



Revised

AGENDA

Finance and Administration Committee Meeting

Committee Members

Andrew Do, Chairman
Richard Murphy, Vice Chairman
Lori Donchak
Michael Hennessey
Steve Jones
Todd Spitzer
Michelle Steel

Orange County Transportation Authority
Headquarters
550 South Main Street
Board Room – Conf. Room 07
Orange, California

Wednesday, January 24, 2018 at 10:30 a.m.

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two (2) business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

Agenda descriptions are intended to give members of the public a general summary of items of business to be transacted or discussed. The posting of the recommended actions does not indicate what action will be taken. The Committee may take any action which it deems to be appropriate on the agenda item and is not limited in any way by the notice of the recommended action.

All documents relative to the items referenced in this agenda are available for public inspection at www.octa.net or through the Clerk of the Board's office at the OCTA Headquarters, 600 South Main Street, Orange, California.

Call to Order

Pledge of Allegiance

Director R. Murphy

1. Public Comments

Special Calendar

There are no Special Calendar matters.



Consent Calendar (Items 2 through 11)

All items on the Consent Calendar are to be approved in one motion unless a Committee Member or a member of the public requests separate action or discussion on a specific item.

2. Approval of Minutes

Approval of the minutes of the Finance and Administration Committee of January 10, 2018.

3. Fiscal Year 2016-17 Auditor's Communication to Those Charged with Governance

Janet Sutter

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on its Comprehensive Annual Financial Report and various fund financial statements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, conducted the annual audit of the Orange County Transportation Authority's financial statements for fiscal year 2016-17, and, as required by United States Generally Accepted Auditing Standards and Office of Management and Budget Circular A-133, has herewith issued its Auditor's Communication to Those Charged with Governance.

Recommendation

Receive and file as an information item.

4. Fiscal Year 2016-17 Annual Financial and Agreed-Up Upon Procedures Reports

Janet Sutter

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has completed its annual audits of the Orange County Transportation Authority and related entities for the fiscal year 2016-17. Additionally, reports have been issued on the results of agreed-upon procedures applied to determine compliance with certain state, federal, and local requirements. All reports are included herewith.



4. (Continued)

Recommendations

- A. Receive and file the fiscal year 2016-17 annual financial statement audits and agreed-upon procedures reports as information items.
- B. Direct staff to implement two auditor recommendations related to procurement and subrecipient monitoring.

5. Fiscal Year 2016-17 Management Letter

Janet Sutter

Overview

In connection with the annual audit of the Orange County Transportation Authority's financial statements for fiscal year 2016-17, Vavrinek, Trine, Day & Company, LLP, has issued a management letter with five recommendations for improvement to internal controls.

Recommendations

- A. Receive and file the Orange County Transportation Authority Management Letter June 30, 2017, as an information item.
- B. Direct staff to implement auditor recommendations related to the information technology environment and procurement.

6. Fiscal Year 2017-18 Internal Audit Plan, Second Quarter Update

Janet Sutter

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan on August 14, 2017. This update is for the second quarter of the fiscal year.

Recommendation

Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan as an information item.



7. Purchasing Cards, Internal Audit Report No. 18-503
Gerald Dunning/Janet Sutter

Overview

The Internal Audit Department has completed an audit of purchasing cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate; however, three recommendations were made to improve compliance with the policies and procedures.

Recommendation

Direct staff to implement the three recommendations provided in Purchasing Cards, Internal Audit Report No. 18-503.

8. Local Agency Investment Fund - December 2017
Rodney Johnson/Andrew Oftelie

Overview

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending December 31, 2017. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

Recommendation

Receive and file as an information item.



- 9. Orange County Transportation Authority Investment and Debt Programs Report - December 2017**
Rodney Johnson/Andrew Oftelie

Overview

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending December 31, 2017. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

Recommendation

Receive and file as an information item.

- 10. Second Quarter Fiscal Year 2017-18 Procurement Status Report**
Virginia Abadessa/Andrew Oftelie

Overview

The second quarter procurement status report summarizes the procurement activities for information purposes to the Orange County Transportation Authority Board of Directors. This report focuses on procurement activity from October 1 through December 31, 2017, that was approved by the Board of Directors during this period. The second quarter procurement status report also projects future procurement activity for the third quarter as identified in the fiscal year 2017-18 budget.

Recommendation

Receive and file as an information item.



11. 91 Express Lanes Property Insurance Renewal
Al Gorski/Maggie McJilton

Overview

The Orange County Transportation Authority currently has a primary property and flood insurance policy for the 91 Express Lanes with Zurich American Insurance Company, and six earthquake insurance policies with Empire Indemnity Insurance Company, General Security Indemnity Company of Arizona, Everest Indemnity Insurance Company, QBE Specialty Insurance Company, Endurance American Insurance Company, and Princeton Excess and Surplus Lines Insurance Company which will expire on March 1, 2018.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A38806, in the amount of \$500,000, to Marsh USA, Inc., to purchase the 91 Express Lanes' property, flood, and earthquake insurance on behalf of the Orange County Transportation Authority for the policy period of March 1, 2018 to March 1, 2019.

Regular Calendar

12. Investigation and Limited Scope Review of the Senior Mobility Program Operated by the Korean American Senior Association
Serena Ng/Janet Sutter

Overview

The Internal Audit Department has completed an investigation of a report received from Orange County Transportation Authority's Transit Division related to the Korean American Senior Association of Orange County's Senior Mobility Program. Specifically, the Transit Division raised concerns about compliance with program requirements for wheelchair accessibility and with the service plan. The Internal Audit Department confirmed that the Korean American Senior Association of Orange County had not made trips available to those requiring wheelchair accessibility and that some trips provided were not outlined in the current service plan agreement. The Internal Audit Department also identified unsupported costs charged to the program and non-compliance with the program's minimum age requirement.



12. (Continued)

Recommendation

Direct staff to implement proposed corrective action to terminate the funding agreement with the Korean American Senior Association of Orange County.

Discussion Items

13. Orange County Transportation Authority Cyber-Security Update

William Mao/Andrew Oftelie

Finance and Administration Committee Chairman Do has requested periodic updates on the progress staff is making on Orange County Transportation Authority's Cyber-Security Roadmap. This presentation reviews progress to date, as well as the status of ongoing cyber-security projects.

14. Chief Executive Officer's Report

15. Committee Members' Reports

16. Closed Session

There are no Closed Session items scheduled.

17. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, February 14, 2018**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.



Committee Members Present

Andrew Do, Chairman
Steve Jones, Vice Chairman
Michael Hennessey
Richard Murphy
Miguel Pulido
Todd Spitzer
Michelle Steel

Staff Present

Darrell Johnson, Chief Executive Officer
Laurena Weinert, Clerk of the Board
Gina Claridge, Deputy Clerk of the Board
James Donich, General Counsel
OCTA Staff and Members of the General Public

Committee Members Absent

None

Call to Order

The January 10, 2018 regular meeting of the Finance and Administration Committee was called to order by Committee Chairman Do at 10:30 a.m.

Pledge of Allegiance

Director Steel led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

There were no Special Calendar matters.

Consent Calendar (Items 2 through 7)

2. Approval of Minutes

A motion was made by Director Spitzer, seconded by Director R. Murphy, and declared passed by those present, to approve the minutes of the Finance and Administration Committee of December 13, 2017.

Directors Hennessey and Pulido were not present to vote on this item.



3. Orange County Treasurer's Management Report November – 2017

A motion was made by Director Spitzer, seconded by Director R. Murphy, and declared passed by those present, to receive and file as an information item.

Directors Hennessey and Pulido were not present to vote on this item.

4. Local Agency Investment Fund - November 2017

A motion was made by Director Spitzer, seconded by Director R. Murphy, and declared passed by those present, to receive and file as an information item.

Directors Hennessey and Pulido were not present to vote on this item.

5. Orange County Transportation Authority Investment and Debt Programs Report - November 2017

A motion was made by Director Spitzer, seconded by Director R. Murphy, and declared passed by those present, to receive and file as an information item.

Directors Hennessey and Pulido were not present to vote on this item.

6. Award of Sole Source Agreement with Xerox Corporation for Ink, Parts, Supplies, Printing, Equipment Repair, and Maintenance

A motion was made by Director Spitzer, seconded by Director R. Murphy, and declared passed by those present, to:

- A. Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. C-7-2110 between the Orange County Transportation Authority and Xerox Corporation, in the amount of \$100,000, for printing costs, equipment repair, and maintenance of the Xerox 800 color press through September 30, 2018.
- B. Add the Xerox 800 and 1000i color presses to the Orange County Transportation Authority's Fiscal Year 2017-18 Sole Source List for Licensing and Maintenance Agreements.

Directors Hennessey and Pulido were not present to vote on this item.

7. Appointment of the Orange County Transportation Authority Treasurer

This item was pulled by Director Spitzer who inquired on the rational to split out the treasury functions.

Darrell Johnson, Chief Executive Officer (CEO), responded that a new department titled Express Lanes Programs is being created and Kirk Avila has been appointed to the new position of General Manager, Express Lanes Programs, and will report to Deputy CEO Ken Phipps. Mr. Johnson stated that given these organizational changes, a new Treasurer needs to be appointed.

Mr. Johnson also stated that a recruitment is currently in progress for a new manager of the Treasury/Public Finance Department. In addition, staff recommends that the Andrew Oftelie, Executive Director of Finance and Administration be appointed the new Treasurer for the current year.

Director Spitzer inquired on whether the Treasurer should have dual responsibilities as the signatory and the recommender, which could conflict with the current annual investment policy.

Mr. Oftelie provided background on previous staff members who held the Treasurer position and explained the practice and decisions made as an appointee.

A lengthy discussion ensued regarding oversight, concerns on dual reporting, drafting a formal practice, and developing a protocol for approvals.

Director Spitzer requested that the staff report reflect names next to the titles of the positions and that organization charts be included in the January 22, 2018, Board of Directors agenda packet.

The Committee added a Recommendation C, to the proposed action, to read as follows:

- C. Direct staff to update existing written policies and procedures that, regardless of the authority vested in the Treasurer by the Board, would require the Treasurer to notify the Deputy Chief Executive Officer or Chief Executive Officer if the Treasurer is contemplating taking an action that is in conflict with the annual investment policy and document their approval. If there is a disagreement between the Treasurer and either the Deputy Chief Executive Officer or Chief Executive Officer regarding whether the action should or should not be taken, then the Finance and Administration Committee will be notified of the disagreement.

7. (Continued)

A motion was made by Director Spitzer, seconded by Director Pulido, and declared passed by those present, to:

- A. Appoint the Executive Director of Finance and Administration as the Treasurer of Orange County Transportation Authority and its affiliated agencies, effective January 22, 2018.
- B. Authorize the Treasurer to invest or reinvest Orange County Transportation Authority funds for the remaining duration of Fiscal Year 2017-18.
- C. Direct staff to update existing written policies and procedures that, regardless of the authority vested in the Treasurer by the Board, would require the Treasurer to notify the Deputy Chief Executive Officer or Chief Executive Officer if the Treasurer is contemplating taking an action that is in conflict with the annual investment policy and document their approval. If there is a disagreement between the Treasurer and either the Deputy Chief Executive Officer or Chief Executive Officer regarding whether the action should or should not be taken, then the Finance and Administration Committee will be notified of the disagreement.

Regular Calendar

8. Agreement for Information Technology Contract Technical Staffing

Andrew Oftelie, Executive Director of Finance and Administration, provided opening remarks and introduced Barry Reynolds, Department Manager of Information Systems. Mr. Oftelie noted the following corrections on the Staff Report and Attachment C of the Staff Report:

- Recommendation B of the Staff Report, the date should read March 31, 2023, instead of May 31, 2023.
- Attachment C of the Staff Report, the "Total Contract Amount" (for Intratek Computer, Inc.) amount should read \$7.2 million instead of \$14,400,000.
- The effective contract date on Page 6 of the Staff Report, under (Summary), should read effective through March 31, 2023 instead of May 31, 2023.

8. (Continued)

Mr. Oftelie also stated that the January 22, 2018 Board agenda synopsis will include the correct "Recommendation" verbiage and will also be noted on the Committee Transmittal.

Barry Reynolds, Department Manager of Information Systems, provided an overview on the need for contracted technical staffing and procurement approach.

Director Spitzer expressed concern about the price of 12 employees at \$60.00 per hour. He asked staff to explain why the 2nd rank firm cannot do the job.

Mr. Reynolds responded the area that the 2nd ranked firm struggled with is the benefits package the company provided to their employees. The company's practice is not to provide Holiday pay. Mr. Reynolds also explained the calculations used when preparing the request for proposal.

A motion was made by Director Spitzer, seconded by Director Hennessey, and declared passed by those present, to:

- A. Approve the selection of Intratek Computer, Inc., as the firm to provide contract staffing services for Information Technology technical positions.
- B. Authorize the Chief Executive Officer to negotiate and execute Agreement No. C-7-1949 between the Orange County Transportation Authority and Intratek Computer, Inc., in the amount of \$11,267,760, for a five-year term effective through March 31, 2023, to provide contract staffing services for Information Technology technical positions.

Director Pulido was not present to vote on this item.

Discussion Items

9. Chief Executive Officer's Report

Darrell Johnson, CEO, reported that:

- This morning, Governor Brown introduced the proposed 2018-19 state budget at a news conference in Sacramento. Staff is preparing a memo outlining the budget and will send to the full Board later this afternoon. In addition, Staff will also be presenting an overview of the budget to the Legislative and Communications Committee on January 18th.



9. (Continued)

- On January 11th, the Orange County Transportation Authority's community outreach team is hosting a booth in the staff cafe at Ikea in Costa Mesa to distribute Interstate 405 Improvement Project information to employees. This is in preparation for the official groundbreaking of the project that will take place on January 26th at 9:00 a.m. in the Ikea parking lot, adjacent to the freeway.
- Mr. Johnson, CEO, congratulated Committee Chairman Do on his appointment as the Chairman of the Orange County Board of Supervisors.

10. Committee Members' Reports

Committee Chairman Do requested that the staff report reflect names next to the titles of the positions and that organization charts be included for item 7 on this agenda.

Mr. Johnson, CEO, responded that staff will include an organization chart in the January 22, 2018, Board of Directors agenda packet.

11. Closed Session

A Closed Session was not conducted at this meeting.

12. Adjournment

The meeting adjourned at 11:13 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, January 24, 2018**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Claridge
Deputy Clerk of the Board

Andrew Do
Committee Chairman



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2016-17 Auditor's Communication to Those Charged with Governance

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on its Comprehensive Annual Financial Report and various fund financial statements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, conducted the annual audit of the Orange County Transportation Authority's financial statements for fiscal year 2016-17, and, as required by United States Generally Accepted Auditing Standards and Office of Management and Budget Circular A-133, has herewith issued its Auditor's Communication to Those Charged with Governance.

Recommendation

Receive and file as an information item.

Background

Pursuant to United States Generally Accepted Auditing Standards and Office of Management and Budget Circular A-133, Vavrinek, Trine, Day & Company, LLP (VTD) is required to communicate significant matters related to its audits of the Comprehensive Annual Financial Report (CAFR) and fund financial statements of the Orange County Transportation Authority (OCTA) that are relevant to the responsibilities of those charged with overseeing the financial reporting process.

Discussion

VTD completed its annual audit of OCTA's CAFR and fund financial statements and has issued independent auditor opinions for the fiscal year (FY) ended June 30, 2017. As part of its responsibilities, VTD has also issued documented communication to those charged with governance. The purpose of this communication is to outline the scope and responsibilities of the auditor in relation to the audit, significant findings resulting from the audit, and any difficulties or disagreements with management encountered during the audit.

VTD has indicated they encountered no significant difficulties or disagreements when dealing with management during the course of the audit. VTD's communication to those charged with governance for FY 2016-17 is included herewith as Attachment A.

Summary

In connection with its annual audit of OCTA's CAFR and fund financial statements for FY 2016-17, VTD has issued a letter that provides required communication as to the scope, responsibilities, and observations of the auditor arising during the audit.

Attachment

- A. Letter to the Board of Directors, Orange County Transportation Authority, from Vavrinek, Trine, Day & Company, LLP, signed October 31, 2017

Prepared by:



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



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

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Board of Directors
 Orange County Transportation Authority
 Orange, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA) for the year ended June 30, 2017, and have issued our reports thereon dated as indicated below:

<u>Report</u>	<u>Audit Report Date</u>
Comprehensive Annual Financial Report (CAFR)	October 31, 2017
91 Express Lanes Fund	October 31, 2017
Local Transportation Fund (LTF)	October 31, 2017
State Transit Assistance Fund (STAF)	October 31, 2017
Orange County Local Transportation Authority (OCLTA)	October 31, 2017

We are currently performing the compliance audit of OCTA's federal award programs (the Single Audit) and plan to issue our reports thereon prior to December 31, 2017.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 23, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by OCTA are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by OCTA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting OCTA's financial statements were:

Management's estimates used in: establishing allowances and recognizing toll road violations, risk management claims, fair value of investments, depreciation expense and the value of capital assets, amortization of intangible assets, other postemployment benefit liabilities and the net pension liability and related deferred inflows/outflows of resources and pension expense. We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of OCTA's defined benefit pension plans, net pension liabilities and related deferred inflows of resources and deferred outflows of resources in Note 11 to the financial statements. The valuation of the net pension liability and related deferred outflows (inflows) of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate, and the proportionate share of the Plan's collective net pension liability. As disclosed in Note 11, a 1% increase or decrease in the discount rate has a significant effect on OCTA's net pension liabilities.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letters, dated as follows:

Comprehensive Annual Financial Report (CAFR)	October 31, 2017
91 Express Lanes Fund	October 31, 2017
Local Transportation Fund (LTF)	October 31, 2017
State Transit Assistance Fund (STAF)	October 31, 2017
Orange County Local Transportation Authority (OCLTA)	October 31, 2017

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to OCTA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as OCTA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, budgetary comparison information, supplemental pension plan trend data and other post employment benefit schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Information in Documents Containing Audited Financial Statements

OCTA plans to include the audited financial statements in the annual report for the 91 Express Lanes Fund. Our responsibility for other information in such documents does not extend beyond the financial information identified in our report. We do not have any obligation to perform any procedures to corroborate other information contained in these documents. Our procedures are limited to reading the information and comparing such information to the audited financial statements.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of OCTA and is not intended to be, and should not be, used by anyone other than these specified parties.



Laguna Hills, California
October 31, 2017



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2016-17 Annual Financial and Agreed-Upon Procedures Reports

Overview

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements. Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has completed its annual audits of the Orange County Transportation Authority and related entities for the fiscal year 2016-17. Additionally, reports have been issued on the results of agreed-upon procedures applied to determine compliance with certain state, federal, and local requirements. All reports are included herewith.

Recommendations

- A. Receive and file the fiscal year 2016-17 annual financial statement audits and agreed-upon procedures reports as information items.
- B. Direct staff to implement two auditor recommendations related to procurement and subrecipient monitoring.

Background

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting OCTA's results of operations and financial position at fiscal year-end. The financial statements are included in OCTA's Comprehensive Annual Financial Report (CAFR), which was presented to the Board of Directors on November 13, 2017. In connection with the CAFR audit, Vavrinek, Trine, Day & Company, LLP (VTD) provides opinions on other financial reports of OCTA and applies certain agreed-upon procedures to determine compliance.

The audits were performed under current accounting and auditing standards, including generally accepted auditing standards, the standards set forth for financial audits in the Government Accountability Office's *Government Auditing Standards*, the provisions of the federal Single Audit Act of 1984 (as amended) and the United States (U.S.) Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as well as the following additional requirements, where applicable:

- *State of California Transportation Development Act*, including the requirements of the *Southern California Association of Governments' Transportation Development Act Conformance Auditing Guide*;
- *Renewed Measure M Transportation Investment Plan*;
- *Special District and Transit District Reporting Requirements*, as specified by the California State Controller; and
- *Section 1.5 of Article XIII B of the California Constitution*, with procedures specified by the League of California Cities in *Article XIII B Appropriations Limitation Uniform Guidelines*

Discussion

VTD has completed its annual financial audits and has issued independent auditor opinions for the fiscal year ended June 30, 2017. Results of agreed-upon procedures reviews have also been issued. Reports are included as Attachments A through J.

The Single Audit Report on Federal Awards (Attachment A), required by U.S. OMB Circular A-133, included two recommendations. First, the auditors identified one file that did not contain evidence that the procurement was posted in a newspaper of general circulation, as required by procedures. The auditors recommended that management ensure procedures are consistently followed in the future. Management agreed and will verify evidence of publication as part of a quality assurance review prior to issuance of the Request for Proposal. The auditors also found that OCTA did not obtain subrecipients' Data Universal Numbering System (DUNS) numbers as part of its sub-award procedures, as required by regulation. Management responded that procedures will be updated to ensure DUNS numbers are obtained as part of the sub-award process. Further, staff will ensure subrecipients maintain an active System for Award Management registration with current information.

There were no other recommendations resulting from audits and agreed-upon procedures performed for the fiscal year ended June 30, 2017.

Summary

VTD has completed its annual audits of OCTA and related entities for the fiscal year 2016-17. Additionally, reports have been issued on the results of agreed-upon procedures applied to determine compliance with certain state, federal, and local requirements.

