notes to Schedule of Program Costs For the Period Covering July 1, 2015 through June 30, 2018

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) Uniform Guidance.

4. REVENUE AND RECEIVABLE FROM CALTRANS

On March 29, 2018, OCTA received a \$141,571 reimbursement for costs incurred under the Agreement. As of the date of this report, OCTA had not yet received the remaining \$689,429 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. PPM16-6071(113) (Agreement) with the State of California, Department of Transportation (Caltrans) for the period July 1, 2015 through June 30, 2018, and the related Notes to the Schedule of Program Costs, and have issued our report thereon dated August 1, 2018.

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 1, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH THE STATE TRANSPORTATION IMPROVEMENT PROGRAM
PLANNING, PROGRAMMING AND MONITORING PROGRAM
FUND TRANSFER AGREEMENT NO. PPM16-6071(113) 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. PPM16-6071(113) (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, 2015 through June 30, 2018.

Management's Responsibility

OCTA's management is responsible for compliance with the requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on OCTA's compliance with the applicable compliance requirements based on the compliance audit.

We conducted our audit of compliance in accordance 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. A compliance 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 compliance audit provides a reasonable basis for our opinion. Our compliance 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 compliance requirements referred to above that are 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, 2015 through June 30, 2018.

Purpose of this Report

This report is intended solely to describe the scope of our testing based on the requirements of the Agreement and Article XIX of the California State Constitution. Accordingly, this report is not suitable for any other purpose

BCA Watson Rice, LLP

Torrance, CA
August 1, 2018