

Memorandum

*Serious drought.
Help Save Water!*

To: RIHUI ZHANG, Chief
Division of Local Assistance

Date: March 30, 2016

File: P2535-0046
P2535-0047
P2535-0048
P2540-0053
P2540-0054
P2540-0055
P2540-0056

ORIGINAL SIGNED BY:

From: LAURINE BOHAMERA, Chief
External Audits - Contracts
Audits and Investigations

Subject: **AUDIT OF ORANGE COUNTY PROPOSITION 1B FUNDED PROJECTS**

Attached is the audit report pertaining to the audit performed on seven Orange County Proposition 1B (Prop 1B) funded projects. The projects were funded using Prop 1B State - Local Partnership Program and Local Bridge Seismic Retrofit Account funds. The audit was for the period of March 5, 2013, through February 4, 2014. The names of the projects audited and the Prop 1B programmed amounts are:

- Skyline Drive Reconstruction, SLPPL-5995(080), \$252,000
- Dale Street Reconstruction, SLPPL-5995(081), \$107,000
- La Colina Drive Pavement Rehabilitation, SLPPL-5995(082), \$815,000
- John Wayne Airport – Macarthur, BRLOZE-5995(0037), \$457,185
- Route 55 Departures, BRLOZE-5995(0037), \$106,800
- Departures Traffic, BRLOZE-5995(0037), \$182,292
- MacArthur Blvd. & Route 55 Arrivals Ramp, BRLOZE-5995(0037), \$40,260

As required by the Governor's Executive Order S-02-07 and SB88, the expenditures of bond proceeds and outcomes are subject to audit. The audit was performed by Department of Finance on behalf of Caltrans. Deputy Directive 100-R1, "Departmental Responses to Audit Reports" cites responsibilities of Division Chiefs relative to audits performed.

The attached report contains one finding related to the County's failure to complete and submit required reports in a timely manner.

Please provide A&I a corrective action resolution on the audit finding within 90 days of the audit report date.

If you have any questions, please contact Luisa Ruvalcaba, Audit Manager, at (916) 323-7888.

Attachment

- c: Stephen Maller, Deputy Director, California Transportation Commission
- Dawn Cheser, Assistant Deputy Director, California Transportation Commission
- Bruce De Terra, Division Chief, Transportation Programming
- Doris M. Alkebulan, Prop 1B Specialist, Transportation Programming
- Samuel Jee, Prop 1B Coordinator, Project Management
- Jane Zhang, Prop 1B Coordinator, Project Management
- Jim Kaufman, Local Assistance Engineer, District 12
- Luisa Ruvalcaba, Audit Manager, Audits and Investigations



Transmitted via e-mail

March 16, 2016

Mr. Barry A. Rondinella, Airport Director
John Wayne Airport
3160 Airway Avenue
Costa Mesa, CA 92626

Mr. Shane Silsby, Director
Orange County Public Works Department
300 North Flower Street
Santa Ana, CA 92703

Dear Mr. Rondinella and Mr. Silsby:

Final Report—County of Orange, Proposition 1B Project Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the County of Orange's Proposition 1B-funded projects listed below:

<u>Project Number</u>	<u>Project Name</u>
SLPPL-5955(080)	Skyline Drive Reconstruction
SLPPL-5955(081)	Dale Street Reconstruction
SLPPL-5955(082)	La Colina Drive Pavement Rehabilitation
BRLOZE-5955(037)	John Wayne Airport Bridge

The enclosed report is for your information and use. The Orange County Public Works Department (Public Works) and John Wayne Airport responses to the report observations is incorporated into this final report. Both agreed with our observations and we appreciate their willingness to implement corrective actions. This report will be placed on our website.

We appreciate the assistance and cooperation of Public Works and John Wayne Airport staff. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or John Ponce, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Laurine Bohamera, Chief, Audits and Investigations, California Department of Transportation
Ms. Luisa Ruvalcaba, Audit Manager, Audits and Investigations, California Department of Transportation
Ms. Jackie Cadotte, Compliance Services Manager, County of Orange
Ms. Mariane Teschner, Deputy Airport Director, John Wayne Airport
Mr. Kenneth Wong, Quality Assurance and Compliance Manager, John Wayne Airport

AUDIT REPORT

County of Orange
Proposition 1B Bond Programs
Project Numbers SLPPL-5955(080), SLPPL-5955(081),
SLPPL-5955(082), and BRLOZE-5955(037)



Bridge Number 55C0656, John Wayne Airport, Santa Ana, CA

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

John Ponce
Supervisor

Staff
Ramon Delgado
Alexandria Jiral

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B) for \$19.925 billion. These bond proceeds finance a variety of transportation programs. Although the bond funds are made available to the California Transportation Commission (CTC) upon appropriation by the Legislature, CTC allocates those funds to the California Department of Transportation (Caltrans) to implement various programs.¹ The County of Orange (County) received Proposition 1B funds for the State-Local Partnership Program Account (SLPP) and the Local Bridge Seismic Retrofit Account (LBSRA). Refer to the text box for program descriptions.