Attachments

- A. Orange County Transportation Authority Single Audit Report on Federal Awards Year Ended June 30, 2017
- B. Orange County Local Transportation Authority (A Component Unit of the Orange County Transportation Authority) Annual Financial and Compliance Report Year Ended June 30, 2017
- C. Orange County Transportation Authority Local Transportation Fund Financial Statements Year Ended June 30, 2017
- D. Orange County Transportation Authority State Transit Assistance Fund Financial Statements Year Ended June 30, 2017
- E. Orange County Transportation Authority Independent Auditors' Report on Proposition 1B and Transportation Development Act Year Ended June 30, 2017
- F. Orange County Local Transportation Authority Report on Agreed-Upon Procedures Applied to Measure M2 Status Report Year Ended June 30, 2017
- G. Orange County Transportation Authority Independent Accountants' Report on Agreed-Upon Procedures Performed with Respect to the Treasury Department Year Ended June 30, 2017
- H. Orange County Transportation Authority Independent Accountants' Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit Calculation for the Fiscal Year Ended June 30, 2017
- I. Orange County Local Transportation Authority Independent Accountants' Report on Applying Agreed-Upon Procedures Related to the Article XIII-B Appropriations Limit Calculation for the Fiscal Year Ended June 30, 2017
- J. Orange County Transportation Authority Agreed-Upon Procedures Performed with Respect to the National Transit Database Report for the Period July 1, 2016 through June 30, 2017

Prepared by:



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

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

Single Audit Report on
Federal Awards

Year Ended June 30, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

Single Audit Report on Federal Awards

Year Ended June 30, 2017

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> , the Transportation Development Act, California Code §8879.50, and State Senate Bill 88 (2007)	1
Independent Auditors' Report on Compliance For Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Note to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	
I. Summary of Auditors' Results	9
II. Financial Statement Findings	10
III. Federal Awards Findings and Questioned Costs	11
Summary Schedule of Prior Audit Findings	13



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**INDEPENDENT AUDITORS' 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, THE TRANSPORTATION DEVELOPMENT ACT, CALIFORNIA
CODE §8879.50, AND STATE SENATE BILL 88 (2007)**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Section 6667 of Title 21 of the California Code of Regulation, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq., noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, Section 6667 of Title 21 of California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
October 31, 2017



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

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Orange County Transportation Authority
Orange, California

Report on Compliance for Each Major Federal Program

We have audited the Orange County Transportation Authority (OCTA)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of OCTA's major federal programs for the year ended June 30, 2017. OCTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of OCTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OCTA's compliance.

Opinion on Each Major Federal Program

In our opinion, OCTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-001 and 2017-002. Our opinion on each major federal program is not modified with respect to this matter.

OCTA's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. OCTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of OCTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OCTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OCTA, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated October 31, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Laguna Hills, California

December 22, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Grant/ Pass-Through Identification Number	Federal Expenditure	Passed Through to Subrecipients
<u>U.S. Department of Interior</u>				
Direct grants:				
Office of Fish and Wildlife Service:				
Cooperative Endangered Species Conservation Fund	15.615	N/A	\$ 228,365	\$ -
Total U.S. Department of Interior			<u>228,365</u>	<u>-</u>
<u>U.S. Department of Transportation</u>				
Direct grants:				
Federal Transit Cluster:				
Federal Transit - Capital Improvement Grants	20.500	CA-04-0078	331,044	331,044
Federal Transit - Capital Improvement Grants	20.500	CA-05-0269	814,350	527,969
Federal Transit - Capital Improvement Grants	20.500	CA-55-0003	23,893	-
Total Federal Transit Capital Improvement Grants			<u>1,169,287</u>	<u>859,013</u>
Federal Transit - Formula Grants	20.507	CA-90-Y860	9,859,161	-
Federal Transit - Formula Grants	20.507	CA-90-Y942	33,033,580	(2,666)
Federal Transit - Formula Grants	20.507	CA-90-Z027	17,021,287	-
Federal Transit - Formula Grants	20.507	CA-90-Z174	108,994	-
Federal Transit - Formula Grants	20.507	CA-95-X131	182,935	-
Federal Transit - Formula Grants	20.507	CA-95-X180	353,753	-
Federal Transit - Formula Grants	20.507	CA-95-X188	13,457,443	-
Federal Transit - Formula Grants	20.507	CA-95-X195	178,645	-
Federal Transit - Formula Grants	20.507	CA-95-X210	2,244,631	-
Federal Transit - Formula Grants	20.507	CA-95-X213	1,919,403	-
Federal Transit - Formula Grants	20.507	CA-95-X242	5,087,093	-
Federal Transit - Formula Grants	20.507	CA-95-X254	867,124	-
Federal Transit - Formula Grants	20.507	CA-95-X262	(1,750,497)	-
Federal Transit - Formula Grants	20.507	CA-95-X286	1,970,127	-
Federal Transit - Formula Grants	20.507	CA-2016-032-00	1,838,397	1,838,397
Federal Transit - Formula Grants	20.507	CA-2016-116-00	44,678,097	-
Federal Transit - Formula Grants	20.507	CA-2017-072-00	5,763,463	-
Federal Transit - Formula Grants	20.507	N/A	24,529,415	-
Federal Transit - Formula Grants	20.507	N/A	587,386	-
Total Federal Transit Capital Formula Grants			<u>161,930,437</u>	<u>1,835,732</u>
State of Good Repair Grants Program	20.525	2016-096-00	2,825,622	-
State of Good Repair Grants Program	20.525	N/A	48,984	-
Total State of Good Repair Grants Program			<u>2,874,606</u>	<u>-</u>
Bus and Bus Facilities Formula Program	20.526	CA-2016-031-00	4,626,468	-
Bus and Bus Facilities Formula Program	20.526	N/A	2,614,107	-
Total Bus and Bus Facilities Formula Program			<u>7,240,575</u>	<u>-</u>
Total Federal Transit Cluster			<u>173,214,905</u>	<u>2,694,745</u>
Transit Services Program Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	2016-151-00	4,011,574	-
Job Access and Reverse Commute Program	20.516	CA-37-X113	1,316,981	617,926
New Freedom Program	20.521	CA-57-X038	152,848	149,665
Total Transit Services Program Cluster			<u>5,481,403</u>	<u>767,591</u>

Continued on the next page

See Note to Schedule of Expenditures of Federal Awards.

ORANGE COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017 (continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Grant/ Pass-Through Identification Number	Federal Expenditure	Passed Through to Subrecipients
<u>U.S. Department of Transportation (continued)</u>				
Passed Through California Department of Transportation:				
Highway Planning and Construction Cluster:				
Tustin Rose RSTP	20.205	STPL-6071-(061)	\$ (853,627)	\$ -
Sand Canyon Grade Separation RSTP	20.205	STPL-6071-(059)	243,532	-
I-5 from North I-405 to SR-55	20.205	STPLN-6071-(093)	1,947,055	-
SR-91, SR-57 to SR-55	20.205	STPLN-6071-(096)	1,257,442	-
I-5 Widening from Oso Creek to Alicia Pkwy, Seg. 2	20.205	STPLN-6071-(102) RSTP	1,757,751	-
I-5 Widening from SR-76 to Oso Pkwy, Seg. 1	20.205	STPLN-6071-(103) RSTP	2,167,863	-
I-5 Widening from Alicia Pkwy to El Toro Rd, Seg. 3	20.205	STPLN-6071-(104) RSTP	1,723,068	-
I-405, I-5 to SR-55	20.205	STPLN-6071-(105) RSTP	1,596,040	-
SR-57 Orangewood to Katella Ave	20.205	STPLN-6071-(118) RSTP	712,974	-
SR-55, I-5 TO SR-91 (119)	20.205	STPLN-6071-(119) RSTP	450,000	-
I-405 only	20.205	CMLN-6071(043)	3,315,502	-
Orangethorpe Grade Separation	20.205	CMLN-6071(060)	1,055,966	-
Lakeview Grade Separation	20.205	CMLN-6071(066)	2,970,020	-
I-5 from Ave Pico to South of Vista Hermosa	20.205	CMLN-6071(071)	45,908	-
I-5 from Vista Hermosa to PCH	20.205	CMLN-6071(072)	114,208	-
I-5 from PCH to San Juan Creek Road	20.205	CMLN-6071(073)	30,332	-
I-5 from SR-55 to SR-57	20.205	CMLN-6071(108)	756,181	-
I-5 from Orange/San Diego County line to Avenida Pico	20.205	CMLN-6071(112)	114,331	-
Total Highway Planning and Construction Cluster			19,404,546	-
Total U.S. Department of Transportation			198,100,855	3,462,336
<u>U.S. Department of Homeland Security</u>				
Direct grants:				
Office of Security Operations:				
National Explosives Detection Canine Team Program	97.072	N/A	153,645	-
Passed Through State of California:				
Office of Emergency Services:				
Rail and Transit Security Grant Program (TSGP):				
Security and Emergency Mgmt Training (2014 TSGP)	97.075	N/A	126,755	-
Security and Emergency Mgmt Training (2015 TSGP)	97.075	N/A	157,215	-
Security and Emergency Mgmt Training (2016 TSGP)	97.075	N/A	30,955	-
Total Rail and Transit Security Grant Program			314,925	-
Total U.S. Department of Homeland Security			468,570	-
Total Expenditures of Federal Awards			\$ 198,797,789	\$ 3,462,336

See Note to Schedule of Expenditures of Federal Awards.

ORANGE COUNTY TRANSPORTATION AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

A. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by OCTA that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by OCTA from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Because the Schedule presents only a selected portion of the operations of OCTA, it is not intended and does not present the financial position, change in net position, or cash flows of OCTA.

B. Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund, special revenue, capital projects and enterprise funds of OCTA. OCTA utilizes the modified accrual method of accounting for governmental funds. The accrual basis of accounting is used for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards has been prepared accordingly.

C. Relationship to Federal Reports

Amounts reported in the accompanying Schedule of Expenditures to Federal Awards agree with the amounts reported in the related federal financial reports. However, certain timing differences may exist in the recognition of revenues and expenses/expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

D. Indirect Cost Rate

OCTA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

ORANGE COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

None reported

Noncompliance material to financial statements noted?

No

FEDERAL AWARDS

Internal control over major federal programs:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

None reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?

Yes

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500, 20.507, 20.525 and 20.526</u>	<u>Federal Transit Cluster</u>
<u>20.513, 20.516 and 20.521</u>	<u>Transit Services Program Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 3,000,000

Auditee qualified as low-risk auditee?

Yes

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

II. FINANCIAL STATEMENT FINDINGS

None reported.

ORANGE COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding Number 2017-001

Program: Federal Transportation Cluster

CFDA No.: 20.500, 20.507, 50.525, 20.526

Federal Grantor: U.S. Department of Transportation (DOT)

Passed-through: N/A

Award No. and Year: CA-2016-116-00

Compliance Requirements: Procurement and Suspension and Debarment

Criteria:

Title 2 CFR Section 200.319(c) of the *Uniform Guidance* requires the non-Federal entity must have written procedures for procurement transactions. The non-Federal entity must follow its procedures before entering into a covered transaction.

OCTA's Procurement Policies and Procedures section VI.7 includes a requirement that a public notice must be published in a newspaper of general circulation for two consecutive weeks prior to the bid closing date.

Condition:

In one of nine contracts tested, it was noted that OCTA did not issue a public notice before entering into a covered transaction.

Questioned Costs:

None noted.

Context:

OCTA provides open competition by publishing public notice in a newspaper of general circulation and posting the invitation for bids on their procurement system that notifies all registered vendors within the particular commodity. The condition noted above was identified during our procedures related to the procurement and suspension and debarment for the Federal Transportation Cluster.

Effect:

OCTA did not consistently follow its procedures before entering into a covered transaction.

Cause:

OCTA did not ensure all of its procedures were performed before entering into a covered transaction.

Recommendation:

We recommend that OCTA ensure that its procurement procedures are consistently performed and documented before entering into a covered transaction.

Views of Responsible Officials and Planned Corrective Actions:

OCTA concurs. Refer to separate Corrective Action Plan Report for management's response.

ORANGE COUNTY TRANSPORTATION AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding Number 2017-002

Program: Transit Services Program Cluster

CFDA No.: 20.513, 20.516, 20.521

Federal Grantor: U.S. Department of Transportation (DOT)

Passed-through: N/A

Award No. and Year: CA-37-X113

Compliance Requirements: Subrecipient Monitoring

Criteria:

Title 2 CFR Section 200 of the *Uniform Guidance* requires pass-through entities to determine whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before the award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).

Condition:

For two out of two subrecipients tested, it was noted OCTA did not obtain subrecipients' DUNS numbers as part of its subaward application or before the award.

Questioned Costs:

None noted.

Context:

The condition noted above was identified during our procedures related to the subrecipient monitoring for the Transit Services Program Cluster.

Effect:

OCTA did not obtain subrecipients' DUNS numbers as part of its subaward process.

Cause:

OCTA's policies and procedures did not ensure first tier subrecipient DUNS numbers were obtained as part of the subaward application or before the award.

Recommendation:

We recommend OCTA to update its policies and procedures to ensure subrecipient DUNS numbers are obtained as part of the subaward application or before the award.

Views of Responsible Officials and Planned Corrective Actions:

OCTA concurs. Refer to separate Corrective Action Plan Report for management's response.

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.



ORANGE COUNTY TRANSPORTATION AUTHORITY

Corrective Action Plan

Year ended June 30, 2017

Compiled by: Pascal Saghbini, Section Manager II, General Accounting

ORANGE COUNTY TRANSPORTATION AUTHORITY

Corrective Action Plan

Year ended June 30, 2017

I. FINANCIAL STATEMENT FINDINGS

None Reported.

ORANGE COUNTY TRANSPORTATION AUTHORITY

Corrective Action Plan

Year ended June 30, 2017

II. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 2017-001

Program: Federal Transportation Cluster

CFDA No.: 20.500, 20.507, 50.525, 20.526

Federal Grantor: U.S. Department of Transportation (DOT)

Passed-through: N/A

Award No. and Year: CA-2016-116-00

Compliance Requirements: Procurement and Suspension and Debarment

Management's or Department's Response:

We concur.

Views of Responsible Officials and Corrective Action:

CAMM has implemented additional steps in the review process of each procurement file. For added quality assurance prior to release of each formal solicitation, management will review each procurement file to verify evidence of written correspondences between CAMM staff and the Orange County Register to ensure public notice requests have been received and confirmed to publish two consecutive weeks prior to solicitation closing date in accordance with procurement policies and procedures.

Name of Responsible Person: Virginia Abadessa, Director, Contracts Administration and Materials Management

Implementation Date: July 1, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

Corrective Action Plan

Year ended June 30, 2017

Finding Number 2017-002

Program: Transit Services Program Cluster

CFDA No.: 20.513, 20.516, 20.521

Federal Grantor: U.S. Department of Transportation (DOT)

Passed-through: N/A

Award No. and Year: CA-37-X113

Compliance Requirements: Subrecipient Monitoring

Management's or Department's Response:

We concur.

Views of Responsible Officials and Corrective Action:

OCTA staff will update its policies and procedures to ensure DUNS numbers are obtained as part of its subaward applications or before an award is made to a subrecipient. In addition, OCTA staff will ensure the subrecipients maintain an active System for Award Management (SAM) registration with current information.

Name of Responsible Person: Ric Teano, Section Manager III, Grant Compliance

Implementation Date: March 31, 2018

Orange County Local Transportation Authority
(A Component Unit of the Orange
County Transportation Authority)

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

Year Ended June 30, 2017

Orange County Local Transportation Authority
(A Component Unit of the Orange County Transportation Authority)

Audited Financial Statements

Year Ended June 30, 2017

Contents

Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	10
Statement of Activities	11
Governmental Funds Financial Statements:	
Balance Sheet.....	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to the Financial Statements.....	16
Required Supplementary Information (Other than Management's Discussion and Analysis):	
Local Transportation Authority Special Revenue Fund	
Budgetary Comparison Schedule (Budgetary Basis).....	34
Notes to Required Supplementary Information	35
Other Supplementary Information:	
Local Transportation Authority Debt Service Fund	
Budgetary Comparison Schedule (Budgetary Basis).....	36
Other Reports:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37



INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Local Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of OCLTA as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the budgetary comparison information on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OCLTA's basic financial statements. The debt service budgetary comparison schedule on page 36 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the debt service budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of OCLTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCLTA's internal control over financial reporting and compliance.



Laguna Hills, California
October 31, 2017

Orange County Local Transportation Authority
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2017

As management of the Orange County Local Transportation Authority (OCLTA), we offer readers of the OCLTA's financial statements this narrative overview and analysis of the OCLTA's Measure M financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- Total net position of the OCLTA was \$617,934 and consisted of restricted net position of \$16,630 and unrestricted net position of \$601,304.
- Net position increased \$75,501 during fiscal year 2016-17. This increase was primarily due to an increase in sales tax revenue in excess of program costs.
- OCLTA's governmental funds reported combined ending fund balances of \$909,908 an increase of \$75,903 from the prior year. The increase is primarily due to an increase in sales tax revenue in excess of expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the OCLTA's basic financial statements, which are comprised of three components including government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements. Because the OCLTA is a governmental activity of the Orange County Transportation Authority (OCTA), governmental funds are used to account for its Measure M program activities. The basic financial statements include only the activities of the OCLTA.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the OCLTA's finances using the accrual basis of accounting, in a manner similar to a private-sector business.

The statement of net position presents information on all of the OCLTA's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the OCLTA is improving or deteriorating.

Orange County Local Transportation Authority Management's Discussion and Analysis

The statement of activities presents information showing how the OCLTA's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with Measure M finance-related legal requirements. The OCLTA uses governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental funds financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the OCLTA's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the OCLTA's near-term financing decisions. Both the governmental funds balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The OCLTA maintains two individual governmental funds which are considered to be major funds. Information is presented separately in the governmental funds balance sheet and in the related statement of revenues, expenditures and changes in fund balances for the OCLTA's major governmental funds.

The governmental funds financial statements can be found on pages 12-15 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-33 of this report.

The OCLTA adopts an annual budget for its two funds. A budgetary comparison schedule has been provided for the LTA special revenue fund as required supplementary information on page 34 and the LTA debt service fund as other supplementary information on page 36 to demonstrate compliance with the annual appropriated budget.

Orange County Local Transportation Authority Management's Discussion and Analysis

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the OCLTA's financial position. At June 30, 2017, the OCLTA's assets exceeded liabilities by \$617,934, a \$75,501 increase from June 30, 2016. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the OCLTA's governmental activities.

Total assets increased by \$62,033, or 6.4%, from June 30, 2016. This increase is primarily due to an increase in cash and investments as a result of revenues exceeding program expenses during the fiscal year.

Total liabilities decreased by \$13,468, or 3.2%, from June 30, 2016 primarily due to the decrease of unearned revenue for the grade separation projects in addition to a decrease in total outstanding bonds due to principal and interest payments.

Unrestricted net position represents the portion of net position that is available for general use as specified in the Measure M program. Unrestricted net position from governmental activities changed from \$530,439 at June 30, 2016 to \$601,304 at June 30, 2017. This increase was primarily due to sales tax revenue over expenses.

Table 1
Orange County Local Transportation Authority
Net Position

	Governmental Activities	
	2017	2016
Current and other assets	\$1,023,552	\$ 969,387
Assets held for resale	7,868	-
Total assets	1,031,420	969,387
Current liabilities	93,669	99,060
Long-term liabilities	319,817	327,894
Total liabilities	413,486	426,954
Net position:		
Restricted	16,630	11,994
Unrestricted	601,304	530,439
Total net position	\$ 617,934	\$ 542,433

Governmental activities increased the OCLTA's net position by \$75,501. Sales taxes, which ultimately financed a significant portion of the OCLTA's net costs, increased by \$7,843, or 2.6%, from the prior year as a result of continued improvement in the economy.

**Orange County Local Transportation Authority
Management's Discussion and Analysis**

Table 2
Orange County Local Transportation Authority
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 94	\$ 204
Operating grants and contributions	76,787	110,846
General revenues:		
Sales taxes	308,780	300,937
Unrestricted investment earnings	8,869	17,528
Other miscellaneous revenue	-	299
Total revenues	394,530	429,814
Expenses:		
Measure M program	302,016	289,291
Indirect expense allocation	17,013	15,670
Total expenses	319,029	304,961
Increase in net position	75,501	124,853
Net position - beginning	542,433	417,580
Net position - end of year	\$ 617,934	\$ 542,433

OCLTA expenses shown on the statement of activities consist of:

	Governmental Activities	
	2017	2016
Supplies and services	\$ 47,878	\$ 56,604
Contributions to other local agencies	123,431	105,824
Infrastructure	88,230	89,240
Depreciation expense	-	32
Interest expense	20,614	20,927
Transfer to other OCTA funds	21,863	16,664
Total expenses	\$302,016	\$289,291

Total revenues decreased by \$35,284, or 8.2%, from fiscal year 2015-16 primarily due to a decrease in operating grants and contributions for freeway and grade separation projects due to the completion of these projects.

Total expenses increased by \$14,068, or 4.6%, from fiscal year 2015-16 primarily due to an increase in expenses related to the I-405 improvement project, transfers for expenses related to the commuter rail program and contributions to cities for street and roads projects such as the Bristol Street widening project.

**Orange County Local Transportation Authority
Management's Discussion and Analysis**

Financial Analysis of the OCLTA's Funds

As of June 30, 2017, the OCLTA's governmental funds reported combined ending fund balances of \$909,908, an increase of \$75,903 compared to fiscal year 2015-16. The majority of fund balances, 98%, are assigned for transportation programs related to Measure M projects. The remaining fund balance of \$13,665 is restricted for debt service on M2 sales tax revenue bonds issued to accelerate funding for M2 projects.

OCLTA's major governmental funds include the following significant changes:

The LTA fund increased by \$74,232, which represents an increase of 9% in comparison to fiscal year 2015-16. This increase is primarily due to excess of revenues over expenditures. In fiscal year 2016-17, total revenues decreased \$15,335 primarily due to a decrease in contributions received for the grade separation projects due to the completion of these projects. This decrease was offset by a 3% increase in sales tax revenue. Total expenditures increased \$5,464 primarily due to an increase in expenditures related to the I-405 improvement project and the Bristol Street widening project. This increase was offset by a decrease in expenditures related to the grade separation projects.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the OCLTA had \$0 net of accumulated depreciation invested in capital assets including improvements and machinery.

