



VAVRINEK, TRINE, DAY & CO., LLP
 Certified Public Accountants

VALUE THE *difference*

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
 AGREED-UPON PROCEDURES — CITY SANTA ANA**

Board of Directors

Orange County Local Transportation Authority
 and the Taxpayers Oversight Committee of the
 Orange County Local Transportation Authority

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA) (the specified party), on the City of Santa Ana's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$7,755,107 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund under the Street Light Maintenance Accounting Unit (01117630), Roadway Markings/Signs Accounting Unit (01117625), Roadway Cleaning Accounting Unit (06817641), and Street Signs Accounting Unit (06817643). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$8,207,411 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$8,207,411 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$2,507,830, representing approximately 31% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. If MOE expenditures of \$715,626 were removed, the City would not meet the minimum MOE requirement.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. However, per discussion with City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in other lines of the City’s Expenditure Report totaling \$1,546,764 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$1,456,821. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$13,785,292 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 4,726,596
2016/2017	Local Fair Share (M2)	\$ 4,619,182
2015/2016	Local Fair Share (M2)	\$ 270,073

We agreed the fund balance of \$9,615,851 compared to the City’s Expenditure Report (Schedule 1, line 20) of \$9,747,041, identifying a difference of \$131,190. No other exceptions were found as a result of this procedure.

7. We described which fund the City used to track expenditures relating to Measure M2 Local Fair Share monies in its general ledger and the amount spent during the fiscal year ended June 30, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City's Measure M2 Local Fair Share expenditures are recorded in Fund 32, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$6,578,954 (see Schedule A), which agreed to the City's Expenditure Report (Schedule 2 line 17, and detail listed at Schedule 4). No exceptions were found as a result of this procedure.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation.
 - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$4,723,797 representing approximately 72% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, \$571,578 of indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. M2 expenditures under Schedule 3, Line 1 tested totaled \$101,600. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City's interest allocation methodology and amount of interest allocated to the Measure M2 Local Fair Share Fund to ensure the proper amount of interest was credited. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

Findings: No exceptions were found as a result of this procedure.

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records, any indirect cost allocation plans and compliance with the provisions of the Measure M2 Local Transportation Ordinance. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes of additional information and were not subjected to the procedures described above. Accordingly, we did not perform any procedures on the City's responses and express no assurance or opinion on them.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.


Laguna Hills, California
March 13, 2019

CITY OF SANTA ANA, CALIFORNIA
Schedule of Measure M2 Local Fair Share Expenditures
Year Ended June 30, 2018
(Unaudited)

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Street Lights & Traffic Signals - Schedule 3, line 13	\$ 2,485,446
Other Street Purpose Maintenance - Schedule 3, line 15	<u>5,721,965</u>
Total MOE Expenditures	<u>8,207,411</u>

Measure M2 Local Fair Share Expenditures (Schedule 4):

Alley Improvement Program (FY 14/15 - 17/18)	299,095
Bike Lane Project Development (FY 14 & FY 18)	39,625
Bristol Street Corridor Traffic Synchronization	20,948
Bristol Street Protected Lane Edinger - 1st	21,686
Citywide Bike Racks and SARTC Bicycle Center	1,631
Crosswalk Upgrades - Phase II	1,409
Fairview St: Segerstrom to NCL (Arterial Street Preventative Maintenance)	724,941
First Street Bike Lane - Newhope to Harbor	25,629
Arterial Street Preventative Maintenance	489,726
Grand/Glassel/Kraemer Corridor Traffic Signal Synchronization	11,581
Harbor Boulevard Corridor Traffic Signal Synchronization	12,024
Heninger Elementary Safe Routes to School	41,243
Local Street Preventive Maintenance FY 17/18	1,048,554
Pavement Management (FY16-17 -17/18)	307,293
Pedestrian Countdown and ADA Upgrade (Count Down Pedestrian Heads - Citywide)	(1,483)
Project Development FY 17/18	144,129
Right-of-Way Management FY17/18	91,849
Traffic Management Plans FY 16/17 - 17/18	28,307
Traffic Signal Modifications at 4 Intersections*	16,029
Warner Industrial Community Pavement Improvements	2,763,420
Warner Avenue Rehabilitation: WCL at Santa Ana River to Grand (Arterial Street Preventative Maintenance)	452,061
Westminster Avenue/17th Street Corridor Traffic Signal Synchronization	9,929
Westminster Avenue Rehabilitation: Clinton to Fairview	23,541
Westminster Avenue Rehabilitation: Harbor to Clinton	<u>5,787</u>
Total Measure M2 Local Fair Share Expenditures	<u>6,578,954</u>
Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 14,786,365</u>

Note:

The above amounts were taken directly from the financial records of the City of Santa Ana and were not audited.