CTC awarded the County \$1.174 million of SLPP funds to replace roadway surfaces with quality pavement that will last 15 years. The Orange County Public Works Department (Public Works) administered these projects, which support its mission to protect and enrich the community through efficient delivery and maintenance of public works infrastructure, planning, and development services.² The three SLPP projects were the Skyline Drive Reconstruction, the Dale Street Reconstruction, and the La Colina Drive Pavement Rehabilitation. These projects are complete.

CTC also awarded the County \$805,653 of LBSRA funds to seismically retrofit four bridges in accordance with Caltrans standards. John Wayne Airport administered these projects, which support its mission to plan, direct, and provide high quality aviation services and facilities for Orange County in a safe, secure, and efficient manner.³ The four LBSRA projects were John Wayne Airport Bridge Numbers 55C0655, 55C0656, 55C0657, and 55C0658. These projects are complete.

SCOPE

As requested by Caltrans, the Department of Finance, Office of State Audits and Evaluations, audited the projects described in the Background section of this report. The audit period for each project is identified in Appendix A.

PROGRAM DESCRIPTIONS¹

- **SLPP:** \$1 billion of bond proceeds made available for SLPP to finance a variety of eligible transportation projects nominated by applicant transportation agencies. For an applicant transportation agency to receive bond funds, Proposition 1B requires a dollar-for-dollar match of local funds. Transportation Impact Fee funds were used to meet the match requirement.
- **LBSRA:** \$125 million of bond proceeds made available for LBSRA to provide the 11.5 percent required match for federal Highway Bridge Program funds for seismic work on local bridges, ramps, and overpasses.

¹ Excerpts were obtained from the bond accountability website: www.bondaccountability.dot.ca.gov/bondacc/

² Excerpts were obtained from the Orange County Public Works website: <http://ocpublicworks.com/>

³ Excerpts were obtained from the John Wayne Airport website: <http://www.ocair.com/aboutiwa/>

The audit objectives for the SLPP projects were to determine whether:

- Project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.
- Project deliverables (outputs) were consistent with the project scopes and schedules, and project outcomes were consistent with benefits described in the executed project agreements or approved amendments.

For the LBSRA projects, our audit did not include the first bulleted audit objective stated above because Caltrans recently performed a fiscal review of these projects. Our audit scope was limited to determining whether project deliverables (outputs) were consistent with the project scopes and schedules, and project outcomes were consistent with benefits described in the executed project agreements or approved amendments.

We did not assess the efficiency or effectiveness of program operations.

Public Works and John Wayne Airport management is responsible for ensuring accurate financial reporting; compliance with contract provisions, state and federal regulations, and applicable program guidelines; and the adequacy of its job cost system to accumulate and segregate reasonable, allocable, and allowable costs. CTC and Caltrans are responsible for the state-level administration of the programs.

METHODOLOGY

To achieve the audit objectives, we performed the following procedures:

SLPP Projects

- Examined the project files, master agreement, program supplement, program guidelines, and applicable policies and procedures.
- Reviewed procurement records to ensure compliance with applicable state and federal procurement requirements.
- Reviewed accounting records, project billing invoices, progress payments, and cancelled checks.
- Selected a sample of claimed costs and reported match to determine if costs were project-related, properly incurred, authorized, and supported by accounting records.
- Reviewed significant contract change orders to ensure they were within the scope of the projects, properly approved, and supported.
- Verified the match requirement was met.
- Evaluated whether other revenue sources were used to reimburse costs already reimbursed with bond funds.
- Evaluated whether outputs were completed on schedule as described in the project agreements or amendments.

- Evaluated whether outputs were met by reviewing a sample of supporting documentation and conducting site visits to verify project existence.
- Evaluated whether project outcomes were consistent with the project scope and determined whether there was a system in place to report project benefits.