A summary of the OCLTA's capital assets, net of depreciation, follows:

	Governmental Activities	
	2017	2016
Improvements	\$ -	\$ -
Machinery	32	32
Total capital assets	32	32
Less accumulated depreciation	(32)	(32)
Total capital assets, net	\$ -	\$ -

More detailed information about the OCLTA's capital assets is presented in note 6 to the financial statements.

OCLTA has outstanding capital expenditure commitments, the most significant of which are: \$990,667 for the I-405 improvement project, \$46,230 for the I-5 freeway widening construction project, and \$10,985 for the I-5 HOV freeway construction project.

Orange County Local Transportation Authority Management's Discussion and Analysis

Debt Administration

As of June 30, 2017, the OCLTA had \$318,010 in sales tax revenue bonds compared to \$325,485 as of the prior fiscal year.

The OCLTA maintains an "AA+" rating from Standard & Poor's Corporation (S&P), an "AA+" rating from Fitch Ratings (Fitch) and an "Aa2" rating from Moody's Investors Services (Moody's) for its M2 Sales Tax Revenue Bonds.

Additional information on the OCLTA's long-term debt can be found in note 7 to the financial statements, respectively.

Economic and Other Factors

The OCLTA is responsible for administering Measure M, the half-cent transportation sales tax, which originally passed in 1990 and was delivered as promised to the residents of Orange County, with over \$4 billion invested in improvements to freeways, streets and roads and transit services. Measure M1 (M1) ended in March 2011, and collection of sales tax under Measure M2 (M2) began in April 2011. M2 was overwhelmingly approved by the voters of Orange County in 2006 because of the tangible results that were realized through M1. The passage of M2 has allowed for the continuation of transportation improvements through March 31, 2041. Allocation of M2 funds remains the same as the original M1 with 43 percent slated for freeway improvements, 32 percent for streets and roads, and 25 percent for transit projects and programs.

Although revenue collection for M2 projects did not begin until April 2011, OCTA began delivering projects early based on the five-year M2 Early Action Plan (EAP) adopted in 2007 and subsequent M2020 Plan adopted in 2012. Both delivery plans were developed to accelerate M2 freeway, streets and roads, transit, and environmental projects. In response to lower actual sales tax revenue, a new forecasting methodology was adopted in March 2016. This prompted the need to revisit the assumptions built into the M2020 plan. A new program/project delivery framework for the next ten years, called the Next 10 Plan was adopted by the Board of Directors on November 14, 2016.

The OCLTA adopted its fiscal year 2017-18 annual budget on June 12, 2017. Approximately \$543 million in Measure M2 funds are budgeted to improve transportation within Orange County. These funds will provide improvements to freeways and streets and roads throughout Orange County, as well as fund rail and bus transit programs. These funds include \$170 million to make improvements along Interstate 405, Interstate 5, State Route 91, State Route 55, and State Route 57. Approximately \$157 million is budgeted to improve streets and roads, including \$54 million to fund the Local Fair Share Program, \$53 million for the Regional Capacity Program, and \$22 million for the OC Bridges Project. In addition, the M2 transit budget consist of \$125 million in bus and rail projects, including \$46 million to continue the OC Streetcar project. Lastly, \$59 million will be designated for future M2 projects.

**Orange County Local Transportation Authority
Management's Discussion and Analysis**

Contacting the OCLTA's Management

This financial report is designed to provide a general overview of the OCLTA's finances for all those with an interest in the OCLTA's finances and to demonstrate OCLTA accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division of the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Net Position
June 30, 2017

<i>(amounts expressed in thousands)</i>	Governmental Activities
Assets	
Cash and investments	\$ 904,474
Receivables:	
Interest	2,160
Operating grants	7,590
Other	2,647
Due from OCTA	9,462
Due from other governments	92,937
Restricted cash and investments	2,965
Other assets	1,317
Assets held for resale	7,868
Total Assets	1,031,420
Liabilities	
Accounts payable	44,731
Accrued interest payable	7,838
Due to OCTA	1,324
Due to other governments	20,603
Unearned revenue	16,516
Other liabilities	17
Advance from OCTA	2,640
Noncurrent liabilities:	
Due within one year	7,775
Due in more than one year	312,042
Total Liabilities	413,486
Net Position	
Restricted for:	
Debt service	13,665
Environmental Mitigation Program	2,965
Unrestricted	601,304
Total Net Position	\$ 617,934

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Activities
Year Ended June 30, 2017

			Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Governmental Activities
(amounts expressed in thousands)					
Program governmental activities:					
Measure M program	\$ 302,016	\$ 17,013	\$ 94	\$ 76,787	\$ (242,148)
Total governmental activities	\$ 302,016	\$ 17,013	\$ 94	\$ 76,787	(242,148)
General revenues:					
Sales taxes					308,780
Unrestricted investment earnings					8,869
Total general revenues					317,649
Change in net position					75,501
Net position - beginning					542,433
Net position - ending					\$ 617,934

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Balance Sheet - Governmental Funds
June 30, 2017

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
Assets			
Cash and investments	\$ 893,231	\$ 11,243	\$ 904,474
Receivables:			
Interest	2,154	6	2,160
Operating grants	7,590	-	7,590
Other	2,647	-	2,647
Due from OCTA	9,462	-	9,462
Due from other governments	90,521	2,416	92,937
Restricted cash and investments:			
Investments	2,965	-	2,965
Other assets	1,317	-	1,317
Assets held for resale	2,071	-	2,071
Total Assets	\$ 1,011,958	\$ 13,665	\$ 1,025,623
Liabilities			
Accounts payable	\$ 44,731	\$ -	\$ 44,731
Due to OCTA	1,324	-	1,324
Due to other governments	20,603	-	20,603
Unearned revenue	16,516	-	16,516
Other liabilities	17	-	17
Advance from OCTA	2,640	-	2,640
Total Liabilities	85,831	-	85,831
Deferred Inflows of Resources			
Unavailable revenue - grant reimbursements	29,884	-	29,884
Total Deferred Inflows of Resources	29,884	-	29,884
Fund Balances			
Restricted for:			
Debt service	-	13,665	13,665
Environmental Mitigation Program	2,965	-	2,965
Assigned to:			
Transportation programs	893,278	-	893,278
Total Fund Balances	896,243	13,665	909,908
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,011,958	\$ 13,665	\$ 1,025,623

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Net Position (page 10) are different because:

Total fund balances (page 12)	\$ 909,908
Assets held for resale are not financial resources and, therefore, are not reported in the funds, unless a sales contract is executed prior to the issuance of the financial statements.	5,797
Earned but unavailable revenue is not available to liquidate current liabilities and, therefore, is reported as a deferred inflow of resources in the funds.	29,884
Interest payable on bonds outstanding is not due and payable in the current period and, therefore, is not reported in the funds.	(7,838)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(319,817)</u>
Net position of governmental activities (page 10)	<u><u>\$ 617,934</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

<i>(amounts expressed in thousands)</i>	LTA	LTA Debt Service	Total OCLTA
Revenues			
Sales taxes	\$ 308,780	\$ -	\$ 308,780
Contributions from other agencies	72,243	-	72,243
Interest	2,524	8,946	11,470
Miscellaneous	6,898	-	6,898
Total Revenues	390,445	8,946	399,391
Expenditures			
Current:			
General government:			
Supplies and services	64,891	-	64,891
Transportation:			
Contributions to other local agencies	123,431	-	123,431
Capital outlay	84,485	-	84,485
Debt service:			
Principal payments on long-term debt	-	7,475	7,475
Interest	25	21,318	21,343
Total Expenditures	272,832	28,793	301,625
Excess (deficiency) of revenues over (under) expenditures	117,613	(19,847)	97,766
Other financing sources (uses)			
Transfers in	8,912	30,430	39,342
Transfers out	(30,430)	(8,912)	(39,342)
Transfers to OCTA	(21,863)	-	(21,863)
Total other financing sources (uses)	(43,381)	21,518	(21,863)
Net change in fund balances	74,232	1,671	75,903
Fund balances - beginning	822,011	11,994	834,005
Fund balances - ending	\$ 896,243	\$ 13,665	\$ 909,908

See accompanying notes to the financial statements.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 14)	\$ 75,903
Donations and/or sales related to land held for resale are not reported as revenues in governmental funds, unless a sales contract is executed prior to the issuance of the financial statements. However, they are included in the Statement of Activities.	5,797
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	(14,403)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	8,204
Change in net position of governmental activities (page 11)	\$ 75,501

See accompanying notes to the financial statements.

Orange County Local Transportation Authority
(A Component Unit of the Orange County Transportation Authority)

Notes to The Financial Statements

Year Ended June 30, 2017

(in thousands)

1. Summary of Significant Accounting Policies

Reporting Entity

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth Management Ordinance, known as Measure M. This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County. The Orange County Local Transportation Authority (OCLTA) is responsible for administering the proceeds of the Measure M sales tax program. The original Measure M Program (M1) commenced on April 1, 1991 for a period of 20 years.

On November 7, 2006, Orange County voters approved the renewal of Measure M for a period of 30 more years from April 1, 2011 to March 31, 2041. Renewed Measure M (M2) allocates funds to freeway, street and road, transit, and environmental improvements.

On June 20, 1991, under the authority of Senate Bill 838, the Orange County Transportation Authority (OCTA) was formed as a special district by merging several agencies and funds, including the OCLTA, a component unit of the OCTA. Accordingly, the OCLTA's financial activities are included with the financial activities of the OCTA for financial reporting purposes.

The OCTA governing board (Board) consists of 17 voting members and one non-voting member and also serves as the OCLTA governing board. Measure M requires that an 11 member Taxpayer's Oversight Committee (TOC) monitor the use of Measure M funds and ensures that all revenues collected from Measure M is spent on voter-approved transportation projects.

These financial statements include only the activities of the OCLTA, a component unit of the OCTA. These financial statements are not intended to present the activities of the OCTA.

Basis of Presentation

The OCLTA's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Statements: The statement of net position and the statement of activities report information on all of the OCLTA. The effect of significant interfund activity has been removed from these statements. The OCLTA provides only governmental activities which are supported principally by sales taxes.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

The statement of activities demonstrates the degree to which the OCLTA Measure M program expenses are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with Measure M, and allocated indirect expenses. Interest expense related to the sales tax revenue bonds is reported as a direct expense of the Measure M program. The borrowings are considered essential to the creation or continuing existence of the Measure M program. For the year ended June 30, 2017, interest expense of \$20,614 was included in Measure M program costs. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by Measure M; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Measure M program. Taxes and other items are not reported as program revenues and instead are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information about the OCLTA's governmental funds. The OCLTA considers all of its Measure M funds as major governmental funds. They are comprised of the following:

- *Local Transportation Authority (LTA) Fund* - This fund is the general operating fund for the OCLTA and accounts for revenues received and expenditures made for the implementation of the Orange County Traffic Improvement and Growth Management Plan. Financing is provided by a one-half percent sales and use tax assessed for 20 years pursuant to Measure M, which became effective April 1, 1991, and was renewed for an additional 30 years from April 1, 2011 to March 31, 2041. The Measure M ordinance requires that sales tax revenues only be expended on projects included in the ordinance. A decision to use the revenues for any other purpose must be put to the voters in another election.
- *LTA Debt Service Fund* - This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the OCLTA.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the OCLTA considers revenues to be available if they are collected within 90 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred; however, principal and interest expenditures on long-term debt of governmental funds are recorded only when payment is due.

Year Ended June 30, 2017
(in thousands)

Those revenues susceptible to accrual are sales taxes collected and held by the state at year-end on behalf of the OCLTA, intergovernmental revenues and interest revenue. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the OCLTA; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible-to-accrual criteria are met.

Cash and Investments

The OCLTA maintains cash and investments in a pool with other OCTA cash and investments and in accordance with the Investment Policy (Policy) originally adopted by the Board on May 8, 1995, and most recently amended June 12, 2017. The Policy complies with, or is more restrictive than, the California Government Code (Code). Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Pooled cash and investment earnings are allocated based on average daily dollar account balances.

OCTA holds investments that are measured at fair value on a recurring basis. OCTA categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs - other than quoted prices included in Level 1 - that are observable including quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active; Level 3 inputs are unobservable inputs.

Investments in U.S. government and U.S. agency securities, medium term notes, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities, and corporate notes are carried at fair value based on quoted market prices, except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date, which are carried at amortized cost which approximates fair value. The Orange County Investment Pool (OCIP) is carried at fair value based on the value of each participating dollar as provided by the OCIP. The state managed Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF.

The Policy requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and may be more restrictive than applicable state statutes for the following investment types: OCTA notes and bonds, U.S. treasuries, federal instrumentality securities, federal agencies, State of California and local agency obligations, banker's acceptance, commercial paper, negotiable certificates of deposit, repurchase agreements, medium-term maturity corporate securities, money market funds,

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

other mutual funds, mortgage or asset-backed securities, LAIF, OCIP, variable and floating rate securities and bank deposits. Investment agreements are also allowed for bond issues.

In addition, OCLTA has restricted investments held by the California Community foundation (CCF). The amount invested in the CCF investment pool is a restricted asset as approved for funding by the OCTA Board of Directors in October of 2014. The CCF is headquartered in Los Angeles, California and has 65 employees. CCF is a community foundation and holds a 501 (c) 3 status, which meets California State Government Code requirements for community foundations. Legislation providing for OCTA to use a qualified organization to hold and manage the endowment is provided in Government Code §§65965-65968. An investment committee of 14 members has full discretion over investment decisions. The Endowment Pool is a diversified pool aiming for capital growth for long-term grant making with an asset allocation of approximately 45% equity, 25% alternative investments, 10% real assets and 20% fixed income.

The purpose of the agreement between CCF and OCLTA is to provide for the establishment of a fund within the CCF to receive and hold M2 Environmental Mitigation Program contributions made by OCTA during the endowment funding period for use in establishing the permanent endowment pursuant to the conservation plan. OCLTA is the beneficiary of the fund and, therefore, has reported a restricted asset in the financial statements.

The CCF shall hold, administer, invest, and reinvest the fund in accordance with the CCF's proposal and the objectives set forth in the Scope of Work of the Request for Proposal, each of which is incorporated into the agreement by reference, and in compliance with all applicable state and federal laws, including, but not limited to, Sections 65965, 65966, 69667, and 65968 of the California Government Code and the Uniform Prudent Management of Institutional Funds Act, California Probate Code Section 18501 et seq. The agreement shall remain in place in full force and effect through December 31, 2019.

The fair value of OCTA's investment in this pool is reported in the accompanying financial statements at amounts based upon OCTA's pro-rata share of the fair value provided by CCF for the entire CCF portfolio (in relation to the amortized cost of that portfolio).

Interfund Transactions

During the course of operations, numerous transactions occur between individual funds involving goods provided or services rendered and transfers of revenues from funds authorized to receive the revenue to funds authorized to expend it. Outstanding interfund balances are reported as due to/from other funds. Any residual balances outstanding between the Measure M program governmental activities and other OCTA funds are reported in the government-wide financial statements as due to/from other OCTA funds.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

OCTA allocates indirect costs related to administrative services from certain funds to benefiting funds. For fiscal year 2016-17, \$17,013 of administrative services were charged to the OCLTA and are reported as general government expenditures in the governmental funds.

Assets Held for Resale

OCLTA holds title to donated property in connection with the purchase of rights-of-way for infrastructure not held by OCLTA. These assets are reported as assets held for resale in the governmental activities column in the government-wide financial statements except in cases in which OCLTA has entered into a sales contract prior to the issuance of the financial statements for assets held for resale. In these cases, the assets held for resale are reported in the governmental funds financial statements. Proceeds received will be recorded in the LTA fund.

Capital Assets

Capital assets including land, right-of-way improvements, and machinery and equipment, are reported in the government-wide financial statements. Capital assets are defined by the OCLTA as assets with an initial, individual cost of more than \$5 and a useful life exceeding one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the acquisition date. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Freeway construction and certain purchases of right-of-way property, for which title vests with the California Department of Transportation (Caltrans), are included in capital outlay. Infrastructure consisting primarily of freeway construction and right-of-way acquisition is not recorded as a capital asset in those instances where the OCLTA does not intend to maintain or operate the property when complete.

Right-of-way improvements and machinery and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Useful Life</u>
Right-of-way improvements	10-30 years
Machinery and equipment	3-10 years

Year Ended June 30, 2017
(in thousands)

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element; deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. OCLTA has one type of deferred inflow, unavailable revenue which occurs only under a modified accrual basis of accounting. Accordingly, the item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for grant reimbursements. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts in the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Contributions to Other Agencies

Contributions to other agencies primarily represent sales tax revenues received by the OCLTA and disbursed to cities for competitive projects, the local fair share program, and the senior mobility program, and to other agencies for projects which are in accordance with the Measure M ordinance.

Year Ended June 30, 2017
(in thousands)

Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources and is classified into three categories:

- *Net investment in capital assets* - This balance reflects the net position of the OCLTA that is invested in capital assets, net of related debt. This net position is generally not accessible for other purposes.
- *Restricted net position* - This balance represents net position that is not accessible for general use because use is subject to restrictions enforceable by third parties. The government-wide statement of net position reports net position restricted by external parties for debt service.
- *Unrestricted net position* - This balance represents the net position that is available for general use as specified in the Measure M program.

Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the OCLTA is bound to honor constraints on the specific purposes for which amounts can be spent.

The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* - amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Assigned* - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. This classification also includes residual amounts assigned for specific projects. The Board establishes and modifies assignments of fund balance through the adoption of the budget and subsequent budget amendments. The Board retains the authority to assign fund balance.

When both restricted and unrestricted resources are available for use, it is the OCLTA's policy to use restricted resources first and then unrestricted resources as they are needed. When using unrestricted fund balance amounts, the committed amounts would be reduced first followed by the assigned amounts.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures during the reporting period. As such, actual results could differ from those estimates.

2. Reconciliation of Government-wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position

The governmental funds balance sheet includes a reconciliation between fund balances - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$(319,817) difference are as follows:

Bonds payable	\$ (318,010)
Plus unamortized bond issuance premium (to be amortized to interest expense)	<u>(1,807)</u>
Net adjustment to decrease fund balances - total governmental funds to arrive at net position - governmental activities	<u>\$ (319,817)</u>

Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and change in net position - governmental activities as reported in the government-wide statement of activities.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

One element of that reconciliation states that "The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$8,204 difference are as follows:

Principal repayments	\$ 7,475
Change in accrued interest	127
Amortization of premium	<u>602</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net position - governmental activities	<u><u>\$ 8,204</u></u>

3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2017:

Investments:	
With OCTA Commingled Investment Pool	\$ 791,889
With Trustee	112,585
With CA Community Foundation	<u>2,965</u>
Total Cash and Investments	<u><u>\$ 907,439</u></u>

Total deposits and investments are reported in the financial statements as:

Unrestricted Cash and Investments	\$ 904,474
Restricted Cash and Investments	<u>2,965</u>
Total Cash and Investments	<u><u>\$ 907,439</u></u>

As of June 30, 2017, OCLTA had the following investments:

Investment	Fair Value	Principal	Interest Rate	Yield	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$791,889	\$794,521	*	*	*	*
Money Market Funds **	112,585	112,585	Variable	0.820% - 0.830%	7/1/17	1 Day
CA Community Foundation Investment Fund	<u>2,965</u>	<u>2,965</u>	N/A	N/A	N/A	N/A
Total Investments	<u><u>\$907,439</u></u>	<u><u>\$910,071</u></u>				

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

* Refer to the OCTA CAFR for information related to the OCTA Commingled Investment Pool.

** Money Market Funds are measured at amortized cost, which approximates fair value, due to their short-term maturity.

The Portfolio Weighted Average Maturity is 1.87 years.

As of June 30, 2017, OCLTA had \$791,889 invested in the OCTA's commingled investment Pool (CIP). Refer to the OCTA Comprehensive Annual Financial Report (CAFR) for details on valuation techniques and fair value hierarchy, interest rate risk, variable rate notes and custodial credit risk. Deposits and withdrawals in OCTA's CIP are made on the basis of \$1.00 (absolute dollars) and not fair value. Accordingly, the OCLTA's investment in OCTA's CIP at June 30, 2017 is uncategorized, not defined as Level 1, Level 2, or Level 3 input.

As of June 30, 2017, OCLTA had \$2,965 invested in the CA Community Foundation investment fund. The amount invested is valued using significant unobservable inputs and, therefore, classified as Level 3.

Credit Risk

The Policy sets minimum acceptable credit ratings for investments from any of the three NRSROs: S&P, Moody's, and Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A" by two of the three rating services. The OCTA Commingled Investment Pool and the CA Community Foundation Investment Fund are not rated.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2017. (NR means Not Rated, US means obligation of the United States (U.S.) government or obligations explicitly guaranteed by the U. S. government):

Investments	S&P	Moody's	Fitch	% of Portfolio
OCTA Commingled Investment Pool	NR	NR	NR	87.26%
Held by Trustee:				
Money Market Funds	AAA	Aaa	AAA	12.41%
CA Community Foundation Investment Fund	NR	NR	NR	.33%
Total				<u>100.00%</u>

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

4. Due From/To Other Governments

Amounts due from other governments as of June 30, 2017 in the fund financial statements are \$92,937 and are comprised of \$57,010 of sales taxes, \$33,511 of project reimbursements and \$2,416 representing the interest receivable on Build America Bonds.

Amounts due to other governments as of June 30, 2017 are \$20,603 and are comprised of \$19,699 for transportation projects and \$904 for other miscellaneous transactions.

5. Related Party Transactions and Interfund Transfers

Related party transactions:

As of June 30, 2017, OCLTA has \$9,462 receivable from other OCTA funds for the I-405 Express Lanes project.

As of June 30, 2017, OCLTA owes \$1,324 to other OCTA funds as follows:

	Amount	Explanation
General Fund	\$ 627	Placentia Rail Station, ARTIC
OCUTT	50	Local Fair Share funds withheld from City of Placentia
Capital Project Fund	647	OC Streetcar project
Total	<u>\$ 1,324</u>	

During fiscal year 2016-17, transfers of \$21,863 from OCLTA to OCTA were made mainly to fund the OC Streetcar project, for the M2 fare stabilization and senior mobility programs and to fund the deficit cash position of the CURE Fund and expenditures related to Service Authority for Freeway Emergencies.

