



April 23, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Independent Accountant's Report on Applying Agreed-Upon Procedures, City of Orange

Overview

Crowe LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 maintenance of effort expenditures by the City of Orange for the fiscal year ended June 30, 2024. Based on the procedures performed, the City of Orange spent sufficient funds to meet the required minimum expenditures outlined in a settlement agreement between the City of Orange and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendations for Board of Directors' action related to the status of the City of Orange's Measure M2 eligibility.

Background

On May 28, 2024, the Orange County Transportation Authority (OCTA) Board of Directors (Board) found the City of Orange (City) ineligible to receive or apply for Measure M2 (M2) revenues after agreed-upon procedures (AUP) performed for fiscal year (FY) 2022-23 found that the City had not met the minimum maintenance of effort (MOE) requirement of the M2 Ordinance (Ordinance).

A written settlement agreement, dated July 10, 2024, was executed between OCTA and the City, that outlined requirements for the City to re-establish eligibility. Among other items, the settlement agreement required the City to undergo, and pay for, an AUP review of FY 2023-24 expenditures to determine compliance with MOE requirements, including expenditures equaling the MOE minimum plus the shortfall amount identified during the FY 2022-23 AUP.

Discussion

Crowe LLP tested a sample of MOE expenditures for FY 2023-24, and found the City met the minimum MOE requirement and the shortfall amount identified in the FY 2022-23 AUP.

Per the settlement agreement, the City was required to spend \$4,624,214 in MOE, which included the minimum annual MOE plus the \$1,116,649 shortfall identified during the FY 2022-23 AUP. The City reported total MOE expenditures of \$5,538,276, and the auditors tested \$2,466,988, approximately 45 percent of those. No ineligible or questioned costs were identified.

The auditors did identify \$376,650 in indirect MOE charges that were misreported as direct, and \$912,031 in direct charges that were misreported as indirect. The City acknowledged the misclassification of these charges and agreed to implement procedures to ensure proper classification going forward.

The detailed AUP report can be found at Attachment A.

Summary

The auditors have completed agreed-upon procedures related to Measure M2 MOE expenditures by the City for FY 2023-24.

Attachment

- A. Orange County Local Transportation Authority, Measure M2 Local Fair Share, City of Orange FY24, Agreed Upon Procedures Report, Year Ended June 30,2024

Prepared by:



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