LBSRA Projects

- Examined the project files, master agreement, program supplement, baseline agreement, program guidelines, and applicable policies and procedures.
- Evaluated whether outputs were completed on schedule as described in the project agreements or amendments.
- Evaluated whether project outcomes were consistent with the project scope and determined whether there was a system in place to report project benefits.

In conducting our audits, we obtained an understanding of the internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits 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.

Except as noted below, project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and California Department of Transportation (Caltrans)/California Transportation Commission (CTC) program guidelines. In addition, the project deliverables (outputs) were consistent with the project scopes and schedules, and outcomes were consistent with the benefits described in the executed project agreements or approved amendments. The *Summary of Projects Reviewed* is presented in Appendix A.

Finding 1: Required Reports not Completed Timely

The Orange County Public Works Department (Public Works) submitted Final Delivery Reports at least one year late for two State-Local Partnership Program Account (SLPP) projects: the Skyline Drive Reconstruction and the Dale Street Reconstruction. For the Local Bridge Seismic Retrofit Account (LBSRA) projects, the John Wayne Airport submitted the Report of Expenditures four months late and the Final Delivery Report has not been posted to the Bonds Accountability website as of January 2016, which indicates acceptance by Caltrans.

During the projects' term, Public Works underwent a reorganization which caused delays in report submissions. In addition, Public Works and Caltrans engaged in a prolonged closeout of the SLPP projects after the contractor had completed construction work.

The SLPP Program Supplements and LBSRA Guidelines require these reports to be submitted within 180 days of the project completion, which is established by the contractor's completion of construction work (i.e., Notice of Completion date). Late submission of reports decreases transparency of the status of projects and hinders Caltrans/CTC's ability to timely review the completed projects' scope, final costs, project schedules, and performance outcomes.

Recommendations:

- A. Public Works and John Wayne Airport should coordinate and establish roles and responsibilities to ensure compliance with significant Caltrans/CTC reporting requirements. Designated staff responsible for compliance should gain an understanding and be knowledgeable of the program requirements.
- B. John Wayne Airport management should complete and submit the Final Delivery Report for the LBSRA projects as soon as possible.

APPENDIX A

The following acronyms are used throughout Appendix A.

- California Department of Transportation: Caltrans
- California Transportation Commission: CTC
- Proposition 1B: Prop 1B

Summary of Projects Reviewed

Project Name and Number	Prop 1B Claimed	Match	Project Costs In Compliance?	Deliverables (Outputs) and Outcomes Met?	Project Status	Appendix A Page
Skyline Drive Reconstruction SLPPL-5955(080)	\$252,052	\$354,425	Y	P	C	A-1
Dale Street Reconstruction SLPPL-5955(081)	\$109,091	\$167,507	Y	P	C	A-2
La Colina Drive Pavement Rehabilitation SLPPL-5955(082)	\$760,008	\$760,008	Y	Y	C	A-3
John Wayne Airport Bridge BRLOZE-5955(037)	N/A			P	C	A-4

Legend

C = Complete

Y = Yes

P = Partial

N/A = Not applicable; project costs were not audited.

Project 080

Project Number: SLPPL-5955(080)

Project Name: Skyline Drive Reconstruction from Cowan Heights Drive to Apsley Road/Equestrian Drive

Program Name: State-Local Partnership Program Account

Project Description: Improve safety and reliability by replacing the previous roadway surface with quality pavement that will last at least 15 years. The improvements will improve vehicle and pedestrian safety by providing new pavement.

Audit Period: March 5, 2013 through December 24, 2013¹

Project Status: Completed

Schedule of Project Costs

Project Costs	Claimed
Prop 1B Funds	
Construction Contract	\$ 197,101
Construction Engineering	54,951
Total Prop 1B Funds	252,052
Match Funds	354,425
Total Project Costs	\$ 606,477

Note: Match includes both construction contract and construction engineering costs. Match costs exceeded the required match amount.

Audit Results:Compliance

Claimed project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.

Deliverables

This project was closed out in March 2015 as specified in the Final Delivery Report. At the time of our site visit in April 2015, project deliverables (outputs) were consistent with the project scope and schedule, and outcomes were consistent with expected benefits except for the completion of the Final Delivery Report which was submitted on April 20, 2015, approximately 11 months late. The Final Delivery Report should have been completed within 180 days of the project completion date, which was November 14, 2013.

¹ The audit period end date is the last date final project costs were claimed.