OCTA advanced monies to OCLTA to cover expenditures such as election costs, administrative costs, and accrued interest. Interest accrues monthly at an interest rate representing OCTA's rate of return on short-term investments, adjusted each July (0.79% for fiscal year 2016-17). As of June 30, 2017, OCLTA owes OCTA \$2,640. OCLTA began repaying OCTA when Measure M funds were collected.

Interfund Transfers:

During fiscal year 2016-17, the LTA Fund transferred \$30,430 to the LTA Debt Service Fund for debt service payments. Additionally, the LTA Debt Service Fund transferred \$8,912 in excess interest earnings to the LTA Fund.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

6. Capital Assets

Capital assets activity for the OCLTA governmental activities for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment	\$ 32	\$ -	\$ -	\$ 32
Total capital assets, being depreciated	32	-	-	32
Less accumulated depreciation for:				
Machinery and equipment	(32)	-	-	(32)
Total accumulated depreciation	(32)	-	-	(32)
Total Measure M capital assets, being depreciated, net	-	-	-	-
Total Measure M capital assets, net	\$ -	\$ -	\$ -	\$ -

7. Long-Term Debt

Sales Tax Revenue Bonds

On December 9, 2010, OCLTA issued \$293,540 in Measure M2 Sales Tax Revenue Bonds, 2010 Series A (Taxable Build America Bonds) and \$59,030 in 2010 Series B (Tax-Exempt Bonds), to finance and refinance the costs of certain transportation projects located in Orange County, to restructure the Tax Exempt Commercial Paper (TECP) Program, and to fund capitalized interest and costs of issuance related to the 2010 Series Bonds. A reserve fund is not required in connection with the 2010 Series Bonds per the bond indenture. The transaction closed on December 23, 2010. A total of \$75,000 was used to refund outstanding TECP. The Measure M sales tax is the source of revenue for repaying this debt.

A summary of the bonds outstanding is as follows:

	2010 Series A (Taxable Build America Bonds)	2010 Series B (Tax-Exempt Bonds)
Issuance date	12/9/10	12/9/10
Original issue amount	\$ 293,540	\$ 59,030
Original issue premium	-	6,023
Net bond proceeds	\$ 293,540	\$ 65,053

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

	2010 Series A (Taxable Build America Bonds)	2010 Series B (Tax-Exempt Bonds)
Issuance costs	\$ 1,905	\$ 274
Interest rates	5.56% - 6.91%	3.00% - 5.00%
Maturity range	2021-2041	2014-2020
Final maturity	2041	2020
Bonds outstanding	\$ 293,540	\$ 24,470
Plus unamortized premium	-	1,807
Total	<u>\$ 293,540</u>	<u>\$ 26,277</u>

Annual debt service requirements on the sales tax revenue bonds as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest
2018	\$ 7,775	\$ 21,018
2019	8,165	20,629
2020	8,530	20,263
2021	8,915	19,879
2022	9,235	19,384
2023-2027	52,025	87,930
2028-2032	64,575	68,621
2033-2037	80,430	44,222
2038-2041	78,360	13,830
Total	<u>\$ 318,010</u>	<u>\$ 315,776</u>

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Measure M program activities:					
Sales tax revenue bonds	\$ 325,485	\$ -	\$ 7,475	\$ 318,010	\$ 7,775
Unamortized premium	2,409	-	602	1,807	-
Total Measure M program activities long-term liabilities	<u>\$ 327,894</u>	<u>\$ -</u>	<u>\$ 8,077</u>	<u>\$ 319,817</u>	<u>\$ 7,775</u>

Pledged Revenue

OCLTA has debt issuances outstanding that are repaid and secured by the pledging of certain revenues. The amount and terms of the debt commitments are indicated in the bonds outstanding table found on pages 27 and 28. The purposes for which the proceeds of the debt issuances were utilized are disclosed in the debt description located on page 27.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

For the year ended June 30, 2017, debt service payments as a percentage of the pledged gross revenue net of the local fair share program and other expenses as required by the debt agreement, are indicated in the following table:

Description of Pledged Revenue	Annual Amount of Net Pledged Revenue	Annual Debt Service Payments	Pledged Revenue Coverage
Measure M2 Net Sales Tax Revenue	\$ 239,727	\$ 22,495*	10.66

*OCLTA recorded \$6,298 in Build America Bonds subsidy to offset annual debt service payments for Measure M2 Sales Tax Revenue Bonds in fiscal year 2016-17.

8. Commitments and Contingencies

Purchase Commitments

The OCLTA has various long-term outstanding contracts that extend over several years and rely on future years' revenues. Total commitments at June 30, 2017, were \$1,481,626. The most significant is \$990,667 for the I-405 improvement project. The majority of the commitments are for the expansion and improvement of Orange County's freeway and road systems.

Federal Grants

OCTA receives federal grants for transportation projects and other reimbursable activities which are subject to audit by the grantor agency. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits would not have a material effect on the OCLTA's financial position or changes in financial position.

9. Excess of Expenditures over Appropriations

In the LTA Debt Service Fund, expenditures exceeded appropriations for transfers out in the amount of \$1,954. During the year, an analysis was done on amounts required to be maintained in the LTA Debt Service Fund. It was determined that there was an excess amount of funds in the LTA Debt Service Fund due to the receipt of Build America Bonds subsidy, interest earnings, and the timing of the debt service payment. The excess amount was transferred to the LTA Fund. An analysis is conducted on an annual basis during the fiscal year to determine the appropriate amount to be transferred, if necessary.

Year Ended June 30, 2017
(in thousands)

10. Subsequent Events

TIFIA and Line of Credit Disclosure

During the fiscal year, OCTA continued with its pursuit of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for the I-405 Improvement Project (Project). During most of the year, OCTA negotiated key terms and conditions of the loan with the Build America Bureau Credit Programs Office (Bureau). One key term the Bureau insisted upon was that \$900 million in future Measure M2 (M2) debt issuances be committed funds at the time of closing the TIFIA loan. Therefore, because of this requirement, OCTA issued a Request for Proposal for letter or line of credit services. In May 2017, the OCTA Board of Directors selected Bank of America N.A. (BANA) to provide a \$900 million line of credit to meet the Bureau's requirement. The line of credit was set up as two separate Credit and Fee Agreements, one with a 2019 maturity and the other with a 2021 maturity. The cost for the BANA Line is 26 basis points per year for the 2019 maturity and 36 basis points per year for the 2021 maturity.

The payment obligations owed to BANA under the Credit and Fee Agreements is payable and secured by a pledge of, lien on, and security interest in the M2 sales tax revenues, including earnings on such amounts, subject only to the provisions of the Master Indenture. The pledge, lien, and security interest shall be junior and subordinate only to the pledge of M2 sales tax revenues in favor of the Senior Lien Debt pursuant to the express terms of the Master Indenture.

In June 2017, the OCTA Board of Directors approved the terms and conditions for the TIFIA Loan Agreement along with the supporting Indenture and Supplemental Indenture documents. The loan is secured with future I-405 Express Lanes revenues, has a final maturity of December 1, 2057, and has a fixed interest rate of 2.91 percent.

On July 26, 2017, OCTA and the Bureau executed the final TIFIA Loan Agreement in the amount of \$628.93 million. Also on this date, OCTA and BANA executed the two Credit and Fee Agreements.

11. Effect of New Pronouncements

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This statement is effective for OCLTA's fiscal year ending June 30, 2017. This Statement does not apply to OCLTA.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This statement is effective for OCLTA's fiscal year ending June 30, 2018. OCLTA has not determined the effect of this statement.

GASB Statement No. 77

In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. This statement is effective for OCLTA's fiscal year ending June 30, 2017. OCLTA has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 80

In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This Statement is effective for OCLTA's fiscal year ending June 30, 2017. OCLTA has determined that this Statement does not have a material impact on the financial statements.

Orange County Local Transportation Authority
Notes to The Financial Statements

Year Ended June 30, 2017
(in thousands)

GASB Statement No. 81

In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. However, OCLTA decided to early implement this Statement. Therefore, this Statement is effective for OCLTA's fiscal year ending June 30, 2017. The implementation of this Statement did not have a material effect on the financial statements.

GASB Statement No. 83

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. This Statement is effective for OCLTA's fiscal year ending June 30, 2019. OCLTA has not determined the effect of this Statement.

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This Statement is effective for OCLTA's fiscal year ending June 30, 2020. OCLTA has not determined the effect of this Statement.

Year Ended June 30, 2017
(in thousands)

GASB Statement No. 85

In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is effective for OCLTA's fiscal year ending June 30, 2018. OCLTA has not determined the effect of this Statement.

GASB Statement No. 86

In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement is effective for OCLTA's fiscal year ending June 30, 2018. OCLTA has not determined the effect of this Statement.

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for OCLTA's fiscal year ending June 30, 2021. OCLTA has not determined the effect of this Statement.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Required Supplementary Information
Budgetary Comparison Schedule - LTA Fund (Budgetary Basis)
Year Ended June 30, 2017

	Budgeted Amounts			
(amounts expressed in thousands)	Original	Final	Actual Amounts	Variance with Final Budget
Revenues:				
Sales taxes	\$ 314,348	\$ 314,348	\$ 308,780	\$ (5,568)
Contributions from other agencies	154,869	300,669	142,103	(158,566)
Interest	6,528	6,528	2,524	(4,004)
Miscellaneous	104	104	6,898	6,794
Total revenues	475,849	621,649	460,305	(161,344)
Expenditures:				
Current:				
General government	142,255	142,321	97,922	44,399
Transportation:				
Contributions to other local agencies	175,978	173,297	123,827	49,470
Capital outlay	237,480	1,132,191	992,379	139,812
Debt service:				
Interest on long-term debt and commercial paper	-	-	25	(25)
Total expenditures	555,713	1,447,809	1,214,153	233,656
Excess (deficiency) of revenues over (under) expenditures	(79,864)	(826,160)	(753,848)	72,312
Other financing sources (uses):				
Transfers in	(6,195)	(6,195)	8,912	15,107
Transfers from OCTA	13,153	13,153	-	(13,153)
Transfers out	(22,300)	(22,302)	(30,430)	(8,128)
Transfers to OCTA	(57,882)	(57,880)	(21,863)	36,017
Total other financing uses	(73,224)	(73,224)	(43,381)	29,843
Net change in fund balance	\$ (153,088)	\$ (899,384)	\$ (797,229)	\$ 102,155
Reconciliation to GAAP:				
Net change in fund balance (budgetary basis)			\$ (797,229)	
Less: Estimated revenues for encumbrances outstanding at June 30			69,860	
Add: Current year encumbrances outstanding at June 30			941,321	
Net change in fund balance (GAAP basis)			\$ 74,232	

See accompanying notes to the required supplementary information.

Orange County Local Transportation Authority
(A Component Unit of the Orange County Transportation Authority)

Notes to Required Supplementary Information

Year Ended June 30, 2017

(in thousands)

1. Budgetary Data

The OCLTA establishes accounting control through formal adoption of an annual operating budget for the LTA and the debt service governmental funds. The budget is prepared in conformity with accounting principles generally accepted in the United States (GAAP) except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget can be amended by the Board to increase both appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as Salaries and Benefits, Supplies and Services and Capital Outlay. Supplies and Services includes Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, for budgeted funds, is at the major object level for the budgeted governmental funds. A Fourth Quarter Budget Status Report, June 2017 is available from the OCTA Finance and Administration Division. With the exception of accounts which have been encumbered, appropriations lapse at year end.

There were no excess of expenditures over appropriations for fiscal year 2016-17.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
(A Component Unit of the Orange County Transportation Authority)
Other Supplementary Information
Budgetary Comparison Schedule - LTA Debt Service Fund (Budgetary Basis)
Year Ended June 30, 2017

<i>(amounts expressed in thousands)</i>	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Interest	\$ 6,492	\$ 6,492	\$ 8,946	\$ 2,454
Total revenues	6,492	6,492	8,946	2,454
Expenditures:				
Debt service:				
Principal payments on long-term debt	7,475	7,475	7,475	-
Interest on long-term debt	21,318	21,318	21,318	-
Total expenditures	28,793	28,793	28,793	-
Deficiency of revenues under expenditures	(22,301)	(22,301)	(19,847)	2,454
Other financing sources:				
Transfers in	22,302	22,302	30,430	8,128
Transfers out	(6,958)	(6,958)	(8,912)	(1,954)
Total other financing sources	15,344	15,344	21,518	6,174
Net change in fund balance	\$ (6,957)	\$ (6,957)	\$ 1,671	\$ 8,628



**INDEPENDENT AUDITORS' 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**

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Orange County Local Transportation Authority (OCLTA), a component unit of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCLTA's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCLTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCLTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCLTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCLTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California
October 31, 2017

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**Local Transportation Fund
Financial Statements**

Year Ended June 30, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

**LOCAL TRANSPORTATION FUND
FINANCIAL STATEMENTS**

JUNE 30, 2017

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Change in Fund Balance	4
Notes to Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual	8
Notes to Required Supplementary Information	9
Supplementary Information	
Schedule of Disbursements	10
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11



INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Transportation Fund (LTF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LTF, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the LTF and do not purport to, and do not, present fairly the financial position of OCTA as of June 30, 2017, and the changes in its financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 8-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise LTF's financial statements. The Schedule of Disbursements (Schedule) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of OCTA's internal control over financial reporting, as it relates to the LTF, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control over financial reporting and compliance, as it relates to the LTF.



Laguna Hills, California
October 31, 2017

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**BALANCE SHEET
JUNE 30, 2017**

ASSETS

Cash and Investments	\$ 20,127
Interest Receivable	2,431
Due from Other Governments (Note 3)	<u>30,316,344</u>
Total Assets	<u><u>\$ 30,338,902</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Governments (Note 4)	\$ 437,962
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FUND BALANCE

Restricted:	
Transportation Programs	<u>29,900,940</u>
Total Liabilities and Fund Balance	<u><u>\$ 30,338,902</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUE

Local Transportation Sales Tax Allocations	\$ 155,055,173
Investment Income	<u>27,729</u>
Total Revenues	<u>155,082,902</u>

EXPENDITURES

Current:

Supplies and Services	1,936,446
Contributions to Other Agencies	<u>2,172,062</u>
Total Expenditures	<u>4,108,508</u>

Excess of Revenues Over Expenditures	150,974,394
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OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 5)	<u>(148,903,713)</u>
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Net Change in Fund Balance	2,070,681
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Fund Balance, Beginning of Year	<u>27,830,259</u>
Fund Balance, End of Year	<u><u>\$ 29,900,940</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – REPORTING ENTITY

The Local Transportation Fund (LTF) is a special revenue fund of the Orange County Transportation Authority (OCTA). The LTF financial statements do not purport to, and do not, present fairly, the financial position of OCTA, as of June 30, 2017, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. This fund is used to account for revenues received and expenditures made for certain transit projects within Orange County.

The LTF was created by the Transportation Development Act (TDA) for specific transportation purposes. Revenues to the LTF are derived from a ¼ cent state sales and use tax. The ¼ cent is returned by the State Board of Equalization (SBOE) to each county according to the amount of tax collected in that county.

The Orange County Transit District (OCTD) of OCTA is a transit operator and OCTA is the regional Transportation Planning Agency (TPA) for the County of Orange, California (County). Annually, the TPA determines each area's apportionment of LTF revenues. Generally, County LTF revenues are apportioned by population. Where there is a transit operator, separate apportionments are made to areas within and outside the district. Once funds are apportioned, they are only available for allocation to claimants in that area. Payments from the LTF are made by the County Auditor-Controller in accordance with allocation instructions issued by OCTA.

Article 3 of the TDA stipulates that, based on the County's population of more than 500,000, OCTA is eligible to receive LTF revenues solely for claims for the following, which are allocated in specific priority order: administration, planning and programming; Section 99234 of Article 3, which are claims for pedestrian and bicycle facilities; Article 4, which are for general transit operations and services; and Article 4.5, which are claims for community transit services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the LTF are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles for governmental units.

Fund Accounting

The LTF activities and transactions are recorded and accounted for in a special revenue fund of OCTA. Special revenue funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds. The LTF accounts for revenues received and expenditures made for certain transit projects within Orange County. Financing is generated from a ¼ cent state sales and use tax pursuant to the TDA. Expenditures of these monies must be made in accordance with TDA provisions. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Basis of Accounting

The LTF financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are accrued when they become both measurable and available. Measurable means that amounts can be estimated or otherwise determined. Available means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 90 days of year end. Expenditures are recorded when the liability is incurred. Liabilities are considered current when they are expected to be liquidated with available financial resources.

Cash and Investments

The LTF maintains its deposits in the Orange County Investment Pool (OCIP), as required by State statute. Oversight of the OCIP is performed by the Orange County Treasury Oversight Committee. The LTF categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017, the LTF held no individual investments. All funds are invested in OCIP.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The LTF's assessment of the significance of particular inputs to these fair value measurements require judgment and considers factors specific to each asset or liability.

Deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, the LTF's investment in the OCIP at June 30, 2017 of \$20,127 is uncategorized, not defined as a Level 1, Level 2, or Level 3 input.

Investment income earned by the pooled cash and investments in the OCIP is allocated based on average cash and investment balance.

For information on cash and investment disclosures relating to LTF's deposits in the OCIP, please see OCTA's Comprehensive Annual Financial Report.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Fund Balance

The LTF classifies fund balance based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Fund balance for the year ended June 30, 2017 consists of the following:

Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation. For the LTF, amounts are restricted pursuant to the TDA.

When funds of different classifications are available for the same purpose, the spending priority is to spend restricted resources before unrestricted resources, and within the unrestricted category, committed followed by assigned fund balance.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Due from other governments of \$30,316,344 represents a TDA receivable due from the State of California.

NOTE 4 – DUE TO OTHER GOVERNMENTS

Due to other governments of \$437,962 represents amounts due to other agencies for use in transit projects.

NOTE 5 – TRANSFERS

Transfers to other OCTA funds during the fiscal year ended June 30, 2017 consisted of the following:

OCTD for transit operations	\$ 145,366,858
OCTA for planning and administration	<u>3,536,855</u>
Total	<u><u>\$ 148,903,713</u></u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND (BUDGETARY BASIS)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Local Transportation Sales Tax Allocations	\$ 161,006,154	\$ 161,006,154	\$ 155,055,173	\$ (5,950,981)
Investment Income	21,640	21,640	27,729	6,089
Total Revenues	161,027,794	161,027,794	155,082,902	(5,944,892)
Expenditures				
Current:				
Supplies and Services	1,751,798	1,751,798	1,936,446	(184,648)
Contributions to Other Local Agencies	2,289,926	2,289,926	2,172,062	117,864
Total Expenditures	4,041,724	4,041,724	4,108,508	(66,784)
Excess of Revenues over Expenditures	156,986,070	156,986,070	150,974,394	(6,011,676)
Other Financing Uses				
Transfers to Other OCTA Funds (Note 5)	(156,986,070)	(156,986,070)	(148,903,713)	8,082,357
Total Other Financing Uses	(156,986,070)	(156,986,070)	(148,903,713)	8,082,357
Net Change in Fund Balance	-	-	2,070,681	2,070,681
Fund Balance, Beginning of Year	27,830,259	27,830,259	27,830,259	-
Fund Balance, End of Year	\$ 27,830,259	\$ 27,830,259	\$ 29,900,940	\$ 2,070,681

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 – BUDGETARY DATA

The LTF maintains accounting control through formal adoption of an annual operating budget. The operating budget is prepared in conformity with accounting principles generally accepted in the United States, except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget may be amended by the OCTA Board of Directors (Board) to increase appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations, adjusted for supplemental appropriations, during the year. OCTA division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as: Salaries and Benefits, Supplies and Services, and Capital Outlay. Supplies and Services include Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, is at the major object level. With the exception of amounts that have been encumbered, appropriations lapse at year end.

There were no excess of expenditures over appropriations for fiscal year 2016-17.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
LOCAL TRANSPORTATION FUND**

**SCHEDULE OF DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Claimant	Article 3 Administration	Article 3 Planning	Article 4 Operating and Capital	Article 4.5 Paratransit Operating and Capital	Total
City of Laguna Beach	\$ -	\$ -	\$ 1,031,639	\$ -	\$ 1,031,639
County of Orange	7,671	-	-	-	7,671
Orange County Transit District	-	-	138,049,045	7,317,813	145,366,858
Orange County Transportation Authority	138,600	3,398,255	-	-	3,536,855
Southern California Association of Governments	-	1,132,752	-	-	1,132,752
Total disbursements	<u>\$ 146,271</u>	<u>\$ 4,531,007</u>	<u>\$ 139,080,684</u>	<u>\$ 7,317,813</u>	<u>\$ 151,075,775</u>



**INDEPENDENT AUDITORS' 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**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Local Transportation Fund (LTF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017. Our report included an emphasis-of-matter that the LTF financial statements do not purport to, and do not, present fairly the financial position of OCTA. Also, our report notes that the financial statements do not include management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting (internal control), as it relates to the LTF, to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected 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 consider attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LTF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including §6661 and §6662 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6661 and §6662 of Part 21 of the California Code of Regulations.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California

October 31, 2017

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**State Transit Assistance Fund
Financial Statements**

Year Ended June 30, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

**STATE TRANSIT ASSISTANCE FUND
FINANCIAL STATEMENTS**

JUNE 30, 2017

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Change in Fund Balance	4
Notes to Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual	8
Notes to Required Supplementary Information	9
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10



INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the State Transit Assistance Fund (STAF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STAF, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the STAF and do not purport to, and do not, present fairly the financial position of OCTA as of June 30, 2017, and the changes in its financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 8-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of OCTA's internal control over financial reporting, as it relates to the STAF, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control over financial reporting and compliance, as it relates to the STAF.



