



July 28, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Orange County Transportation Authority, Proposition 1B Bond Program, Project Number P2500-0008

Overview

The California Department of Finance has conducted an audit of Proposition 1B funds awarded to the Orange County Transportation Authority for the Lakeview Avenue Grade Separation, Brookhurst Street Improvements, La Pata Avenue Phase 1, and Laguna Niguel to San Juan Capistrano Passing Siding projects. The audit report found that expenditures were generally in compliance with project agreements and program guidelines; however, four observations were made related to unsupported contract change order expenditures, late submission of final delivery reports, reporting of project benefits/outcomes, and oversight of administering agencies' procurement processes. The results of the audit were transmitted to the California Department of Transportation, which will be responsible for developing a corrective action plan for final disposition of these observations and related recommendations.

Recommendation

Direct staff to work, as requested, with the California Department of Transportation on appropriate disposition of the observations and recommendations identified through the audit conducted by the California Department of Finance related to Proposition 1B projects.

Background

The Orange County Transportation Authority (OCTA) was awarded \$27.5 million in Proposition (Prop) 1B funds from the Trade Corridor Improvement Fund, \$8.5 million from the Prop 1B State-Local Partnership Program, and \$2 million

from the Prop 1B Intercity Rail Improvement Fund for the four construction projects.

Under an agreement with the California Department of Transportation (Caltrans), the Department of Finance (DOF) performs audits to determine whether expenditures were incurred and reimbursed in compliance with the executed project agreements, Caltrans program guidelines, and applicable state and federal regulations, whether outputs were consistent with the project scopes and schedules, and whether outcomes were achieved and adequately reported in final delivery reports (FDR).

The audit was conducted virtually beginning in July 2020, and a final report was issued on June 2, 2021.

Discussion

The DOF concluded that expenditures were incurred and reimbursed in compliance with executed agreements, Caltrans guidelines, and applicable state and federal regulations, except for \$250,000 in contract change order expenditures related to flagging services for the Laguna Niguel to San Juan Capistrano Passing Siding (LN-SJC) project. The auditors also recommended OCTA ensure timely submission of FDRs and improve reporting of actual project benefits/outcomes. A final recommendation was made to strengthen oversight controls related to projects administered by local agencies.

OCTA management provided responses to the auditor observations and recommendations, and those responses are incorporated into the final audit report, as Attachment A. As detailed in the response, management is requesting reconsideration of the recommendation to remit \$250,000 to Caltrans for flagging expenditures incurred under the LN-SJC project, as additional documentation has been obtained to support these charges. Management acknowledged late delivery of FDRs for the two agency-administered projects and indicated that, going forward, OCTA does not plan on using state funds to support these types of subrecipient projects. Management disagreed with the auditor's observations related to reporting of project benefits for the Lakeview Grade Separation project and indicated that explanations provided in the FDR were consistent with those provided for other railroad grade separation projects. Regarding oversight of agency-administered projects, management reiterated that, going forward, there are no plans to use state funds to support subrecipient projects. If state funds are used, OCTA will ensure the local agency is the direct recipient of the funding allocation.

Caltrans, Division of Local Assistance, will be responsible for the final disposition of observations and recommendations. OCTA management will work with Caltrans staff, as requested, to assist in this exercise.

Summary

The DOF has conducted an audit of Proposition 1B funds awarded to OCTA for the following projects: Lakeview Avenue Grade Separation, Brookhurst Street Improvements, La Pata Avenue Phase 1, and the LN-SJC project.

Attachment

- A. Department of Finance California, Office of State Audits and Evaluations
Confidential Draft Report, Orange County Transportation Authority
Proposition 1B Bond Program, Project Number P2500-0008, Report
No: 21-2660-025

Approved by:



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