* This includes 4 separate CIP projects including
 17th Street at English Street - Traffic Signal Modification
 Edinger Avenue at Sullivan Street - Traffic Signal Modification
 MacArthur Boulevard at Plaza Drive - Traffic Signal Modification
 Westminster Avenue at Clinton Street - Traffic Signal Modification

MAYOR
Miguel A. Pulido
MAYOR PRO TEM
Juan Villegas
COUNCILMEMBERS
Cecilia Iglesias
David Penaloza
Vacant
Vicente Sarmiento
Jose Solorio



ACTING CITY MANAGER
Steven A. Mendoza
CITY ATTORNEY
Sonia R. Carvalho
ACTING CLERK OF THE COUNCIL
Norma Mitre-Ramirez

EXHIBIT 1

CITY OF SANTA ANA

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www.santa-ana.org

March 13, 2019

Vavrinek, Trine, Day & Co., LLP
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Laguna Hills, California 92653

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Santa Ana as of and for the fiscal year ended June 30, 2018.

Procedure #4

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings:

MOE expenditures tested totaled \$2,507,830, representing approximately 31% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. If MOE expenditures of \$715,626 were removed, the City would not meet the minimum MOE requirement.

City's Response:

The \$715,626 represents Internal Service Fund charges allocated to the Public Works Agency programs identified in the MOE Calculation Report. The allocation methodology was developed based on the City's review of services provided by each Internal Service Fund and associated costs. These charges have been adjusted incrementally each year to reflect changes in the total cost to provide services and approved by the City Council through the annual budget process. However, due to staff changes and records retention, the City is unable to locate supporting documentation for the initial allocation methodology. The City will be engaging a third party to develop and implement updated internal service charges.

SANTA ANA CITY COUNCIL

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Subsequent to filing the fiscal year 2017-18 MOE Calculation Report, the City became aware that expenditures related to its graffiti abatement program were erroneously excluded from the report. OCTA had previously confirmed that the graffiti abatement expenditures were eligible for MOE calculations. The total expenditures related to the graffiti abatement program for the fiscal year ended June 30, 2018 was \$1,161,335. The addition of the graffiti abatement expenditures would reflect the City’s continued compliance in meeting and/or exceeding the minimum MOE requirements.

Procedure #5

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings:

Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. However, per discussion with City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in other lines of the City’s Expenditure Report totaling \$1,546,764 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$1,456,821. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. No other exceptions were found as a result of this procedure.

City’s Response:

The City reviewed and verified the indirect costs identified by the auditors. The City will report indirect costs on M2 Expenditures Report Schedule 3, line 1, effective fiscal year 2018-19. As discussed in the City’s response to the finding noted under Procedure #4 above, the addition of the graffiti abatement expenditures would reflect the City’s continued compliance in meeting and/or exceeding the minimum MOE requirements.

Procedure #6

We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings:

The City received \$13,785,292 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 4,726,596
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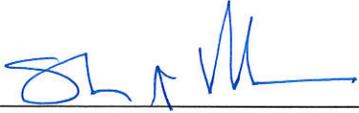
SANTA ANA CITY COUNCIL

We agreed the fund balance of \$9,615,851 to the City's Expenditure Report (Schedule 1, line 20), identifying a difference of \$131,190. No other exceptions were found as a result of this procedure.

City's Response:

The fund balance of \$9,615,851 did not include \$220,775 of interest allocation reported on Schedule 1, line 20 of the M2 Expenditures Report. Therefore, the fund balance should have been \$9,836,626, which results in a difference of \$89,585. The difference was an unidentified variance carried over from prior fiscal years. Due to staff changes and records retention, the City was unable to find supporting documentation for the variance. During upcoming fiscal years, the City will continue to review and improve internal procedures to ensure accurate financial reporting.

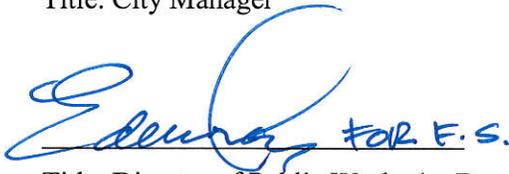
Sincerely,



Title: City Manager



Title: Director of Finance



Title: Director of Public Works (or Department that oversees Measure M-Local Fair Share)

SANTA ANA CITY COUNCIL