

Bristol Street Widening Project Audit Update January 11, 2017 – Finance and Administration Committee

Status Update on Outstanding Recommendations

Internal Audit Report No. 15-515

“Review of Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening Project”

Recommendation 1:

- *Management should obtain a credit of \$261,764 to the gas tax agreement.*
- *Management should ensure labor billing rates are corrected.*
- *Management should implement controls to ensure reasonable and accurate labor charges.*

Current Status:

- A credit of \$261,764 from the City of Santa Ana (City) was requested. The credit is shown in the Revised Second Quarter Financial Report.
- The terms for an amendment to the gas tax agreement have been agreed to by City staff. The amendment requires the City to certify with signature that actual expenses and labor billing rates charged are true and correct, with an effective date retroactive to the date of the audit findings. The amendment is in final review by Contracts Administration and Materials Management (CMM).
- Beginning in March 2016, the City's quarterly financial reports were revised to reflect labor billing rates based on a ten percent indirect rate.
- The City added 155 labor hours in the Revised First Quarter Financial Report that were not identified in the original report. These additional hours are pending the Orange County Transportation Authority (OCTA) Internal Audit's validation to employee timesheets.
- OCTA has agreed to allow the City to use an indirect rate established through an approved cost allocation plan. The City intends to submit a cost allocation plan to California Department of Transportation for approval.

Recommendation 3:

- *Management should amend the gas tax agreement to strengthen the requirement regarding excess right-of-way property, including the addition of a requirement to sell or credit the value of excess property to the gas tax agreement.*
- *Management should either request the City credit the gas tax agreement for \$443,078 or implement controls to ensure that proceeds from the sale of excess property are applied to eligible project costs.*

Current Status:

- Terms for an amended gas tax agreement have been agreed to by City staff and include tracking and accounting of excess property remnants in the quarterly reconciliation report. The amendment is in final review by CMM.
- The City has credited \$443,078 to the gas tax agreement in the Revised Second Quarter Financial Report.

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Recommendation 4:

- *Management should request the City strengthen controls over timekeeping and periodically review supporting documentation to ensure accuracy of labor charges to the project.*
- *Management should consider disallowing subconsultant markups through an update of contract language in cooperative agreements.*

Current Status:

- Terms for an amended gas tax agreement have been agreed to by City staff and require certification by City staff that time and charges are correct, and that subconsultant markups are disallowed, retroactive to the date of the audit findings. The amendment is in final review by CAMM.

Recommendation 5:

- *Management should design and implement a cost review process that includes review of a sample of City costs charged to the gas tax agreement to ensure that such costs are project-related, supported, and reasonable.*
- *Management should instruct the City to correct its quarterly reconciliation report and implement procedure to reconcile City reports with OCTA records.*

Current Status:

- Supporting cost documentation from the City will be reviewed quarterly once the amendment to the gas tax agreement is executed.
- The City has made all but one correction to its quarterly reconciliation reports to reconcile with OCTA records.

Recommendation 6:

- *Management should amend the gas tax agreement to update the payment schedule and implement controls to enforce the payment provisions.*

Current Status:

- Terms for an amended gas tax agreement have been agreed to by City staff. The amendment effective date will be retroactive to the date of the audit findings. The amendment is in final review by CAMM.