Laguna Hills, California
October 31, 2017

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**BALANCE SHEET
JUNE 30, 2017**

ASSETS

Cash and Investments	\$ 23,282
Interest Receivable	21
Due from Other Governments (Note 3)	<u>3,966,675</u>
Total Assets	<u><u>\$ 3,989,978</u></u>

LIABILITIES

Due to Other OCTA Funds (Note 4)	<u>\$ 3,966,675</u>
Total Liabilities	<u>3,966,675</u>

FUND BALANCE

Restricted:	
Transportation Programs	<u>23,303</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,989,978</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUE

State Transit Assistance Sales Tax Allocations	\$ 22,566,355
Interest and Investment Income	5,017
Total Revenues	<u>22,571,372</u>

EXPENDITURES

Current:

Supplies and Services	366
Contributions to Other Agencies	172
Total Expenditures	<u>538</u>

Excess of Revenues over Expenditures	22,570,834
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OTHER FINANCING USES:

Transfers to Other OCTA Funds (Note 5)	<u>(22,566,355)</u>
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Net Change in Fund Balance	4,479
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Fund Balance, Beginning of Year	18,824
Fund Balance, End of Year	<u><u>\$ 23,303</u></u>

See accompanying notes to financial statements.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – REPORTING ENTITY

The State Transit Assistance Fund (STAF) is a special revenue fund of the Orange County Transportation Authority (OCTA). The STAF financial statements do not purport to, and do not, present fairly, the financial position of OCTA, as of June 30, 2017, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. This fund is used to account for funds transferred to the Orange County Transit District (OCTD) for operations and fare assistance for seniors and disabled persons.

The STAF provides a second source of Transportation Development Act (TDA) funding for transportation planning and mass transportation purposes as specified by the State of California Legislature. Funds for the program are derived from sales taxes on gasoline and use taxes on diesel fuel.

The STAF funds are allocated through an appropriation to the State Controller by the Legislature for allocation by formula to each Transportation Planning Agency (TPA). The OCTA serves as the regional TPA for the County of Orange, California (County). The formula allocates 50 percent of the funds according to population and the remaining 50 percent according to operator revenues from the prior fiscal year. The allocations are based on the operator's share of revenues compared to all of the other operators in the State. The STAF allocations are deposited in the OCTA's STAF, which is maintained by the Auditor-Controller of the County. The allocation to OCTA's STAF must be made in a resolution adopted by OCTA's governing board. Payments from the STAF are made by the County Auditor-Controller in accordance with the allocation instructions in the allocation resolution.

The STAF funds may not be allocated to fund administration or streets and roads projects. Operators receiving the STAF funds must meet qualifying criteria based on the subsidy per revenue vehicle hour received in the previous year, taking into consideration the change in the Consumer Price Index within the operator's region.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the STAF are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles for governmental units.

Fund Accounting

The STAF activities and transactions are recorded and accounted for in a special revenue fund of the OCTA. This fund is used to account for funds transferred to OCTD transit for operations and fare assistance for senior and disabled persons. Funding is provided by sales taxes on gasoline and use taxes on diesel fuel. Expenditure of these funds is governed by the provisions of the TDA. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The STAF financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are accrued when they become both measurable and available. Measurable means that amounts can be estimated or otherwise determined. Available means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 90 days of year end. Expenditures are recorded when the liability is incurred. Liabilities are considered current when they are expected to be liquidated with available financial resources.

Cash and Investments

The STAF maintains its deposits in the Orange County Investment Pool (OCIP), as required by State statute. Oversight of the OCIP is performed by the Orange County Treasury Oversight Committee. The STAF categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017, the STAF held no individual investments. All funds are invested in OCIP.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The STAF's assessment of the significance of particular inputs to these fair value measurements require judgment and considers factors specific to each asset or liability.

Deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, the STAF's investment in the OCIP at June 30, 2017 of \$23,282 is uncategorized, not defined as a Level 1, Level 2, or Level 3 input.

Investment income earned by the pooled cash and investments in the OCIP is allocated based on average cash and investment balance.

For information on cash and investment disclosures relating to STAF's deposits in the OCIP, please see OCTA's Comprehensive Annual Financial Report.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

The STAF classifies fund balance based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Fund balance for the year ended June 30, 2017 consists of the following:

Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation. For the STAF, amounts are restricted pursuant to the TDA.

When funds of different classifications are available for the same purpose, the spending priority is to spend restricted resources before unrestricted resources, and within the unrestricted category, committed followed by assigned fund balance.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Due from other governments of \$3,966,675 represents a TDA receivable due from the State of California.

NOTE 4 – DUE TO OTHER OCTA FUNDS

Due to other OCTA funds of \$3,966,675 represents a TDA payable due to OCTD.

NOTE 5 – TRANSFERS TO OTHER OCTA FUNDS

Transfers to OCTD of \$22,566,355 for the year ended June 30, 2017 were for the purpose of funding transit operations.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND (BUDGETARY BASIS)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State Transit Assistance Sales Tax Allocations	\$ 17,214,550	\$ 17,214,550	\$ 22,566,355	\$ 5,351,805
Interest and Investment Income	-	-	5,017	5,017
Total Revenues	<u>17,214,550</u>	<u>17,214,550</u>	<u>22,571,372</u>	<u>5,356,822</u>
Expenditures				
Supplies and Services	-	-	366	(366)
Contributions to Other Local Agencies	-	-	172	(172)
Total Expenditures	<u>-</u>	<u>-</u>	<u>538</u>	<u>(538)</u>
Excess of Revenues over Expenditures	<u>17,214,550</u>	<u>17,214,550</u>	<u>22,570,834</u>	<u>5,356,284</u>
Other Financing Uses				
Transfers to Other OCTA Funds (Note 5)	(17,214,550)	(17,214,550)	(22,566,355)	(5,351,805)
Total Other Financing Uses	<u>(17,214,550)</u>	<u>(17,214,550)</u>	<u>(22,566,355)</u>	<u>(5,351,805)</u>
Net Change in Fund Balance	-	-	4,479	4,479
Fund Balance, Beginning of Year	18,824	18,824	18,824	-
Fund Balance, End of Year	<u>\$ 18,824</u>	<u>\$ 18,824</u>	<u>\$ 23,303</u>	<u>\$ 4,479</u>

**ORANGE COUNTY TRANSPORTATION AUTHORITY
STATE TRANSIT ASSISTANCE FUND**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 – BUDGETARY DATA

The STAF maintains accounting control through formal adoption of an annual operating budget. The operating budget is prepared in conformity with accounting principles generally accepted in the United States, except for multi-year contracts, for which the entire amount of the contract is budgeted and encumbered in the year of execution. The adopted budget may be amended by the OCTA Board of Directors (Board) to increase appropriations and estimated revenues as unforeseen circumstances come to management's attention. Budgeted expenditure amounts represent original appropriations, adjusted for supplemental appropriations, during the year. OCTA division heads are authorized to approve appropriation transfers within major objects subject to approval by the Finance and Administration Division. Major objects are defined as: Salaries and Benefits, Supplies and Services, and Capital Outlay. Supplies and Services include Contributions to Other Local Agencies, Debt Service and Transfers. Appropriation transfers between major objects require approval of the Board. Accordingly, the legal level of budgetary control, that is the level that expenditures cannot exceed appropriations, is at the major object level. With the exception of amounts that have been encumbered, appropriations lapse at year end.

Expenditures exceeded appropriations for transfers out in the amount of \$5,352,343. This was a result of OCTA receiving prior year STAF revenues in the current fiscal year. Transfers out to OCTD to cover transit capital were increased based on the timing delay of STAF revenues.



**INDEPENDENT AUDITORS' 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**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Transit Assistance Fund (STAF), a special revenue fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the OCTA's basic financial statements, and have issued our report thereon dated October 31, 2017. Our report included an emphasis-of-matter that the STAF financial statements do not purport to, and do not, present fairly the financial position of OCTA. Also, our report notes that the financial statements do not include management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting (internal control), as it relates to the STAF, to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the STAF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including §6750 and §6751 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6750 and §6751 of Part 21 of the California Code of Regulations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCTA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California

October 31, 2017

**ORANGE COUNTY
TRANSPORTATION AUTHORITY

INDEPENDENT AUDITORS' REPORT ON
PROPOSITION 1B
AND
TRANSPORTATION DEVELOPMENT ACT

Year Ended June 30, 2017**

ORANGE COUNTY TRANSPORTATION AUTHORITY

**PROPOSITION 1B
AND
TRANSPORTATION DEVELOPMENT ACT**

JUNE 30, 2017

TABLE OF CONTENTS

PAGE

Independent Auditors' Report on Proposition 1B Schedule of Unspent Funds and Cash Disbursements	1
Schedule of Unspent Funds and Cash Disbursements	2
Independent Auditors' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> , the Transportation Development Act, California Government Code §8879.50, and State Senate Bill 88 (2007)	3



**INDEPENDENT AUDITORS' REPORT ON PROPOSITION 1B SCHEDULE OF
UNSPENT FUNDS AND CASH DISBURSEMENTS**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited the financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and have issued our report thereon dated October 31, 2017, which contained unmodified opinions on those financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OCTA's basic financial statements. The Proposition 1B Schedule of Unspent Funds and Cash Disbursements (Schedule) is presented for purposes of additional analysis, to satisfy the requirements of Section 6667 of Title 21 of the California Code of Regulations, the California *Government Code* §8879.50 and the California State Senate Bill 88 (2007), et seq. and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads 'Vavrinek, Trine, Day & Co., LLP'.

Laguna Hills, California
October 31, 2017

**ORANGE COUNTY TRANSPORTATION AUTHORITY
PROPOSITION 1B**

**SCHEDULE OF UNSPENT FUNDS AND CASH DISBURSEMENTS
YEAR ENDED JUNE 30, 2017**

	<u>PTMISEA (1)</u>	<u>TSSSDRA (2)</u>	<u>Total</u>
Unspent Prop 1B funds as of June 30, 2016	\$ 25,207,243	\$ 3,590,807	\$ 28,798,050
Prop 1B funds received during the fiscal year ended June 30, 2017	-	7,041,148	7,041,148
Interest revenue earned on unspent Prop 1B funds during fiscal year ended June 30, 2017	195,635	27,585	223,220
Prop 1B disbursements spent during the fiscal year ended June 30, 2017	<u>(11,516,413)</u>	<u>(1,786,394)</u>	<u>(13,302,807)</u>
Unspent Prop 1B funds as of June 30, 2017	<u>\$ 13,886,465</u>	<u>\$ 8,873,146</u>	<u>\$ 22,759,611</u>

(1) Public Transportation, Modernization, Improvement, and Service Enhancement Account

(2) Transit System Safety, Security & Disaster Recovery Account



**INDEPENDENT AUDITORS' 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*, THE TRANSPORTATION DEVELOPMENT ACT, CALIFORNIA
GOVERNMENT CODE §8879.50, AND STATE SENATE BILL 88 (2007)**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq., noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the Transportation Development Act Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and the California State Senate Bill 88 (2007), et seq.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California

October 31, 2017

**ORANGE COUNTY LOCAL
TRANSPORTATION AUTHORITY**

**Report on Agreed-Upon Procedures
Applied to Measure M2 Status Report**

Year Ended June 30, 2017

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

**Report on Agreed-Upon Procedures
Applied to Measure M2 Status Report**

Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
Independent Accountants' Report on Applying Agreed-Upon Procedures to the Measure M2 Status Report.....	1
Measure M2 Status Report (Unaudited):	
Schedule 1 - Schedule of Revenues, Expenditures and Changes in Fund Balance.....	4
Schedule 2 - Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service)	5
Schedule 3 - Schedule of Revenues and Expenditures Summary	6
Notes to Measure M2 Status Report.....	8



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Certified Public Accountants

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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES TO THE
MEASURE M2 STATUS REPORT**

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 (Committee) of the Orange County Local Transportation Authority (OCLTA) (the specified party), on the Measure M2 Status Report, and to ascertain that the amounts have been derived from the audited financial statements or other published documents, Board of Director approved documents or internal documents, for the year ended June 30, 2017. The Measure M2 Status Report consists of the following three schedules (Schedules): Schedule of Revenues, Expenditures and Changes in Fund Balance (Schedule 1); Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service) (Schedule 2); and Schedule of Revenues and Expenditures Summary (Schedule 3). OCLTA's management is responsible for the Measure M2 Status Report. The sufficiency of these procedures is solely the responsibility of 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 area as follows:

The Measure M2 Status Report is separated into three sections: Section A describes the procedures applied to Schedule 1; Section B describes the procedures applied to Schedule 2; and Section C describes the procedures applied to Schedule 3. All amounts are reported in thousands.

A. We obtained Schedule 1 and performed the following procedures:

1. Compared year to date June 30, 2017 amounts (Column A) to the audited trial balances of the OCLTA special revenue fund 17 and the OCLTA debt service fund 72 and additional detailed information from the underlying accounting records.
2. Compared period from inception through June 30, 2017 amounts (Column B) by adding the prior year's period from inception through June 30, 2016 amounts with year to date June 30, 2017 amounts (Column A).
3. Re-computed totals and subtotals.

B. We obtained Schedule 2 and performed the following procedures:

1. Compared year ended June 30, 2017 (Columns C.1 and C.2) to Schedule 1, Column A. For professional services, non-project related amounts, we compared the sum of this caption allocated to revenues and to bond revenues at June 30, 2017 (C.1 and C.2) to Schedule 1, Column A. For environmental cleanup, we agreed this amount to the project job ledger.
2. Compared period from inception through June 30, 2017 amounts (Columns D.1 and D.2) to Schedule 1, Column B. For professional services, non-project related amounts, we compared the total of the amounts allocated to revenues and to bond revenues at June 30, 2017 (D.1 and D.2) to Schedule 1, Column B. For environmental cleanup, we agreed this amount to the project job ledger.
3. Compared forecast amounts (Column E.1 and E.2) to Measure M2 Forecast Model Schedule.
4. Re-computed totals and subtotals.

C. We obtained Schedule 3 and performed the following procedures:

1. Compared net revenues through June 30, 2017 (Column H) and total net revenues (Column I) amounts to Schedule 2, Column D.1 and Column F.1, net revenues (Totals), respectively.
2. Recalculated net revenues through June 30, 2017 (Column H) and total net revenues (Column I) amounts, by mode and project description, based on the Measure M2 Transportation Investment Plan (Investment Plan).
3. Reconciled expenditures through June 30, 2017 (Column J) to Schedule 1, Column B. Agreed environmental cleanup to Schedule 2, Column D.1. Agreed oversight and annual audits to the summary of Measure M2 administrative costs through June 30, 2017. Agreed Column J, by project description to the project job ledger by fiscal year.
4. Selected a sample of expenditures from Column J and compared them to invoices and supporting documentation to determine whether the sampled expenditures were properly accrued and classified.
5. Agreed reimbursements through June 30, 2017 (Column K) to Schedule 1, Column B. Agreed oversight and annual audits line item to summary of Measure M2 administrative costs through June 30, 2017.
6. Agreed Column K to the supporting revenue summary by project and fiscal year. Selected a sample of reimbursements from Column K and agreed them to supporting invoices and remittance advices to determine whether the sampled reimbursements were properly calculated.
7. Recalculated the net M2 cost (Column L) by subtracting Column K from Column J.
8. Recalculated revenues through June 30, 2017 (Column H.1) and the total revenues (Column I.1) for environmental cleanup (2% of revenues) and oversight and annual audits (1% of revenues) by multiplying sales taxes and operating interest per Schedule 2, Column D.1 and Column F.1 by 2% and 1%, respectively.
9. Recalculated revenues through June 30, 2017 (Column H.1) and total revenues (Column I.1) for collect sales taxes (1.5% of sales taxes) by multiplying sales taxes per Schedule 2, Column D.1 and Column F.1 by 1.5%.
10. Re-computed total and subtotals.

Results: No exceptions were found as a result of these procedures.

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 M2 Status Report. 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. The Notes to the Measure M2 Status Report (Notes) have been provided by the OCLTA to describe the purpose, format, and content of the schedules. We were not engaged to and did not perform any procedures on the Notes.

This report is intended solely for the information and use of OCTLA's management, the Board of Directors, and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Varinich, Train, Dwyer & Co., LLP".

Laguna Hills, California
December 20, 2017

MEASURE M2
Schedule of Revenues, Expenditures and Changes in Fund Balance
as of June 30, 2017
(Unaudited)

(\$ in thousands)	Year to Date June 30, 2017 (A)	Period from Inception to June 30, 2017 (B)
Revenues:		
Sales taxes	\$ 308,780	\$ 1,759,089
Other agencies' share of Measure M2 costs:		
Project related	70,157	546,352
Non-project related	15	454
Interest:		
Operating:		
Project related	126	128
Non-project related	1,981	19,063
Bond proceeds	8,897	44,894
Debt service	47	123
Commercial paper	-	393
Right-of-way leases	93	907
Proceeds on sale of assets held for resale	6,804	6,804
Donated assets held for resale	2,071	2,071
Miscellaneous:		
Project related	-	270
Non-project related	-	100
Total revenues	<u>398,971</u>	<u>2,380,648</u>
Expenditures:		
Supplies and services:		
State Board of Equalization (SBOE) fees	3,603	19,491
Professional services:		
Project related	38,509	311,358
Non-project related	2,155	17,198
Administration costs:		
Project related	8,917	53,457
Non-project related:		
Salaries and Benefits	2,560	20,000
Other	4,940	31,578
Other:		
Project related	3,171	4,849
Non-project related	92	3,892
Payments to local agencies:		
Project related	123,378	731,274
Capital outlay:		
Project related	84,474	630,967
Non-project related	-	31
Debt service:		
Principal payments on long-term debt	7,475	34,560
Interest on long-term debt and commercial paper	21,342	136,879
Total expenditures	<u>300,616</u>	<u>1,995,534</u>
Excess of revenues over expenditures	<u>98,355</u>	<u>385,114</u>
Other financing sources (uses):		
Transfers out:		
Project related	(7,258)	(29,917)
Transfers in:		
Project related	3,964	79,508
Non-project related	(3,964)	1,973
Bond proceeds	-	358,593
Total other financing sources (uses)	<u>(7,258)</u>	<u>410,157</u>
Excess of revenues over expenditures and other financing sources (uses)	<u>\$ 91,097</u>	<u>\$ 795,271</u>

See Notes to Measure M2 Status Report (Unaudited)

MEASURE M2
Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service)
as of June 30, 2017
(Unaudited)

<i>(\$ in thousands)</i>	Year to Date June 30, 2017 (actual) (C.1)	Period from Inception through June 30, 2017 (actual) (D.1)	Period from July 1, 2017 through March 31, 2041 (forecast) (E.1)	Total (F.1)
Revenues:				
Sales taxes	\$ 308,780	\$ 1,759,089	\$ 12,402,132	\$ 14,161,221
Operating interest	1,981	19,063	196,911	215,974
Subtotal	<u>310,761</u>	<u>1,778,152</u>	<u>12,599,043</u>	<u>14,377,195</u>
Other agencies share of M2 costs	15	454	-	454
Miscellaneous	-	100	-	100
Total revenues	<u>310,776</u>	<u>1,778,706</u>	<u>12,599,043</u>	<u>14,377,749</u>
Administrative expenditures:				
SBOE fees	3,603	19,491	186,107	205,598
Professional services	2,155	13,422	84,985	98,407
Administration costs:				
Salaries and Benefits	2,560	20,000	124,001	144,001
Other	4,940	31,578	207,654	239,232
Other	92	3,892	21,385	25,277
Capital outlay	-	31	-	31
Environmental cleanup	10,189	28,339	248,003	276,342
Total expenditures	<u>23,539</u>	<u>116,753</u>	<u>872,135</u>	<u>988,888</u>
Net revenues	<u>\$ 287,237</u>	<u>\$ 1,661,953</u>	<u>\$ 11,726,908</u>	<u>\$ 13,388,861</u>
	(C.2)	(D.2)	(E.2)	(F.2)
Bond revenues:				
Proceeds from issuance of bonds	\$ -	\$ 358,593	\$ 1,450,000	\$ 1,808,593
Interest revenue from bond proceeds	8,897	44,894	101,604	146,498
Interest revenue from debt service funds	47	123	3,874	3,997
Interest revenue from commercial paper	-	393	-	393
Total bond revenues	<u>8,944</u>	<u>404,003</u>	<u>1,555,478</u>	<u>1,959,481</u>
Financing expenditures and uses:				
Professional services	-	3,776	12,340	16,116
Bond debt principal	7,475	34,560	1,768,010	1,802,570
Bond debt and other interest expense	21,342	136,879	877,953	1,014,832
Total financing expenditures and uses	<u>28,817</u>	<u>175,215</u>	<u>2,658,303</u>	<u>2,833,518</u>
Net bond revenues (debt service)	<u>\$ (19,873)</u>	<u>\$ 228,788</u>	<u>\$ (1,102,825)</u>	<u>\$ (874,037)</u>

See Notes to Measure M2 Status Report (Unaudited)

MEASURE M2
Schedule of Revenues and Expenditures Summary
as of June 30, 2017
(Unaudited)

