

# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Comprehensive Transportation Funding Programs

### City of Orange Safe Transit Stops Program Orange Safe Transit Stop Improvements Project Project No. 14-ORNG-STS-3752

October 8, 2018



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## **Conclusion**

The Internal Audit Department (Internal Audit) has completed an audit of the Orange Safe Transit Stop Improvements Project (Project) of the City of Orange (City), Project Number 14-ORNG-STS-3752, awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP).

Based on the audit:

- Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
- The City did not comply with municipal ordinance requirements for sole source purchase of bus shelters and did not comply with CTFP guidelines requiring documentation of the decision to utilize local agency forces rather than a contractor for installation of the bus shelters.
- 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, and the final report submitted, within the timeframes dictated by CTFP guidelines.

## **Background**

### Safe Transit Stops Program

OCLTA provided funding to the City for construction and installation of bus shelters under Project No. 14-ORNG-STS-3752, as part of the Safe Transit Stops Program (Program). The Project provided bus shelters for seven bus stops and costs incurred totaled \$136,532. The Program has no matching requirement. The Project began on September 8, 2015, and was completed on June 15, 2016.

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## **Objectives, Scope, and Methodology**

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported, and the City met the required Project match, as applicable.
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 Measure M2 funds were tracked separately within the accounting system.
4. The Project was completed, and the final report submitted, within the timeframes dictated by CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope is limited to the Project. The methodology included 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 verify evidence of competitive bid procedures.
3. We identified fund accounting procedures used by the City to account for Project revenues and expenditures.
4. We reviewed Project financial records for all payments from the Orange County Transportation Authority to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures from the general ledger and determined whether the City met the required Project match, if applicable. We tested all material expenditures and a haphazard sample of three payroll periods for in-house labor charges, representing 66 percent of all labor charges. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and in compliance with the contract and CTFP guidelines. Since the in-house labor sample was non-statistical, conclusions are limited to the sample items tested.

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6. For construction phase work performed by local agency forces, we determined if the decision that local agency forces could perform the work more cost effectively or timely than a contractor was documented in accordance with CTFP guidelines.
7. For right-of-way acquisition costs, we reviewed supporting documentation for compliance with CTFP guidelines, and we reviewed to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned in proportion to the amount of Measure M2 funds used in the purchase.
8. We reviewed documentation of the Project start date and completion date to determine whether the Project was completed within the three-year timeframe required by CTFP guidelines, or whether there was evidence of approval for an extension to the timeframe. We reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

We conducted this performance 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.

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## **Detailed Results**

Our audit disclosed the following:

### Failure to Comply with Procurement Policy

The City procured bus shelters from a vendor without competition and did not comply with the municipal code governing sole source materials purchases.

### Separate Project Fund

The City recorded costs of the Project in the Reimbursable Capital Projects Fund (Fund 550).

### Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs and were tracked separately within the accounting system.

### Project Costs

The City incurred costs totaling \$136,532 for the Project, which was fully funded with CTFP funds. We found that haphazardly sampled costs charged to the Project were reasonable, allocable, eligible, and adequately supported.

### Use of Local Agency Forces

The City did not prepare documentation to justify the decision to utilize local agency forces to perform installation of the bus shelters, as required by CTFP guidelines. The guidelines state that agencies must document that local agency forces could perform the work more cost effectively or timely than a contractor.

### Right-of-Way Acquisition

No right-of-way was acquired for the Project.

### Project Completion

The Project began on September 8, 2015, and was completed on June 15, 2016, which is within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on September 15, 2016, which was within 180 days after Project completion.

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**Audit Comments, Recommendations, and Management Responses**

**Procurement Without Competition**

The City procured bus shelters from a vendor without competition.

The City's municipal code 3.08.290 states that competitive bidding procedures may be waived with the approval of the City Manager and with certification in writing to the City Council that the materials are offered by only one vendor, or when only one vendor is able to supply the materials within the timeframe and/or under the terms and conditions which reasonably meet the needs of the using department.

The staff report provided to City Council indicates that a quote was obtained from the vendor "...in order to maintain the quality and appearance of bus shelters...", but does not clearly assert that a sole source is required because only one vendor is able to supply the materials within the timeframe and/or under the terms and conditions that reasonably meet the needs of the City. Rather, the staff report acknowledges that the City had previously sought competitive bids to provide and install the bus shelters.

**Recommendation 1:**

Internal Audit recommends the City implement controls to ensure procurements fully comply with requirements.

**City Management Response:**

In the future, the City will implement controls that will ensure sole source procurements are thoroughly documented.

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**Lack of Documentation for use of Local Agency Forces**

The City did not prepare documentation to justify the decision to utilize City staff to perform installation of the bus shelters. CTFP guidelines state that agencies must document the decision to use local agency forces because they could perform the work more cost effectively or timely than a contractor.

**Recommendation 2:**

Internal Audit recommends the City advise responsible staff involved in CTFP projects of requirements for documenting and supporting decisions to utilize local agency forces for construction phase work.

**City Management Response:**

The City will advise responsible staff involved in CTFP projects of requirements for documenting and supporting decisions to utilize local agency forces for construction phase work, and will make every effort to ensure similar decisions are properly documented in the future.