

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**



Comprehensive Transportation Funding Programs

**City of Costa Mesa
Regional Capacity Program
Hyland Avenue at MacArthur Boulevard
Intersection Improvements Project
Project No. 17-CMSA-ICE-3861
Construction Phase**

May 8, 2023



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the Hyland Avenue at MacArthur Boulevard Intersection Improvement Project - Construction Phase (Project) of the City of Costa Mesa (City), Project Number 17-CMSA-ICE-3861 awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP) Regional Capacity Program.

Based on the audit:

- Costs charged to the Project were reasonable, allocable, and adequately supported, except for minor variances in employee pay rates charged to the Project. As a result of the identified variances, total project costs were understated by \$388.
- The City adhered to competitive bidding requirements for the selection of contractors under the 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 City established and maintained a separate cost center for the Project.
- The Project was encumbered and completed within the timeframes dictated by CTFP guidelines, and extensions were approved in accordance with CTFP guidelines. The City submitted the final report to OCLTA within 180 days of the Project completion date as required by CTFP guidelines.

Background

Regional Capacity Program

The OCLTA provided funding totaling \$251,285 for construction under the Regional Capacity Program, Project No. 17-CMSA-ICE-3861. The Project included construction of a new, dedicated northbound right-turn lane along Hyland Avenue at the MacArthur Boulevard intersection, and restriping of the northbound lanes on Hyland Avenue to provide two left-turn lanes, one optional through/left-turn lane, an improved bike lane, and a new dedicated right turn lane. The construction also included traffic signal improvements modifying the existing traffic signals in the intersection. New traffic signal poles were also installed at the southeast corner of the intersection. Costs incurred for the Project totaled \$335,047, of which \$251,285 was funded by the CTFP and \$83,762 was funded by the City. The construction phase of the Project began on April 2, 2019, and was completed on April 3, 2020.

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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.
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 encumbered, completed, and the final report submitted within the timeframes dictated by CTFP guidelines and any extensions were approved in accordance with CTFP guidelines.
5. Records and documentation related to the Project were adequately maintained.

The scope was 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 inquired of management and identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
4. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed.
5. We obtained a detailed listing of Project expenditures and selected all contractor expenditures and a haphazard sample of 42 out of 87 hours of in-house management payroll expenditures for testing. For the expenditures tested, we determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved timeframe and in accordance with the contract and/or CTFP requirements.
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 to ensure that excess parcels acquired with Program funds were properly accounted for and any net proceeds from disposal of these parcels were returned to OCLTA in proportion to the amount of Measure M2 funds used in the purchase.

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8. We reviewed the Project start date and completion date to determine whether the Project was encumbered prior to the end of the programmed fiscal year and completed within the three-year timeframe required by CTFP guidelines; or, whether there was evidence of approval for an extension to the timeframe. We also reviewed the final report date to determine that the City submitted the final report to OCLTA within 180 days of Project completion, 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:

Compliance with Competitive Contracting Requirements

We reviewed documentation evidencing that competitive contracting requirements were complied with.

Separate Project Fund

The City recorded costs of the Project under Project Code 300160 in the Measure M2 Fund (Fund 415) and Traffic Impact Fees Fund (Fund 214).

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs. Costs charged to the Project were reviewed and approved by the project manager. Payments from OCLTA were tracked separately within the accounting system.

Project Costs and City Documentation

The City incurred costs totaling \$335,047 for the Project. The Project funding consisted of CTFP funds of \$251,285, and \$83,762 from the City. The City's required match was met. We tested expenditures totaling \$330,876, and determined the expenditures were properly supported, approved, recorded, and in accordance with the contract and/or CTFP requirements, except for three minor variances noted in the pay rates charged for two employees. As a result, we recalculated staff costs for the Project using current pay rates and noted a total Project net understatement of \$388.

Use of Local Agency Forces

No construction phase work was performed by local agency personnel.

Right-of-Way Acquisition

There was no right-of-way acquired during the construction phase of this project.

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Project Completion

The construction phase of the Project was programmed for funding in fiscal year 2018-19. Contract work was awarded on April 2, 2019, which was prior to the extended programming deadline. The Project was completed on April 3, 2020, which was within the three-year timeframe dictated by CTFP guidelines. The final report was submitted to OCLTA on September 30, 2020, which was within 180 days after Project completion, in accordance with CTFP guidelines.

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Audit Comment, Recommendation, and Management Response

In-House Staff Costs Not Supported by Current Pay Rate

Testing identified three instances in which the pay rates charged for two in-house management employees did not agree with the actual employee pay rates. One pay rate was overstated by \$2.55 per hour, resulting in staff costs being overstated by \$66. Two pay rates were understated by \$1.74 and \$6.91 per hour, resulting in staff costs being understated by \$454. As a result of these variances, net Project costs were understated by \$388.

Recommendation 1:

Internal Audit recommends the City implement controls to ensure that current employee pay rates are used in the calculation of staff costs.

Management Response:

This is a very minor discrepancy. Moving forward, the Public Works Department will request employee pay rate data from the payroll office directly, and not from the corresponding Budget Analyst within the Finance Department. Payroll staff will provide employee pay rate information to the department directly. The assistant finance director will independently confirm the pay rate before providing the information to the Public Works Department. This will ensure accurate employee pay rates are used to calculate staff costs.