Project Description	Net Revenues through June 30, 2017	Total Net Revenues	Expenditures through June 30, 2017	Reimbursements through June 30, 2017	Net M2 Cost
(G)	(H)	(I)	(J)	(K)	(L)
(\$ in thousands)					
Freeways (43% of Net Revenues)					
A I-5 Santa Ana Freeway Interchange Improvements	\$ 65,506	\$ 527,724	\$ 5,870	\$ 1,852	\$ 4,018
B I-5 Santa Ana/SR-55 to El Toro	41,840	337,069	6,826	3,762	3,064
C I-5 San Diego/South of El Toro	87,388	704,005	101,709	40,440	61,269
D I-5 Santa Ana/San Diego Interchange Upgrades	35,959	289,687	1,824	527	1,297
E SR-22 Garden Grove Freeway Access Improvements	16,725	134,738	4	-	4
F SR-55 Costa Mesa Freeway Improvements	51,011	410,951	9,011	23	8,988
G SR-57 Orange Freeway Improvements	36,056	290,473	45,988	10,820	35,168
H SR-91 Improvements from I-5 to SR-57	19,512	157,194	33,305	824	32,481
I SR-91 Improvements from SR-57 to SR-55	58,050	467,653	18,798	2,071	16,727
J SR-91 Improvements from SR-55 to County Line	49,088	395,456	6,931	5,294	1,637
K I-405 Improvements between I-605 to SR-55	149,521	1,204,557	120,879	5,609	115,270
L I-405 Improvements between SR-55 to I-5	44,558	358,964	7,437	4,893	2,544
M I-605 Freeway Access Improvements	2,787	22,456	1,337	16	1,321
N All Freeway Service Patrol	20,906	168,422	2,128	-	2,128
Freeway Mitigation	35,732	287,861	48,928	2,029	46,899
Subtotal Projects	714,639	5,757,210	410,975	78,160	332,815
Net (Bond Revenue)/Debt Service	-	-	34,864	-	34,864
Total Freeways	\$ 714,639	\$ 5,757,210	\$ 445,839	\$ 78,160	\$ 367,679
%					30.8%
Street and Roads Projects (32% of Net Revenues)					
O Regional Capacity Program	\$ 166,197	\$ 1,338,903	\$ 666,791	\$ 393,256	\$ 273,535
P Regional Traffic Signal Synchronization Program	66,476	535,538	35,972	4,851	31,121
Q Local Fair Share Program	299,152	2,409,995	289,883	77	289,806
Subtotal Projects	531,825	4,284,436	992,646	398,184	594,462
Net (Bond Revenue)/Debt Service	-	-	38,724	-	38,724
Total Street and Roads Projects	\$ 531,825	\$ 4,284,436	\$ 1,031,370	\$ 398,184	\$ 633,186
%					53.1%
Transit Projects (25% of Net Revenues)					
R High Frequency Metrolink Service	\$ 153,167	\$ 1,335,340	\$ 164,303	\$ 96,087	\$ 68,216
S Transit Extensions to Metrolink	146,712	1,181,926	12,962	2,104	10,858
T Metrolink Gateways	26,850	68,434	98,212	60,956	37,256
U Expand Mobility Choices for Seniors and Persons with Disabilities	51,862	464,261	50,151	88	50,063
V Community Based Transit/Circulators	33,230	267,706	3,989	143	3,846
W Safe Transit Stops	3,668	29,548	245	26	219
Subtotal Projects	415,489	3,347,215	329,862	159,404	170,458
Net (Bond Revenue)/Debt Service	-	-	21,657	-	21,657
Total Transit Projects	\$ 415,489	\$ 3,347,215	\$ 351,519	\$ 159,404	\$ 192,115
%					16.1%
Measure M2 Program	\$ 1,661,953	\$ 13,388,861	\$ 1,828,728	\$ 635,748	\$ 1,192,980

See Notes to Measure M2 Status Report (Unaudited)

MEASURE M2
Schedule of Revenues and Expenditures Summary
as of June 30, 2017
(Unaudited)

Project	Description	Revenues through June 30, 2017 (H.1)	Total Revenues (I.1)	Expenditures through June 30, 2017 (J)	Reimbursements through June 30, 2017 (K)	Net M2 Cost (L)
	(G) (\$ in thousands)					
	Environmental Cleanup (2% of Revenues)					
X	Clean Up Highway and Street Runoff that Pollutes Beaches	\$ 35,563	\$ 287,544	\$ 28,339	\$ 292	\$ 28,047
	Net (Bond Revenue)/Debt Service	-	-	-	-	-
	Total Environmental Cleanup	\$ 35,563	\$ 287,544	\$ 28,339	\$ 292	\$ 28,047
	%					1.6%
	Taxpayer Safeguards and Audits					
	Collect Sales Taxes (1.5% of Sales Taxes)	\$ 26,386	\$ 212,418	\$ 19,491	\$ -	\$ 19,491
	%					1.1%
	Oversight and Annual Audits (1% of Revenues)	\$ 17,782	\$ 143,772	\$ 20,000	\$ 2,218	\$ 17,782
	%					1.0%
	Total Measure M Program	\$ 1,697,516	\$ 13,676,405	\$ 1,857,067	\$ 636,040	\$ 1,221,027

See Notes to Measure M2 Status Report (Unaudited)

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2017

Measure M2 Summary

In November 1990, Orange County voters approved the Revised Traffic Improvement and Growth. Management Ordinance, known as Measure M (M1). This implemented a one-half of one percent retail transaction and use tax to fund a specific program of transportation improvements in Orange County for 20 years. On November 7, 2006, Orange County voters approved the renewal of Measure M, known as Renewed Measure M (M2) for a period of 30 more years from April 1, 2011 to March 31, 2041. In August 2007, the Orange County Local Transportation Authority Board of Directors approved the M2 Early Action Plan to advance the completion of projects prior to the start of sales tax collection in April 2011. A Plan of Finance was adopted in November 2007 identifying a tax-exempt commercial paper program as the preferred method of funding Early Action Plan projects.

The Orange County Local Transportation Authority (OCLTA) is responsible for administering the M2 sales tax program, which commenced on April 1, 2011 for a period of 30 years. The M1 sales tax program was completed and closed out in June 2015.

Demonstrating accountability for the receipt and expenditure of M2 funds is accomplished through the issuance of annual reports on M2 activities. The reports for M2 activities through June 30, 2017 are included as Schedules 1-3. The following is a summary of the purpose, format and content of each schedule. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Schedule 1—Schedule of Revenues, Expenditures and Changes in Fund Balance

This schedule presents a summary of revenues, expenditures and changes in fund balance of the combined M2 special revenue and debt service funds. Such financial information is derived from the trial balance with additional detailed information from the underlying accounting records. The schedule is presented for the latest fiscal year and for the period from inception through the latest fiscal year.

Year to Date June 30, 2017 (Column A)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined M2 special revenue and debt service funds for the fiscal year ended June 30, 2017. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are derived from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object are obtained from the general ledger.

The net change in fund balance of \$91,097 agrees with the combined change in fund balances of \$89,426 in the M2 special revenue fund and \$1,671 in the M2 debt service fund in the trial balance for the year ended June 30, 2017.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net revenues and net bond revenues (debt service) calculations in Schedule 2.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2017

Period from Inception through June 30, 2017 (Column B)

This column presents the revenues, expenditures, and other financing sources (uses) of the combined M2 special revenue and debt service funds for the period from inception through June 30, 2017. Amounts for individual revenue sources, expenditures by major object, and other financing sources (uses) are summarized from the trial balance, while detailed amounts for certain revenue sources and expenditures by major object are obtained and summarized from the general ledger.

The net fund balance of \$795,271 agrees with the combined ending fund balances of \$781,606 in the M2 special revenue fund and \$13,665 in the M2 debt service fund, as presented in the trial balance for the year ended June 30, 2017.

Non-project related revenues, expenditures, and other financing sources (uses) are included in the net revenues and net bond revenues (debt service) calculations in Schedule 2. Project related revenues and other financing sources are presented as "Reimbursements" (Column K) in Schedule 3. Project related expenditures and other financing uses are included as "Expenditures" (Column J) in Schedule 3.

Schedule 2—Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service)

This schedule presents calculations of net revenues and of net bond revenues (debt service), which are allocated in Schedule 3 to transportation projects specified in the Orange County Transportation Investment Plan (Investment Plan). Actual revenues, expenditures, and other financing sources (uses) in this schedule were obtained from non-project related amounts on Schedule 1. Environmental cleanup expenditures were obtained from the project job ledger. Forecast amounts were obtained from the Orange County Transportation Authority Forecast Model. The schedule is presented for the latest fiscal year, for the period from inception through the latest fiscal year, for subsequent years going forward, and for the combined total of actual and forecast amounts for the period from inception going forward.

Calculation of Net Revenues

Year Ended June 30, 2017 (actual) (Column C.1)

This column presents net revenues, consisting of total revenues less total administrative expenditures, capital outlay, and environmental cleanup, for year ended June 30, 2017. Revenues, administrative expenditures, and capital outlay for the year ended June 30, 2017 were obtained from Column A in Schedule 1. Environmental cleanup expenditures were obtained from project amounts accumulated in the project job ledger. Revenues, administrative expenditures, and capital outlay utilized in the calculation of net revenues are non-project and non-financing related. Revenues consist of sales taxes, operating interest, and other agencies' share of M2 costs. Administrative expenditures include State Board of Equalization (SBOE) fees, professional services, administration costs, and other expenditures. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2017

Period from Inception through June 30, 2017 (actual) (Column D.1)

This column presents net revenues, consisting of total cumulative revenues less total cumulative administrative expenditures, capital outlay, and environmental cleanup, for the period from inception through June 30, 2017. Revenues, administrative expenditures, and capital outlay for the period from inception through June 30, 2017 were obtained from Column B in Schedule 1. Environmental cleanup expenditures were obtained from project amounts accumulated in the project job ledger. Total net revenues for the period from inception through June 30, 2017 are presented in Schedule 3 as "Net Revenues through June 30, 2017" (Column H). Revenues, administrative expenditures, and capital outlay utilized in the calculation of net revenues are non-project and non-financing related. Revenues consist of sales taxes, operating interest, other agencies' share of M2 costs, and miscellaneous revenue. Administrative expenditures include SBOE fees, professional services, administration costs, and other expenditures. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

Period from July 1, 2017 through March 31, 2041 (forecast) (Column E.1)

This column presents net revenues, consisting of total projected revenues less total projected administrative expenditures and environmental cleanup expenditures, for subsequent years from July 1, 2017 through March 31, 2041. Revenues and administrative expenditures for subsequent years from July 1, 2017 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model, which is updated quarterly. Revenues and administrative expenditures utilized in the calculation of net revenues for subsequent years from July 1, 2017 through March 31, 2041 are non-project and non-financing related. Revenues consist of projected sales taxes and operating interest. Administrative expenditures consist of projected SBOE fees, professional services, administration costs, and other expenditures.

Total (Column F.1)

This column presents total net revenues, calculated as the sum of columns D.1 and E.1. Total net revenues are presented in Schedule 3 as "Total Net Revenues" (Column I).

Calculation of Net Bond Revenues (Debt Service)

Year Ended June 30, 2017 (actual) (Column C.2)

This column presents net bond revenues (debt service), consisting of total bond revenues less total financing expenditures and uses, for year ended June 30, 2017. Bond revenues and financing expenditures and uses for the year ended June 30, 2017 were obtained from Column A in Schedule 1. Bond revenues and financing expenditures and uses utilized in the calculation of net bond revenues (debt service) are non-project and non-operating related. Bond revenues consist of interest revenue from bond proceeds and debt service funds.

Financing expenditures and uses consist of professional services and bond debt and other interest expense. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2017

Period from Inception through June 30, 2017 (actual) (Column D.2)

This column presents net bond revenues (debt service), consisting of total cumulative bond revenues less total cumulative financing expenditures and uses, for the period from inception through June 30, 2017. Bond revenues and financing expenditures and uses for the period from inception through June 30, 2017 were obtained from Column B in Schedule 1. Bond revenues and financing expenditures and uses utilized in the calculation of net bond revenues (debt service) are non-project and non-operating related. Bond revenues consist of proceeds from issuance of bonds and interest revenue from bond proceeds, debt service funds, and commercial paper. Financing expenditures and uses consist of professional services and bond debt and other interest expense. Non-project related professional services are distributed between administrative expenditures and financing expenditures and uses based on the job ledger code.

Period from July 1, 2017 through March 31, 2041 (forecast) (Column E.2)

This column presents bond revenues (debt service), consisting of total projected bond revenues less total projected financing expenditures and uses, for subsequent years from July 1, 2017 through March 31, 2041. Bond revenues and financing expenditures and uses for subsequent years from July 1, 2017 through March 31, 2041 were obtained from the Orange County Transportation Authority Forecast Model. Bond revenues and financing expenditures and uses utilized in the calculation of net bond revenues (debt service) are non-project and non-operating related. Bond revenues consist of proceeds from issuance of bonds and interest revenue from bond proceeds and debt service funds. Financing expenditures and uses consist of bond debt principal and bond debt and other interest expense.

Total (Column F.2)

This column presents total net bond revenues (debt service), calculated as the sum of columns D.2 and E.2.

Schedule 3—Schedule of Revenues and Expenditures Summary

This schedule presents a summary of actual and projected revenues and expenditures, by mode and project description, as specified in the Investment Plan. Total M2 program amounts agree with amounts on Schedules 1 and 2. Amounts by mode and project description are based on proportionate calculations or are obtained from other documents.

Project Description (Column G)

This column presents project descriptions by mode in accordance with the Investment Plan.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2017

Net Revenues through June 30, 2017 (Column H)

This column presents total M2 program net revenues for the period from inception through June 30, 2017, which agrees with net revenues in Column D.1 in Schedule 2. Such net revenues are allocated to each of the three modes based on the allocation percentages specified in M2. The net revenues for each mode are allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Investment Plan.

Total Net Revenues (Column I)

This column presents total actual and projected net revenues (total net revenues) during the life of M2, which agree with total net revenues in Column F.1 in Schedule 2. Such total net revenues are allocated to each of the three modes based on the allocations specified in M2. The net revenues for each mode are allocated to each project based on the proportionate share of each project's estimated cost to the total estimated cost per mode as presented in the Investment Plan.

Expenditures through June 30, 2017 (Column J)

This column presents total expenditures plus net (bond revenue)/debt service. Total expenditures, excluding oversight and annual audit expenditures, agree with the sum of project related expenditures including transfers out from Column B in Schedule 1. Oversight and annual audit expenditures agree with the administrative costs for salaries and benefits derived from the annual cost allocation plan. Total net (bond revenue)/debt service agrees with the total net bond revenue (debt service) expenditures from Column D.2 in Schedule 2. Project related expenditures are comprised of professional services, administration costs, other expenditures, payments to local agencies, capital outlay, and transfers out. Such expenditures are distributed to the projects based on project amounts accumulated in the project job ledger.

Reimbursements through June 30, 2017 (Column K)

This column presents total reimbursements for the period from inception through June 30, 2017, which agrees with the sum of project related revenues from Column B in Schedule 1. Project related revenues consist of other agencies' share of Measure M2 costs, right-of-way leases, proceeds on sale of assets held for resale, donated assets held for resale, transfers in and miscellaneous revenue. Such revenues are distributed to the related projects based on project amounts accumulated in the project job ledger. Reimbursements for oversight and annual audits agree with the principal balance of the amount advanced from the Orange County Unified Transportation Trust (OCUTT) to cover administrative costs for salaries and benefits exceeding more than one percent of revenues.

ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY

Notes to Measure M2 Status Report (Unaudited)

Year Ended June 30, 2017

Net M2 Cost (Column N)

Net M2 cost is a calculation of Column J minus Column K. For each mode, a percentage is calculated as the net project cost per mode divided by the total M2 Program net project cost. Such percentage can be compared to the required percentage included in M2 as an indication of the progress to date for each mode.

Revenues through June 30, 2017 (Column H.1)

The total environmental cleanup revenue for the period from inception through June 30, 2017, represents two percent (2%) of revenues (sales taxes and operating interest) in Column D.1 in Schedule 2. The total oversight and annual audits revenues for the period from inception through June 30, 2017, represent one percent (1%) of the revenues (sales taxes and operating interest) in Column D.1 in Schedule 2. The total collect sales taxes revenue for the period from inception through June 30, 2017, represents one and one-half percent (1.5%) of the sales tax revenues in Column D.1 in Schedule 2.

Total Revenues (Column I.1)

The total environmental cleanup actual and projected revenues during the life of M2 represent 2% of revenues (sales taxes and operating interest) found in Column F.1 in Schedule 2. The total collect sales taxes actual and projected revenues during the 30-year life of M2 represent 1.5% of sales tax revenues found in Column F.1 in Schedule 2. The total oversight and annual audits actual and projected revenues during the 30-year life of M2 represent 1% of revenues (sales taxes and operating interest) found in Column F.1 in Schedule 2.

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**Independent Accountants' Report on
Agreed-Upon Procedures Performed
with Respect to the Treasury Department**

Year Ended June 30, 2017



**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES PERFORMED
WITH RESPECT TO THE TREASURY DEPARTMENT**

Board of Directors
Orange County Transportation Authority
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Transportation Authority (OCTA) (the specified party), to assist in the evaluation of selected internal controls within the Treasury Department for the year ended June 30, 2017. OCTA's management is responsible for the internal controls within the Treasury Department. The sufficiency of these procedures is solely the responsibility of OCTA. 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 are as follows:

1. Conduct inquiries of personnel involved in the Treasury Department operations, obtain the Debt and Investment Management Manual and observe the procedures performed to determine whether the procedures provide for:
 - a. Transactions that are clearly documented and readily available for examination;
 - b. Transactions that are promptly recorded and properly classified;
 - c. Transactions that are authorized and executed only by persons acting within the scope of their authority;
 - d. Segregation of key duties and responsibilities in authorizing, processing, recording and reviewing;
 - e. Supervision to ensure that internal control objectives are achieved;
 - f. Limiting access to resources and records to authorized individuals and ensuring accountability for custody of resources; and
 - g. Periodic reconciliation of investments between the custodian statements and the general ledger.

Result: We conducted inquiries of Finance and Administration Division personnel, reviewed the Debt and Investment Manual, and observed the procedures performed. No exceptions were found as a result of this procedure.

2. Review the Investment Policy to determine that it is in compliance with California Government Code Section 53601.

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

3. Observe system related controls to determine they are in place to appropriately limit access to cash and investment information.

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

4. Determine that the Investment Policy was provided to external investment managers on an annual basis. In addition, determine whether each investment manager certified receipt of the Investment Policy with a statement agreeing to abide by its terms.

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

5. Sample three monthly OCTA Investment and Debt Programs Reports presented to the Finance and Administration Committee to determine they are provided in accordance with the Debt and Investment Management Manual (Section 2, Part C, Treasury/Public Finance Department, and Investment Reporting).

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

6. Select a sample of four authorization letters (and changes to them) to investment managers, brokers, banks and custodians to determine that they were jointly authorized in writing by the Treasurer and another individual authorized by the Debt and Investment Management Manual. In addition, inspect the letters for existence of the following attributes:
 - a. OCTA staff authorized to make investments;
 - b. Custody instructions; and
 - c. Instructions for money and security transfers.

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

7. Select a sample of sixty investment purchases during the fiscal year ended June 30, 2017 to determine that:
 - a. The investments were in compliance with the Investment Policy;
 - b. The Treasury Department's policies and procedures with respect to investment purchases were followed;
 - c. The investments were properly recorded; and
 - d. Any investment earnings on matured investments were calculated and recorded correctly.

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

8. Sample ten weekly holdings reports for each external investment manager during the fiscal year ended June 30, 2017 and determine that they were monitored by Treasury Department personnel and were in compliance with the Investment Policy. Specifically:
 - a. Obtain the holdings report for each external manager for each week selected;
 - b. Inspect that the Treasury Department's review was documented on the holdings report;
 - c. Compare the holdings report to the Investment Policy limits and diversification guidelines to determine whether the external investment manager complied; and
 - d. Determine that any instances of noncompliance are identified and corrected by the Treasury Department and that probationary and reporting procedures were followed.

Result: The Treasury Department was not able to provide evidence, that the weekly holdings report for one external investment manager was reviewed for the week of 11/9/2016. Management asserted that the report was reviewed but evidence was not retained. Management subsequently documented the review of the holdings report on 5/31/2017.

Upon further inquiry, management asserted that the Treasury Department reviewed the Transaction Detail Report which details all the investment activity conducted by the investment managers. While the weekly holdings report for one investment manager was not retained, the Treasury Department reviewed the Transaction Detail Report, which included the activity for the week of 11/9/2016, on 11/10/2016.

9. Select a sample of three monthly bank reconciliations during the fiscal year ended June 30, 2017 and perform the following:
 - a. Trace general ledger balances and bank balances to supporting documentation;
 - b. Determine whether the reconciliations were completed within thirty days of month end;
 - c. Determine that any discrepancies were reported and resolved;
 - d. Determine that reconciliations and resolution of discrepancies were reviewed and approved by an official who was not responsible for recording receipts and disbursements; and
 - e. Determine that bank statements were mailed directly to the Accounting Department.

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

10. Select a sample of three monthly investment account reconciliations and review the supporting documentation to determine that:
 - a. Reconciliations were completed in a timely and thorough manner by someone who was not responsible for recording receipts and disbursements;
 - b. Discrepancies were identified and resolved;
 - c. Reconciliations and the resolution of discrepancies were reviewed by an official who was not responsible for recording investment transactions; and
 - d. Investment statements were mailed directly to the Accounting Department.

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

11. Inspect the Treasury Department's cash forecasting documentation to determine the Department performed or prepared the following:
 - a. A day-to-day cash forecast for the current week;
 - b. Reviewed forecasts with the Funds Management Team;
 - c. Monitored actual cash flow activity versus forecast; and
 - d. Maintained regular communication with external investment managers regarding OCTA cash forecast and operational needs.

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

12. Observe and inspect the policies and procedures for reviewing corporate security ratings to determine that the procedures are adequate and provide timely identification and reporting of downgrades and credit watch placements.

Result: We noted that corporate security ratings are reviewed on a weekly basis for downgrades and credit watch placements as required by the Debt and Investment Management Manual. The results of the review are communicated to the Finance and Administration Committee on a monthly basis through the Treasury/Public Finance Department's Report on OCTA Investment and Debt Programs. No exceptions were found as a result of this procedure.

13. Inspect the minutes of both the Board of Directors and the Finance and Administration Committee, inquire with Treasury Department personnel, and inspect other supporting documentation to determine that the following required oversight activities took place:

- a. The Finance and Administration Committee reviewed investments on a monthly basis;
- b. The Board of Directors reviewed investments on a quarterly basis;
- c. The Board of Directors reviewed and approved the Investment Policy and amendments made during the fiscal year ended June 30, 2017;
- d. The Internal Audit Department performs semi-annual reviews to determine if OCTA was in compliance with its debt, investment, and accounting policies and procedures; and
- e. The funds management team met on a weekly basis.