Project 081

Project Number: SLPPL-5955(081)

Project Name: Dale Street Reconstruction

Program Name: State-Local Partnership Program Account

Project Description: Enhance vehicle, bicycle, and pedestrian safety, comfort, and convenience by providing new, more durable pavement, and by constructing Americans with Disability Act-compliant curb access ramps.

Audit Period: June 11, 2013 through September 25, 2013²

Project Status: Completed

Schedule of Project Costs

Project Costs	Claimed
Prop 1B Funds	
Construction Contract	\$ 109,091
Construction Engineering	-
Total Prop 1B Funds	109,091
Match Funds	167,507
Total Project Costs	\$ 276,598

Note: Match costs exceeded the required match amount.

Audit Results:

Compliance

Claimed project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.

Deliverables

This project was closed out in February 2015 as specified in the Final Delivery Report. At the time of our site visit in April 2015, project deliverables (outputs) were consistent with the project scope and schedule, and outcomes were consistent with expected benefits except for the completion of the Final Delivery Report which was submitted on April 20, 2015, approximately 13 months late. The Final Delivery Report should have been completed within 180 days of the project completion date, which was September 25, 2013.

² Ibid.

Project 082

Project Number: SLPPL-5955(082)

Project Name: La Colina Drive Pavement Rehabilitation

Program Name: State-Local Partnership Program Account

Project Description: Improve safety and reliability by replacing the previous roadway surface with quality pavement that will last at least 15 years. The improvements addressed roadway serviceability needs and improve traffic movement within the project limits and extend the useful life of the pavement.

Audit Period: June 11, 2013 through September 30, 2013³

Project Status: Completed

Schedule of Project Costs

Project Costs	Claimed
Prop 1B Funds	
Construction Contract	\$ 649,783
Construction Engineering	110,225
Total Prop 1B Funds	760,008
Match Funds	760,008
Total Project Costs	\$ 1,520,016

Note: Match includes both construction contract and construction engineering costs. Match costs exceeded the required match amount.

Audit Results:Compliance

Claimed project costs were incurred and reimbursed in compliance with the executed project agreements, state and federal regulations, contract provisions, and Caltrans/CTC program guidelines.

Deliverables

This project was closed out in April 2014 as specified in the Final Delivery Report. At the time of our site visit in April 2015, project deliverables (outputs) were consistent with the project scope and schedule, and outcomes were consistent with expected benefits.

³ Ibid.

Project 037

- Project Number:** BRLOZE-5955(037)
- Project Name:** John Wayne Airport (JWA) Bridge
- Bridge Number 55C0655 (John Wayne Airport – MacArthur Blvd. John Wayne Airport)
 - Bridge Number 55C0656 (Route 55 Departures and Route 55 Arrivals Ramp)
 - Bridge Number 55C0658 (Departures Traffic and Arrivals Traffic)
 - Bridge Number 55C0657 (MacArthur Blvd. and Route 55 Arrivals Ramp)
- Program Name:** Local Bridge Seismic Retrofit Account
- Project Description:** Seismically retrofit the bridge in accordance with Caltrans standards. Retrofitting the bridge will significantly improve the structural stability of the JWA bridge during seismic events.
- Audit Period:** May 23, 2011 through February 4, 2014⁴
- Project Status:** Completed

Audit Results:Deliverables

The construction of this project was completed in February 2014. At the time of our site visits in April 2015, project deliverables (outputs) were consistent with the project scope and schedule, and outcomes were consistent with benefits except the Report of Expenditures was submitted more than four months late and the Final Delivery Report has not been posted to the Bonds Accountability website as of January 2016, which indicates acceptance by Caltrans.

⁴ The audit period end date is the date project construction was completed, which is established by the contractor's completion of construction work (i.e., Notice of Completion).

RESPONSE



March 1, 2016

To: Ms. Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street, 6th Floor
Sacramento, California 95814

Subject: Response to Draft Report – County of Orange, Proposition 1B Project Audits

Dear Ms. McCormick:

Pursuant to your request on February 8, 2016, please find the County of Orange, OC Public Works' response to the subject draft audit report.

If you have any questions, please contact Jackie Cadotte at OC Public Works at 714-667-3287.

