



November 30, 2022

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Fiscal Year 2021-22 Audited Financial Statements and Independent Auditor's Reports on Internal Control over Financial Reporting

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements and schedules. Crowe LLP, an independent accounting firm, has completed its annual audit of the Orange County Transportation Authority for fiscal year 2021-22. In addition, a report has been issued on the results of additional analysis performed by Crowe LLP, to assist management in determining compliance with certain state requirements.

In connection with the annual audit of the Orange County Transportation Authority, Crowe LLP has issued an auditor's report on internal control over financial reporting with two findings.

Recommendations

- A. Receive and file the fiscal year 2021-22 audited financial statements and independent auditor's report on internal control over financial reporting as information items.
- B. Direct staff to implement auditor recommendations related to findings over internal controls.

Background

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting its results of operations and financial position at fiscal year-end. These financial statements are included in OCTA's Annual Comprehensive Financial Report (ACFR). OCTA staff also prepares stand-alone financial

statements for various funds. In connection with the audit of these financial statements, Crowe LLP (Crowe) provided opinions on financial reports of OCTA and various stand-alone funds, and conducted additional analysis to assist management in determining compliance with certain state requirements.

The audits were performed under generally accepted auditing standards, the standards set forth for financial audits in the Government Accountability Office's Government Auditing Standards, and State of California Transportation Development Act.

Discussion

Crowe has completed its annual audit of OCTA's financial records and systems and has issued its opinion on OCTA's financial statements for the fiscal year (FY) ended June 30, 2022. The auditors have issued an unmodified (also known as "clean") opinion on the financial statements, indicating that the statements present fairly, in all material respects, the financial position of OCTA at June 30, 2022, and the results of its operations and cash flows of the proprietary funds for the FY then ended (Attachment A). Fund financial statements for the Orange County Local Transportation Authority (OCLTA) as a component unit of OCTA (Attachment B), for the 91 Express Lanes (Attachment C), for the Local Transportation Fund (LTF) (Attachment D), and for the State Transit Assistance Fund (STAF) (Attachment E) were also prepared and an unmodified opinion on each fund's financial statements was issued.

The ACFR will be submitted to the Government Finance Officers Association (GFOA) for consideration of the Certificate for Excellence in Financial Reporting for FY 2021-22. The GFOA awards certificates only to those governments whose annual financial reports are deemed in conformance with the highest standards of public financial reporting. OCTA has been awarded the GFOA certificate for each year of its existence, commencing with the FY ended June 30, 1992. Such recognition has a positive effect on OCTA's ability to borrow at favorable interest rates. The ACFR is a useful tool in business dealings with outside organizations. The 91 Express Lanes Fund financial statements will be forwarded to rating agencies, investors, and insurance companies.

In connection with the audit of these financial statements, Crowe has issued an auditor's report on internal control over financial reporting identifying two deficiencies as defined by the American Institute of Certified Public Accountants, Statement on Auditing Standards Number 115. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or

detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Management has responded to these two recommendations.

Crowe reported a deficiency related to financial accounting and reporting for STAF. OCTA functions as both the transportation planning agency and claimant (operator) for the County of Orange. As such, OCTA receives LTF and STAF monies into the respective special revenue funds. These monies are then transferred in accordance with Transportation Development Act (TDA) requirements to the Orange County Transit District (OCTD), as the claimant, to be used in operations or capital activities. Management performs a quarterly review of transfers of TDA monies from the LTF and STAF funds to the OCTD fund in order to evaluate compliance with TDA laws and regulations. The calculation review process included a review of LTF allocations in compliance with 21 California Code of Regulations (CCR) 6634 but this review did not encompass STAF allocations. This gave rise to STAF allocations in excess of eligible amounts for \$16.2 million.

Their recommendation is to amend quarterly review of TDA allocations to include a review of both LTF and STAF allocations for compliance with Title 21 CCR 6634. Management agrees with the recommendation and has implemented a control to discontinue systematic transfers from the STAF fund to OCTD fund. Management will also perform a quarterly review of TDA allocations to include both LTF and STAF allocations to ensure all transfers have corresponding eligible expenditures.

In addition, Crowe reported a deficiency related to preparation of the schedule of expenditures of federal awards (SEFA). Their observation indicates that the SEFA provided did not include presentation of expenditures passed through to subrecipients. There were approximately \$3.5 million in expenditures to subrecipients for the Federal Transit Cluster that were excluded. Additionally, the SEFA overstated expenditures for the Federal Transit Cluster by approximately \$1 million as a result of accruing expenditures which had already been recognized during the year and \$4.5 million as a result of missing an accrual in the prior year.

Their recommendation is to strengthen review process over the SEFA to ensure that all expenditures are appropriately and accurately reflected. Management concurs with this recommendation. Management will strengthen the review process and centralize the responsibilities within the Accounting Department. Additionally, the Accounting Department will add a secondary review of grant revenue accruals provided by other departments to ensure timeliness and accuracy of the accrual information.

The auditor's report on internal control over financial reporting for FY 2021-22 is included herewith as Attachment G.

Summary

Staff has prepared OCTA's ACFR and various stand-alone fund financial statements for the FY ended June 30, 2022. Crowe has audited these financial statements and schedules, and has issued unmodified opinions as to fair presentation of the financial statements and schedules.

In connection with the annual audit of OCTA's financial statements for FY 2021-22, Crowe has issued an independent auditor's report on internal control over financial reporting, which identified two deficiencies along with recommendations for improvement to internal controls. Management has responded that these items will be addressed.

Attachments

- A. Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2022
- B. Orange County Local Transportation Authority (A Component Unit of the Orange County Transportation Authority) Annual Financial and Compliance Report Year Ended June 30, 2022
- C. 91 Express Lanes Fund (An Enterprise Fund of the Orange County Transportation Authority) Financial Statements for the Year Ended June 30, 2022
- D. Orange County Transportation Authority Local Transportation Fund Financial Statements Year ended June 30, 2022
- E. Orange County Transportation Authority State Transit Assistance Fund Financial Statements Year ended June 30, 2022
- F. Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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