Result: We inspected the Finance and Administration Committee meeting minutes, Board of Directors meeting minutes, semi-annual reviews performed by the Internal Audit Department, and informational packet for the funds management team meeting noting that the above oversight activities took place.

14. Inquire whether there have been any changes in Treasury policies and procedures, organization or function, as a result of any prior year audit findings as a result of the Treasury Department Agreed Upon Procedures.

Result: Based upon our inquiry no changes in Treasury policies and procedures, organization or function, were noted as a result of prior year findings as a result of the Treasury Department Agreed Upon Procedures. As a result of the Internal Audit Department's semiannual review over OCTA's investment compliance, controls, and reporting from January 1 through June 30, 2017, the Treasury Department will develop new reconciliation procedures that will include documented reviews of the investment and debt report.

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 OCTA's Treasury Department or investments, related internal control, compliance with government code, or elements, accounts or items specified above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management of OCTA and is not intended to be, and should not be, used by anyone other than those specified parties.

Vavrinch, Train, Day & Co., LLP

Laguna Hills, California
October 31, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

Independent Accountants' Report on
Applying Agreed-Upon Procedures Related To
The Article XIII-B Appropriations Limit Calculation

For the Fiscal Year Ended June 30, 2017



**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES RELATED TO
THE ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION**

Board of Directors
Orange County Transportation Authority
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Transportation Authority (OCTA) (the specified party), to the Appropriations Limit Calculation of OCTA, prepared in accordance with Section 1.5 of Article XIII-B of the California Constitution, for the fiscal year ended June 30, 2017. OCTA's management is responsible for the Appropriations Limit calculation. The sufficiency of the procedures is solely the responsibility of OCTA. 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 performed and associated findings are as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCTA's appropriations limit and compared the 2016-17 limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of OCTA's Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of OCTA's Board of Directors.

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

2. We added last year's limit to the annual adjustment amount, and compared the resulting amount to the 2016-17 appropriations limit.

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

3. We compared the current year information to the worksheets described in No. 1 above and to information provided by the California State Department of Finance.

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

4. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by OCTA's Board of Directors.

Finding: 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 examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit calculation. 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. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of OCTA's Board of Directors and management of OCTA and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Varrinck Train, Day & Co, LLP".

Laguna Hills, California

October 31, 2017

**ORANGE COUNTY LOCAL TRANSPORTATION
AUTHORITY**

Independent Accountants' Report on
Applying Agreed-Upon Procedures Related To
The Article XIII-B Appropriations Limit Calculation

For the Fiscal Year Ended June 30, 2017



**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES RELATED TO
THE ARTICLE XIII-B APPROPRIATIONS LIMIT CALCULATION**

Board of Directors
Orange County Local Transportation Authority
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Local Transportation Authority (OCLTA) (the specified party), to the Appropriations Limit Calculation of OCLTA, prepared in accordance with Section 1.5 of Article XIII-B of the California Constitution for the fiscal year ended June 30, 2017. OCLTA's management is responsible for the Appropriations Limit calculation. The sufficiency of the procedures is solely the responsibility of 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 performed and associated findings are as follows:

1. We obtained the completed worksheets setting forth the calculations necessary to establish OCLTA's appropriations limit and compared the 2016-17 limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of OCLTA's Board of Directors. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of OCLTA's Board of Directors.

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

2. We added last year's limit to the annual adjustment amount, and compared the resulting amount to the 2016-17 appropriations limit.

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

3. We compared the current year information to the worksheets described in No. 1 above and to information provided by the California State Department of Finance.

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

4. We agreed the prior year appropriations limit to the prior year appropriations limit adopted by OCLTA's Board of Directors.

Finding: 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 examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Appropriations Limit calculation. 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. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of OCLTA's Board of Directors and management of OCLTA and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, reading "Varrinck Train, Dwyer & Co, LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California

October 31, 2017

ORANGE COUNTY TRANSPORTATION AUTHORITY

Agreed-Upon Procedures Performed
With Respect to the National Transit Database Report

For the Period
July 1, 2016 through June 30, 2017



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Orange County Transportation Authority
Orange, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics Form FFA-10 (FFA-10) for the Orange County Transportation Authority (OCTA) annual National Transit Database (NTD) report:

1. A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
2. A system is in place to record data on a continuing basis and the data gathering is an ongoing effort.
3. Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
4. A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
5. The data collection methods are those suggested by FTA or meet FTA requirements.
6. The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles data, appear to be accurate.
7. Data are consistent with prior reporting periods and other facts known about OCTA's operations.

We have performed the procedures described in Attachment 1 of this report, which were agreed to by OCTA and the FTA and specified in the declarations section of the *2017 Policy Manual*, solely to assist you in evaluating whether OCTA complied with the standards described above and that the information included in the NTD report FFA-10 form for the year ended June 30, 2017, is presented in conformity with the requirements of the *Uniform System of Accounts and Records and Reporting System; Final Rule*, as specified in 49 CFR part 630, *Federal Register*, January 15, 1993 and as presented in the *2017 Policy Manual*. OCTA's management is responsible for OCTA's compliance with those standards and the accuracy of the FFA-10 form. The sufficiency of these procedures is solely the responsibility of OCTA and FTA. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings described in Attachment 1 of this report, which are referenced in order to correspond to the *2017 Policy Manual* procedures, were applied separately to each of the information systems used to develop the reported vehicle revenue miles (VRM), passenger miles (PM), fixed guideway directional route miles (FG DRM), High Intensity Bus Lanes directional route miles (HIB DRM), and operating expenses of OCTA for the year ended June 30, 2017, and for each of the following modes: (1) Motor Bus - directly operated (MBDO), (2) Commuter Bus – directly operated (CBDO), (3) Motor Bus - purchased transportation (MBPT), (4) Commuter Bus – purchased transportation (CBPT), (5) Demand Response - purchased transportation (DRPT), (6) Demand Response – Taxi – purchased transportation (DTPT) and (7) Vanpool Service - purchased transportation (VPPT).

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 examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the procedures noted in Exhibit 68 of the NTD *2017 Policy Manual* or on the FFA-10. 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.

This report is intended solely for the information and use of OCTA management, OCTA Board of Directors and the FTA and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California

October 31, 2017

Excerpt from the FTA 2017 Policy Manual Exhibit 68 - Federal Funding Allocation Data Review Suggested Procedures:

FTA has specified and agreed to a set of procedures for the independent auditor to perform to satisfy the requirements of the Federal Funding Allocation data review. Several of the procedures below require the auditor to select a random sample of documents or data. The procedures do not specify the selected number (i.e., the percentage of the total documents/data). The auditor should use professional judgment to determine the percentage that will enable the auditor to make the required assurances.

The source documents and other records (such as data summaries) may be in the form of digital data files. The auditor should ensure that these files are securely stored and that a contingency plan is in place to ensure that the transit agency retains source documents for a minimum of three years.

- a. The procedures to be applied to each applicable mode and type of service (TOS) (directly- operated (DO) and purchased transportation (PT)) are: Obtain and read a copy of written system procedures for reporting and maintaining data in accordance with NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993, and as presented in the 2017 Policy Manual. If there are no procedures available, discuss the procedures with the personnel assigned responsibility for supervising the NTD data preparation and maintenance.

Results - We obtained and read a copy of OCTA's Passenger Counting and Reporting (PCR) procedures. Based on our inquiry, we noted that OCTA maintains procedures in accordance with NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the 2017 Policy Manual.

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility for supervising the preparation and maintenance of NTD data to determine:
 - The extent to which the transit agency followed the procedures on a continuous basis, and
 - Whether these transit personnel believe such procedures result in accumulation and reporting of data consistent with NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993, and as presented in the 2017 Policy Manual.

Results - We inquired regarding OCTA's procedures for the MBDO, MBPT, VPPT, DRPT, DTPT, CBDO and CBPT services noting that the asserted procedures were consistently applied. In addition, based on our inquiry with the Administrative Specialist – Transit Division and the Section Manager – Vanpool Program, management asserted that the procedures resulted in the accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the 2017 Policy Manual.

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form.

Results - We inquired with the Business Unit Analyst – Transit Division and the Section Manager – Vanpool Program, regarding OCTA's retention policy for source documents supporting NTD data reported on the Federal Funding Allocation Statistics form. Per inquiry, the current practice is to retain electronic data for seven years.

- d. Based on a description of the transit agency's procedures from items (A) and (B) above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, select three months out of the year and determine whether the document exists for each of these periods.

Results - We inspected the following source documents for each type of service, selected three months out of the year and determined that the documents existed for each of these periods without exception:

<i>Type of Service</i>	<i>Source Document</i>	<i>Months Tested</i>
<i>MBDO</i>	<ul style="list-style-type: none"> • <i>MBDO Statistics Reports (queried from Data Warehouse)</i> • <i>Random Sampling Database</i> • <i>Trip Sheets</i> • <i>NTD Data Worksheets</i> • <i>HASTUS Summaries by Route</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's network.</i>
<i>CBDO</i>	<ul style="list-style-type: none"> • <i>CBDO Statistics Reports (queried from Data Warehouse)</i> • <i>Random Sampling Database</i> • <i>Trip Sheets</i> • <i>NTD Data Worksheets</i> • <i>HASTUS Summaries by Route</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's network.</i>
<i>MBPT</i>	<ul style="list-style-type: none"> • <i>MBPT Statistics Reports (queried from Data Warehouse)</i> • <i>Random Sampling Database</i> • <i>Trip Sheets</i> • <i>NTD Data Worksheets</i> • <i>HASTUS Summaries by Route</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's network.</i>
<i>CBPT</i>	<ul style="list-style-type: none"> • <i>CBPT Statistics Reports (queried from Data Warehouse)</i> • <i>Random Sampling Database</i> • <i>Trip Sheets</i> • <i>NTD Data Worksheets</i> • <i>HASTUS Summaries by Route</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's network.</i>
<i>DRPT</i>	<ul style="list-style-type: none"> • <i>Contractor Provided NTD Program Data reports</i> • <i>Driver Manifests</i> • <i>Passenger and Mileage Summaries from Trapeze database</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's</i>

		<i>network.</i>
<i>DTPT</i>	<ul style="list-style-type: none"> • <i>Contractor Provided NTD Program Data reports</i> • <i>Passenger and Mileage Summaries from Trapeze database</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's network.</i>
<i>VPPT</i>	<ul style="list-style-type: none"> • <i>Detail and Summary Reports from Data Warehouse</i> • <i>Rider Log-in Website</i> 	<ul style="list-style-type: none"> • <i>September 2016, January 2017, and March 2017.</i> • <i>Three years of data were noted to be archived on OCTA's network.</i>

- e. Discuss the system of internal controls. Inquire whether separate individuals (independent of the individuals preparing source documents and posting data summaries) review the source documents and data summaries for completeness, accuracy, and reasonableness and how often these individuals perform such reviews.

Results - We inquired regarding the system of internal controls noting that each respective mode/type of service is being reviewed by personnel independent of the preparation process. The review is performed monthly for all modes with a second review performed quarterly for the MBDO, MBPT, CBDO, CBPT, DRPT and DTPT modes.

- f. Select a random sample of the source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquire how personnel document supervisors' reviews.

Results - We selected a random sample of 40 Random Check Trip Sheets for the MBDO and MBPT services, 10 Random Check Trip Sheets for the CBDO and CBPT services, and 40 random sample Drivers Manifests for the DRPT service and noted supervisory signatures documenting reviews of the data presented without exception. For DTPT and VPPT, we noted supervisory signatures on the source documents which were in electronic format without exception.

- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Test the arithmetical accuracy of the summaries.

Results - We obtained the worksheets utilized by OCTA to transcribe statistics to the Federal Funding Allocation Statistics form and compared the data to summaries without exception. We tested the arithmetical accuracy of the summaries without exception.

- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2017 Policy Manual.

Results – Sampling was conducted for the MBDO, MBPT, CBDO and CBPT modes. We inspected the sampling methodologies and noted that the sampling methodology used met the requirements of the 2017 Policy Manual.

The remaining 3 modes of services do not involve sampling. These modes use a 100% count of actual PM and compilations of actual Revenue Miles which is accordance with the 2017 Policy Manual.

- i. Discuss with transit agency staff (the auditor may wish to list the titles of the persons interviewed) the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
 - According to the 2010 Census, the public transit agency serves an UZA with a population less than 500,000.
 - The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
 - Service purchased from a seller is included in the transit agency's NTD report.
 - For transit agencies that meet one of the above criteria, review the NTD documentation for the most recent mandatory sampling year (2017) and determine that statistical sampling was conducted and meets the 95 percent confidence and ± 10 percent precision requirements.
 - Determine how the transit agency estimated annual PMT for the current report year.

Results – OCTA did not meet the criteria above. Therefore the procedure identified above is not applicable.

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

Results – For the MBDO, MBPT, CBDO and CBPT modes we obtained a copy of OCTA's methodology used in the statistical sampling to estimate Passenger Miles Travelled (PMT) and determined that the methodology used by OCTA resulted in a random selection of runs and that the stated sampling procedure was followed in accordance with the National Transit Database Sampling Manual.

- k. Select a random sample of the source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulations periods that were tested. Test the arithmetical accuracy of the summary.

Results - For MBDO we randomly selected 40 surveyed routes throughout the year. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For MBPT we randomly selected 40 surveyed routes throughout the year. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For CBDO we randomly selected 10 surveyed routes throughout the year. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For CBPT we randomly selected 10 surveyed routes throughout the year. We verified the mathematical accuracy of the survey count sheets and that the data was properly input to the accumulation worksheet designed to perform the PMT calculation. No exceptions were found as a result of this procedure.

For DRPT and DTPT modes, we selected 40 routes performed during September 2016, January 2017 and March 2017 and compared the PMT reported against the signed driver manifests without exception.

For VPPT, we compared ridership being entered on the Vanpool internet database for September 2016, January 2017 and March 2017 against amounts uploaded to the Data Warehouse without exception. We also tested the revenue miles reported for 40 Vanpool trips and verified the accuracy of calculations used to determine PMT without exception.

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and determine that they follow the stated procedures. Select a random sample of the source documents used to record charter and school bus mileage and test the arithmetical accuracy of the computations.

Results - The procedure identified above is not applicable. Per inquiry with OCTA's management, OCTA did not provide charter or school bus services.

- m. For actual vehicle revenue mile (VRM) data, document the collection and recording methodology and determine that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
 - If actual VRMs are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of the days that service is operated, and re-compute the daily total of missed trips and missed VRMs. Test the arithmetical accuracy of the summary.

Results – For the MBDO, CBDO, MBPT and CBPT modes, OCTA calculated missed hours of service rather than missed trips. This resulted in a Total Actual Revenue Vehicle Hours (RVH) by mode as a percentage of Monthly Total Scheduled VRM calculation, which was computed by dividing the number of service hours actually operated by the number of service hours scheduled. This percentage was applied to schedule VRMs to determine the number of VRMs actually operated and the number of missed VRMs. We selected a sample of four routes, recalculated the VRMs and compared them to amounts used in the total VRM without exception. We recalculated the percentage of actual revenue hours over the scheduled revenue hours used to determine the missed VRM, without exception.

- If actual VRMs are calculated from hubodometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of the hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summary of intermediate accumulations.

Results - This procedure is not applicable.

- If actual VRMs are calculated from vehicle logs, select random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

Results - For the DRPT mode, Revenue Miles are calculated based on the odometer readings from the first pickup to the last drop off. Deadhead miles are excluded from the Revenue Miles calculations. We randomly selected 30 trips to test and noted without exception that the deadhead miles are not included in the Revenue Miles calculations.

For the DTPT mode, the Revenue Miles are calculated by the contractors based on pick up and drop off data entered into the scheduling software. The Revenue Miles data is uploaded to the OCTA database and compared to the scheduling data for quality assurance. There are no deadhead miles since these are non-dedicated taxi trips and accordingly Revenue Miles for each trip are recorded.

For the VPPT mode deadhead miles are automatically excluded because only commute miles are entered into the calculation of Revenue Miles and the results are reviewed by the Section Manager – Vanpool Program.

- n. For rail modes, review the recording and accumulation sheets for actual VRMs and determine that locomotive miles are not included in the computation.

Results - The procedure identified above is not applicable as OCTA does not provide rail service.

- o. If fixed guideway or High Intensity Busway directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting NTD data whether the operations meet FTA definition of fixed guideway (FG) or High Intensity Busway (HIB) in that the service is:
 - Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR); or
 - Bus (MB, CB, or RB) service operating over exclusive or controlled access rights-of-way (ROW); and
 - i. Access is restricted;
 - ii. Legitimate need for restricted access is demonstrated by peak period level of service D or worse on a parallel adjacent highway;
 - iii. Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation; and
 - i. High Occupancy/Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues. The transit agency has provided the NTD a copy of the State's certification to the U.S. Secretary of Transportation stating that it has established a program for monitoring, assessing, and reporting on the operation of the HOV facility with HO/T lanes.

Results – We interviewed the Administrative Specialist – Transit Division and determined that OCTA's Motor Bus services operate over HIB lanes that appear consistent with the FTA's definition of High Intensity Bus lanes.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that he or she computed mileage in accordance with FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and reconcile the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

Results – We determined that the mileage was computed in accordance with the FTA definitions of FG/HIB DRM. Per inquiry we determined that there were no increases or decreases in DRMs during the year.

- q. Inquire if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:
- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the FG/HIB DRMs lasting more than 12 months, the transit agency should contact its NTD validation analyst to discuss. FTA will make a determination on how to report the DRMs.

Results – Per inquiry with the Administrative Specialist – Transit Division there were no temporary interruptions in transit service during the report year.

- r. Measure FG/HIB DRM from maps or by retracing route.

Results - We recalculated the length of all High Intensity Bus directional routes for MBDO, CBDO and CBPT modes of service using publicly available maps without exception. The MBPT mode does not operate over HIB lanes.

- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

Results - We interviewed the Administrative Specialist – Transit Division and noted that OCTA does share some High Intensity Lanes. However, the shared High Intensity Lanes were noted as claimed by the proper agency per the NTD annual reporting manual, and not by OCTA.

- t. Review the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2017 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2017 report year, the Agency Revenue Service Date must occur within the transit agency's 2017 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Busway segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, FTA will only consider segments continuously reported to the NTD.

Results - We obtained the HIB segments form noting the High Intensity segments and dates. It was noted that OCTA added no new segments during the year.

- u. Compare operating expenses with audited financial data after reconciling items are removed

Results - Operating expenses were compared to the trial balances subject to audit without exception.

- v. If the transit agency purchases transportation services, interview the personnel reporting the NTD data on the amount of PT-generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form.

Results - We identified the PT fare revenues reported on the Contractual Relationship form and reconciled the amounts to the general ledger without exception.

- w. If the transit agency's report contains data for PT services and assurances of the data for those services are not included, obtain a copy of the IAS-FFA regarding data for the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

Results – The data for purchased transportation are included in the reporting by OCTA and therefore no IAS for the purchased transportation services is included.

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

Results - We inspected the MBPT, CBPT, DRPT, DTPT and VPPT service contracts and determined that they contained the items noted above without exception. We inquired with the Administrative Specialist – Transit Division and the Section Manager – Vanpool Program, regarding OCTA's retention policy for executed contracts for purchased transportation programs. Per inquiry, the current practice is to retain contracts for seven years.

- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non-UZAs. Obtain and review the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

Results - OCTA provides services in more than one UZA but does not provide services to non urbanized areas. Allocations to urbanized areas are based on trip pattern analysis. The number of yearly trips per pattern is multiplied by the number of miles determined for each UZA. Eight allocations were tested for the MBDO, MBPT, CBDO and CBPT services without exception.

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10 percent, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

Results – The following fluctuations were noted on the FFA-10 Form:

- A 16.7% decrease in Passenger Miles for MBDO
- A 22.6% decrease in Passenger Miles for CBPT
- A 18.1% decrease in Operating Expenses for CBPT
- A 25.5% increase in Revenue Miles for DTPT
- A 25.8% increase in Passenger Miles for DTPT

- A 21.6% increase in Operating Expenses for DTPT
- A 10.1% decrease in Operating Expenses for VPPT

A 16.7% decrease in the Passenger Miles for MBDO was noted. Per inquiry with the Administrative Specialist – Transit Division, this is the result of the governing board's decision to transition bus services to contractors.

A 22.6% decrease in Passenger Miles and a 18.1% decrease in Operating Expenses for CBPT was noted. Per inquiry with the Administrative Specialist – Transit Division, these are the result of the elimination of two inter-county routes during the fiscal year.

A 25.5% increase in Revenue Miles, a 25.8% increase in Passenger Miles and a 21.6% increase in Operating Expenses for DTPT were noted. Per inquiry with the Administrative Specialist – Transit Division, major bus service changes occurred during the report year (specifically October 2016) and service areas were eliminated, impacting about 2 percent of eligible ACCESS customers who could no longer get rides to and from their areas. As an alternative, the OCTA non-ADA Same Day Taxi program, which is what is reported as the DTPT, allows clients to use the taxi service from the out- of-service area to connect with the OC ACCESS program. The major bus service changes impacting the ACCESS service area has contributed to the growth of the Same Day Taxi program.

A 10.1% decrease in Operating Expenses for VPPT was noted. Per inquiry with the Section Manager – Vanpool, this was due to the merger of the two contractors used by the Vanpool service. The merger resulted in lower operating costs during the fiscal year.

- aa. The auditor should document the specific procedures followed, documents reviewed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The auditor may perform additional procedures, which are agreed to by the auditor and the transit agency, if desired. The auditor should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the auditor but not by FTA.