Sincerely,

Signature:

Shane L. Silsby
Director, OC Public Works

cc: Frances Parmelee, Manager, Department of Finance/Audits and Evaluations
John Ponce, Supervisors, Department of Finance/Audits and Evaluations
Shane Silsby, Director, Orange County Public Works
Jackie Cadotte, Compliance Services Manager, Orange County Public Works
Courtney Wiercioch, Assistant Airport Director, John Wayne Airport
Lawrence Serafini, Deputy Airport Director, JWA/Facilities
Mariane Teschner, Deputy Airport Director, JWA/Finance and Administration
Samer Marei, Airport Development Manager, JWA/Facilities
Kenneth Wong, Manager, JWA/Quality Assurance and Compliance

Responses to Findings and Recommendations
California Department of Finance
Office of State Audits and Evaluations

County of Orange
OC Public Works Department
Proposition 1B Projects
March 1, 2016

Summary Response Statement

On February 8, 2016, the California Department of Finance Office of State Audits and Evaluations sent a draft report to County of Orange OC Public Works and John Wayne Airport of its audit of the County of Orange's Proposition 1B projects. The statement below is OC Public Works' response to the findings and recommendations contained in the draft report.

Findings, Recommendations and Responses

Finding 1 – Required Reports not Completed Timely

Recommendation A

The County and John Wayne Airport should coordinate and establish roles and responsibilities to ensure compliance with significant Caltrans/CTC reporting requirements. Designated staff responsible for compliance should gain an understanding and be knowledgeable of the program requirements.

OC Public Works Response

The Orange County Public Works Department (County) concurs with the finding that Final Delivery Reports were not submitted within 180 days of the Notice of Completion. This delay in the submittal was primarily due to unforeseen project delays which resulted in administrative delays in processing the Final Expenditure Report and the Final Delivery Report.

The recommendation will be implemented. Staff from John Wayne Airport and Orange County Public Works have conferred on this issue and determined that each department will identify and train staff on compliance and program requirements from the Department of Transportation and/or the California Transportation Commission.



March 1, 2016

Barry A. Rondinella,
A.A.E./C.A.E.
Airport Director

Ms. Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street, 6th Floor
Sacramento, California 95814

Subject: Response to Draft Report – County of Orange, Proposition 1B
Project Audits

Dear Ms. McCormick:

Pursuant to your request on February 8, 2016, please find John Wayne Airport's response to the subject draft audit report.

If you have any questions, please contact Kenneth Wong at John Wayne Airport at 949-252-6056.

Sincerely,

Barry A. Rondinella, A.A.E./C.A.E.
Airport Director

cc: Frances Parmelee, Manager, Department of Finance, Audits & Evaluations
John Ponce, Supervisor, Department of Finance, Audits & Evaluations
Shane Silsby, Director, OC Public Works
Jackie Cadotte, Compliance Services Manager, OC Public Works
Courtney Wiercioch, Assistant Airport Director, JWA
Lawrence Serafini, Deputy Airport Director, JWA/Facilities
Mariane Teschner, Deputy Airport Director, JWA/Finance & Administration
Samer Marei, Airport Development Manager, JWA/Facilities
Kenneth Wong, Manager, JWA/Quality Assurance and Compliance

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Responses to Findings and Recommendations
California Department of Finance
Audits and Evaluations

County of Orange John Wayne Airport
Proposition 1B Projects
March 1, 2016

Summary Response Statement

On February 8, 2016, the California Department of Finance Office of State Audits and Evaluations sent a draft report to John Wayne Airport of its audit of the County of Orange's Proposition 1B projects. The statement below is John Wayne Airport's response to the findings and recommendations contained in the draft report.

Findings, Recommendations and Responses

Finding 1 – Required Reports not Completed Timely

Recommendation A

The County and John Wayne Airport should coordinate and establish roles and responsibilities to ensure compliance with significant Caltrans/CTC reporting requirements. Designated staff responsible for compliance should gain an understanding and be knowledgeable of the program requirements.

John Wayne Airport Response

John Wayne Airport agrees with the finding that the Report of Expenditures for the seismically retrofitted bridges was submitted past 180 days of the project completion. The late submission was attributed to John Wayne Airport ensuring the Report of Expenditures was accurate and acceptable to the Department of Transportation.

The recommendation will be implemented. Staff from John Wayne Airport and Orange County Public Works have conferred on this issue and determined that each department will identify and train staff on compliance and program requirements from the Department of Transportation and/or the California Transportation Commission.

Recommendation B

John Wayne Airport management should complete and submit the Final Delivery Report for the LBSRA projects as soon as possible.

John Wayne Airport Response

John Wayne Airport agrees with the finding that the Final Delivery Reports for the seismically retrofitted bridges are overdue. The recommendation will be implemented. John Wayne Airport will complete and submit the Final Delivery Reports to the Department of Transportation for the Local Bridge Seismic Retrofit Account projects no later than March 31, 2016.