Results – We have documented the procedures followed based on the FTA 2017 Policy Manual Exhibit 68 - Federal Funding Allocation Data Review - Suggested Procedures, and noted the documents inspected and tests performed in our workpapers. Additional procedures were not performed.



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2016-17 Management Letter

Overview

In connection with the annual audit of the Orange County Transportation Authority's financial statements for fiscal year 2016-17, Vavrinek, Trine, Day & Company, LLP, has issued a management letter with five recommendations for improvement to internal controls.

Recommendations

- A. Receive and file the Orange County Transportation Authority Management Letter June 30, 2017, as an information item.
- B. Direct staff to implement auditor recommendations related to the information technology environment and procurement.

Background

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting OCTA's results of operations and financial position at fiscal year-end. OCTA is required to obtain an independent auditor's opinion on the Comprehensive Annual Financial Report (CAFR), as well as various fund financial statements. The audit was performed by Vavrinek, Trine, Day and Company, LLP (VTD), an independent accounting firm. In connection with the audit, VTD has issued a management letter, as required by the American Institute of Certified Public Accountants (AICPA), *Statement on Auditing Standards Number 115*.

Discussion

VTD has completed annual audits of OCTA's CAFR and various fund financial statements and schedules, and has issued an independent auditor's opinion thereon for the fiscal year (FY) ended June 30, 2017. In connection with the audit, VTD has issued a management letter identifying five control deficiencies as defined by the AICPA, *Statement on Auditing Standards Number 115*.

VTD reported that a sustainable patch management framework had not been established and recommended that a formal implementation plan, assessment of resources, and timeline be established. Management agreed and responded that a schedule for server, desktop, and mobile device patching has been documented, and a sustainable maintenance window for servers has been established. In addition, management indicated that firewall, router, hubs, and switches have an established patch management framework.

It was also observed that the last external penetration test was performed in 2015. VTD recommended management perform external penetration tests at least annually and consider performing social engineering tests to further strengthen information systems security. Management responded that a penetration test was recently completed in November 2017 and that remediation activities are currently being prioritized. A follow-up penetration test, along with unannounced social engineering testing, is planned for calendar year 2018.

VTD also reported that a documented disaster recovery tabletop test and walk-through had not been performed in the current year. VTD recommended that OCTA document annual testing of the disaster recovery plan to include a disaster recovery checklist, walk-through, table top exercise, and technical test; as well as documentation of the results, lessons learned, and needed improvements. Management indicated that a disaster recovery test had been performed, but agreed that documentation of the exercise, including the scope, walkthrough, and final results should be prepared.

Finally, VTD observed a monitor in the hallway of one of the OCTA headquarters floors which is connected to a production network and had not been configured to restrict access. VTD recommended that management strengthen its hardening procedures for such access points or other networkable devices. While the building is access-controlled, management agreed that implementation of networked equipment in more "public" areas will receive more scrutiny in the future. Also, management indicated that all network ports that are unused, even in secure areas, have been shut off.

With regard to procurement, VTD found that two of 26 files reviewed lacked evidence that a public notice was published in a newspaper of general circulation, as required by OCTA policy. VTD recommended that procedures be consistently followed. Management responded that additional steps have been included to the quality assurance process to ensure that evidence of publication is on file prior to release of the formal solicitation.

The management letter for FY 2016-17 is included herewith as Attachment A.

Summary

In connection with the annual audit of OCTA's financial statements for FY 2016-17, VTD has issued a management letter, which identified five recommendations for improvement to internal controls. Management has responded that these items will be addressed.

Attachment

- A. Orange County Transportation Authority Management Letter for the Year Ended June 30, 2017

Prepared by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2017



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

VALUE THE *difference*

Board of Directors
Orange County Transportation Authority
Orange, California

In planning and performing our audit of the basic financial statements of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered OCTA's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

We have previously reported on OCTA's internal control in our report dated October 31, 2017, in accordance with *Government Auditing Standards*. This letter does not affect our report dated October 31, 2017, on the financial statements of OCTA.

During our audit we noted certain matters involving internal control or operations that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the accompanying pages.

CURRENT YEAR OBSERVATIONS

1. SERVER AND DESKTOP PATCHES TO PREVENT THE EXPLOITATION OF INFORMATION SYSTEMS (IS) VULNERABILITIES

OBSERVATION:

OCTA is in the process of applying patches to its IS environment but needs to establish a more sustainable patch management framework. We noted that OCTA has expanded the use of tools to sort, prioritize and list patches for remediation. For example, patching for Java has increased for desktops and servers. However, the patch management framework should also address firewalls, routers, switches and hubs.

RECOMMENDATION:

Patch management is a critical risk area of the IS environment. A formal implementation plan, assessment of required resources and timeline should be established so that patches are prioritized and implemented. Further, if patching can negatively impact the environment, the devices or servers in question should not be maintained in the production environment.

MANAGEMENT'S RESPONSE:

Management agrees with audit recommendations and staff has implemented and documented a sustainable and holistic schedule for server, desktop, and mobile device patching as well as prescheduled patch review meetings for all Microsoft patches. A sustainable maintenance window for all application servers has also been established. All firewall, router, hubs and switches also follow an established patch management framework. In addition, staff has implemented network segmentation as an additional compensating control to protect our network environment.

2. EXTERNAL AND INTERNAL TESTING FREQUENCY AND REPORTING:

OBSERVATION:

OCTA has not scheduled or performed external penetration testing for 2017. OCTA's last external penetration test was in 2015. External penetration testing provides OCTA the ability to assess the security of its critical resources and should be performed annually.

RECOMMENDATION:

Given the size and complexity of OCTA's IS environment, OCTA should perform external penetration testing annually.

In addition, while OCTA has rolled out an employee education program on IS risks, OCTA should consider performing social engineering test to further strengthen IS security. OCTA does require employees to watch training videos that address social engineering and IT risk issues. However, OCTA should also perform testing of this program, which may include testing employees on a random basis via email, phone, shoulder surfing and tailgating.

MANAGEMENT'S RESPONSE

Staff worked with an external vendor in completing an internal, external and wireless penetration test in November of 2017. OCTA's cybersecurity team is currently reviewing the results and prioritizing remediation activities. A follow up test is planned for the first half of calendar year 2018. OCTA has also planned unannounced phishing social engineering testing in 2018.

3. DISASTER RECOVERY TESTING:

OBSERVATION:

OCTA has not documented its disaster recovery tabletop test and walk-through of the current year. Certain aspects of the program have been tested; however, the program requires a documented scope, walk-through and results, regardless of its current state or future plans.

RECOMMENDATION:

OCTA should document its annual testing of the disaster recovery plan to include the following:

- Disaster Recovery Checklist: This is a high-level document for items in the plan such as fuel for the generator, generator maintenance and performance and ensuring all critical team member know their roles and action step.
- Disaster Recovery Walk-Through: Test and verify the call-tree for employees and vendors. Test fuel delivery schedules, physical breakdowns and failures in the actual location that may occur.
- Disaster Recovery Table-Top Testing: This step is an extension of the first two steps. In this step, remove one or two key employees, discuss significant scenarios such as a complete failure of the internet connections, radio connections, catastrophic generator failures, untimely breach or even restricting physical access to any site connected to OCTA.
- Disaster Recovery Technical Testing: Test in parallel or live at the redundant site. The objectives include execution of the technical procedures necessary to resume information systems operations. Components of the testing of the recovery plan could be performed in stages (i.e. a component each quarter).
- Execution and Reporting: Document the results of the test including lessons learned and needed improvements.

MANAGEMENT'S RESPONSE:

Staff has performed a disaster recovery (DR) test in the current year. OCTA is transitioning from hosted DR to internally managed DR and has procured equipment that enables and accelerates system recovery in the event of a disaster. In addition to table top exercises performed in support of OCTA's COOP (Continuation of Operations Plan), the equipment was successfully tested this year by recovering a mission essential application. Staff agrees with auditor's recommendation to finalize the documentation of the DR exercise performed by including its scope, the walkthrough and final results. This documentation will serve as the basis for a DR checklist and final run book for next year's test.

4. PHYSICAL SECURITY:

OBSERVATION:

We observed a large touchscreen monitor hanging in the hallway on one of the floors. The monitor was connected to a desktop PC, which was connected to the production network and had not been configured to restrict access. Such access points could result in unauthorized access to the network. Although certain compensating controls exist such as a single sided badge for building entry or access to an elevator floor, OCTA can improve its physical security over these devices.

RECOMMENDATION:

OCTA should strengthen its hardening procedures for such access points or other networkable devices.

MANAGEMENT'S RESPONSE:

Management understands that it can always improve the security for any device, and since the equipment resided in an area that already requires badge access, staff believed that this compensating control was sufficient and that no additional security improvements were needed by this equipment. Due to the auditor's recommendation, future implementation of networked equipment in "more" public areas will receive added review and attention by staff. As an additional control, staff has shut off all network ports that are unused, even in secure areas.

5. PROCUREMENT

OBSERVATION:

For 2 out of 26 procurements tested, a public notice was not published in a newspaper of general circulation as required by OCTA's procurement policy.

RECOMMENDATION:

We recommend procurement policies and procedures related to public notice be consistently followed.

MANAGEMENT'S RESPONSE:


CAMM concurs with this recommendation and has implemented additional steps in the review process of each procurement file. For added quality assurance prior to release of each formal solicitation, management will review each procurement file to verify evidence of written correspondences between CAMM staff and the Orange County Register to ensure public notice requests have been received and confirmed to publish two consecutive weeks prior to solicitation closing date in accordance with procurement policies and procedures.

Summarized below is the status of observations reported in the prior year management letter:

OBSERVATION	STATUS
Server And Desktop Patches To Prevent The Exploitation Of Information Systems (IS) Vulnerabilities	In progress, refer to current year recommendation
External And Internal Testing Frequency And Reporting	In progress, refer to current year recommendation
Business Resumption And Disaster Recovery Strategy ("Crash Cart")	Implemented
Encrypted Email Communications	Management has evaluated the recommendation and believes that current pathways and compensating controls are sufficient

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Orange County Transportation Authority gained during our work to make observations and suggestions that we hope will be useful to you.

We would be pleased to discuss these observations and recommendations with you at any time. This report is intended solely for the information and use of OCTA, management, and others within OCTA and is not intended to be and should not be used by anyone other than these specified parties.


Laguna Hills, California
October 31, 2017



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2017-18 Internal Audit Plan, Second Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan on August 14, 2017. This update is for the second quarter of the fiscal year.

Recommendation

Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan as an information item.

Background

The Internal Audit Department (Internal Audit) is an independent appraisal function, the purpose of which is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities to assist management in the discharge of its duties and responsibilities.

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, conducting operational and contract compliance reviews, investigations, pre-award price reviews, and Buy America reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

In compliance with Government Auditing Standards, Internal Audit contacts OCTA legal counsel, prior to initiating audits, to inquire about any ongoing legal proceedings or investigations with respect to the audit topic. Where legal or investigation activities are underway, Internal Audit will evaluate the impact to the audit and consider deferring all, or a portion, of the planned audit.

Discussion

The OCTA Internal Audit Fiscal Year 2017-18 Internal Audit Plan (Plan) (Attachment A) reflects all planned audits and the status of each project. During the quarter, Internal Audit issued the results of an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, recommendations were made to develop and implement procedures for verification of Health Savings Account contribution payments and for collection of insurance premiums in arrears. Also, Internal Audit recommended that management consider clarifying the policy governing health plan participation.

Also during the quarter, Internal Audit issued results of a pre-award Buy America agreed-upon procedures review of the purchase of six, 40-foot compressed natural gas buses from New Flyer. Based on the procedures performed, the vehicles will contain domestically manufactured components representing costs of at least 60 percent of the cost of the vehicle.

The primary focus of Internal Audit during the quarter was to provide coordination of the annual financial audits and agreed-upon procedure reviews by OCTA's independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP (VTD). All audits and agreed-upon procedures reviews, except for those related to individual cities, were issued during the quarter. In connection with the audits, VTD made five recommendations to management for improvement to internal controls. Four of the recommendations related to enhanced information system security and one related to compliance with procurement procedures. Management agreed with the recommendations and outlined actions to address the issues.

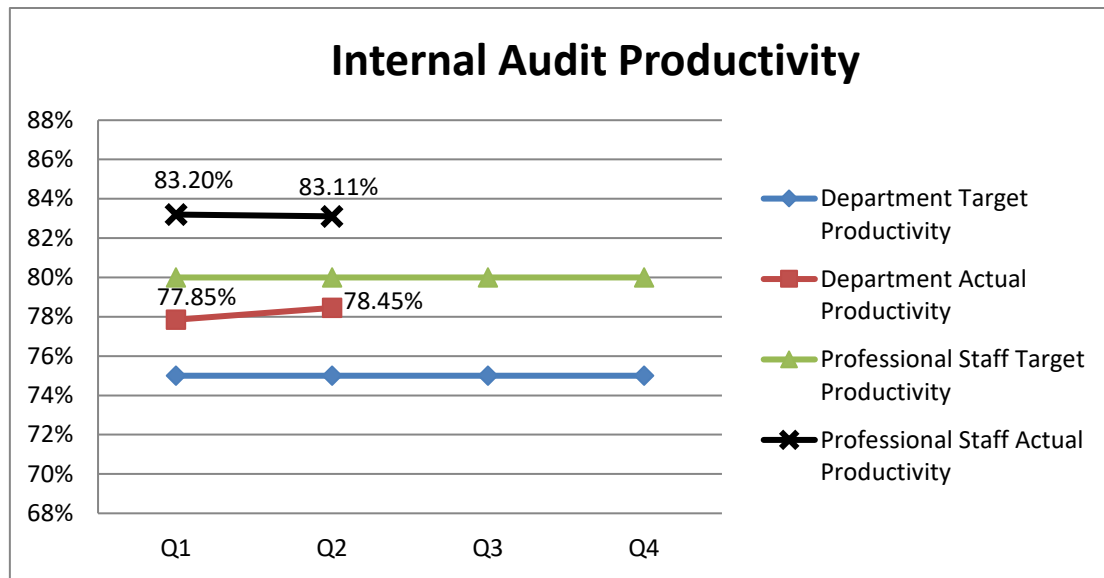
Several audit projects are underway at quarter end, and the procurement of an expert consultant to conduct a risk assessment of the OCTA information systems environment is in progress.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the Executive Director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at

75 percent. The target for internal audit professional staff, not including the Executive Director, is 80 percent.

For the second quarter ended December 31, 2017, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 83 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CMM), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended December 31, 2017, Internal Audit conducted seven pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Recommended Price Adjustments
1st	\$ 4,069
2nd	538,528
3rd	
4th	
Total	\$ 542,597

Fraud Hotline

During the quarter ended December 31, 2017, Internal Audit received eight reports through OCTA's Fraud Hotline, www.ethicspoint.com, and completed an investigation related to a report received during the first quarter. Of the new reports, one concerned an issue that had been recently identified and reported during an audit of Contracted Fixed-Route Services. The remaining seven reports were referred to the police, another agency, and/or customer service as appropriate, based on the subject matter. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

During the quarter, based on concerns expressed by the Transit Division, an Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association of Orange County (KASA) was issued. The investigation confirmed that KASA had not made trips available to those requiring wheelchair accessibility and that some trips provided were not outlined in the current service plan agreement. Internal Audit also identified unsupported costs charged to the SMP and non-compliance with the program's minimum age requirement. Internal Audit recommended that management continue oversight activities and report any future non-compliance to the Board of Directors for consideration as to future funding of the program. Management responded they are not confident that compliance can be ensured, even with an enhanced level of oversight. Management is recommending that the agreement with KASA be terminated and that a 90-day termination notification be sent to KASA.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2017, Internal Audit made initial contact within two business days.

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of unresolved audit recommendations is included with the quarterly updates to the Plan as Attachment B. Internal Audit includes the findings and recommendations generated internally, as well as those provided by outside regulatory auditors.

During the quarter ended December 31, 2017, Internal Audit completed follow-up reviews of nine outstanding audit recommendations. Seven recommendations had been appropriately addressed by management and were removed from the list. Two recommendations from audits of OCTA Policies and Procedures and Investment Management Service Contracts remain open pending further actions by management. Follow-up of an additional three recommendations is in-process at quarter end.

Seven recommendations from the Audit of Employee Health Benefits and the Investigation and Limited Scope Review of the Senior Mobility Program operated by the Korean American Senior Association were added to the list.

Summary

Internal Audit will continue to implement the Plan, report on performance metrics, follow-up on outstanding audit recommendations, and report progress on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
Fiscal Year 2017-18 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through
December 31, 2017)

Prepared by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2017-18 Internal Audit Plan
Second Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Mandatory External Independent Audits								
Annual Financial Audits and Agreed-Upon Procedures Reviews	FY18-001 through FY18-004	Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2017-18.	Financial	375	204	171	Complete	
External Regulatory Audits	FY18-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	33	27	Ongoing	
Internal Audit Department Projects								
Risk Assessment and Annual Audit Plan	FY18-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year, including the monitoring of audit results of related entities.	Audit Plan and Updates	200	39	161		
Information Systems Risk Assessment	FY18-104	Engage a firm to conduct an information systems risk assessment for the Orange County Transportation Authority (OCTA) environment. Review should include identification and evaluation of threats, vulnerabilities and safety characteristics of the OCTA information technology environment.	Audit Plan and Updates	120	21	99	In Process	
Quality Assurance and Self-Assessment	FY18-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's compliance with Government Auditing Standards.	Quality Control	160	26	134		
Fraud Hotline Activities	FY18-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	320	149	171	17 Reports Received	
Automated Workpaper Solution	FY18-103	System updates/training related to automated workpaper solution.	Workpaper System	80	24	56	Ongoing	
Internal Audits								
Clerk of the Board								
Public Meetings / Brown Act Compliance	FY18-5XX	Assess systems and controls in place to ensure compliance with the Brown Act.	Compliance	160	24	136	In Process	
Security and Emergency Preparedness								
Transit Police Services Contract	FY17-512	Review oversight controls and contract compliance with agreement for provision of Transit Police services.	Compliance	80	110	(30)	Complete 8-31-17	
Human Resources and Organizational Development								
Benefits: Health Insurance Plans and Health Savings Accounts	FY17-506	Review controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures.	Operational	100	278	(178)	Issued 10-19-17	
Storm Water Pollution Prevention Plan	FY17-505	Review oversight controls, policies, and procedures to ensure compliance with Environmental Protection Agency regulations.	Compliance	32	18	14	Complete 8-23-17	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2017-18 Internal Audit Plan
Second Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Capital Programs								
Interstate 405 (I-405) Improvement Project: Project Management Contract	FY18-505	Assess and test contract compliance and oversight controls of project management services provided for the I-405 Improvement Project.	Compliance	300	72	228	In Process	
Interstate 5 (I-5) Improvements: Pacific Coast Highway (PCH) to San Juan Creek (SJC) Road		Assess adequacy of contract compliance, oversight, and reporting controls related to the I-5 Improvement Project between PCH and SJC Road.	Internal Control	300	-	300		
Project K: Right-of-Way Acquisition Activities	FY18-502	Assess and test compliance with reporting requirements related to acquisition of property rights for the I-405 Project K.	Compliance	240	195	45	Complete 9-27-17	
Metrolink Cooperative Agreement for Control Point: 4th Street - Santa Ana	FY18-504	Review and testing of compliance with the cooperative agreement with Metrolink for design and construction of a control point at 4th Street in the City of Santa Ana and a new power turnout to the Union Pacific Railroad spur track.	Compliance	240	381	(141)	In Process	
Planning								
Comprehensive Transportation Funding Programs Projects	FY18-5XX	Review selected projects for compliance with Measure M Ordinance, policies, and procedures.	Compliance	240	-	240		
Transit Operations								
Contracted Fixed Route Operations	FY17-508	Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with First Transit.	Internal Control/ Compliance	80	84	(4)	Complete 8-30-17	
Fleetwatch Fluid Management System	FY18-506	Assess adequacy of system controls and data reporting related to dispensing of fuel.	Operational	240	175	66	In Process	
ACCESS Service	FY18-5XX	Review and test compliance with key contract provisions, with consideration of program effectiveness and efficiency.	Internal Control/ Compliance	320	-	320		
Finance and Accounting								
Treasury	FY18-501	Semi-annual review of investments, compliance, controls, and reporting.	Compliance	200	138	62	Complete 8-30-17	
Grant Closeouts	FY17-511	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	30	10	Complete 8-4-17	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2017-18 Internal Audit Plan
Second Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Contract Administration and Materials Management (Camm)								
Price Reviews	PR18-XXX	Cost and price analyses as requested by OCTA's CAMM Department.	Agreed Upon Procedures	1,000	443	557	12 Reports Issued	
Buy America	FY18-XXX	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	280	127	154	Complete 12-7-17	
Warranty Administration	FY18-5XX	Assess adequacy of controls in place for tracking and recording of warranty repairs and credits.	Internal Control	240	-	240		
Purchasing Cards	FY18-503	Assess and test controls over purchasing cards.	Internal Control	240	470	(230)	In Process	
Unscheduled Reviews and Special Requests								
Unscheduled Reviews and Special Requests	FY18-8XX	Time allowed for unplanned audits, coordination of external agency audits, and requests from the Board of Directors and management.	Varies	320	10	310		
Monitoring Activities								
Measure M Taxpayer Oversight Committee (TOC)	FY18-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Non-Audit Activities	80	15	65	Ongoing	
Metrolink Audit Activities	FY18-602	Obtain and review audit results of Metrolink activities.	Non-Audit Activities	40	27	13	Ongoing	
Bus Base Inspections	FY18-603	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Activities	32	64	(32)	As Requested	
Capital Asset Inventory Observation	FY18-604	At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Activities	80	-	80	As Requested	
Follow-up Reviews								
Follow-up Reviews and Reporting	FY17-7XX, FY18-7XX	Follow-up on audit findings and recommendations.	Follow-up	320	234	86		
Total Audit Project Planned Hours (A)				6,519	3,390	3,129		

Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2017-18 Internal Audit Plan
Second Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Internal Audit Administration								
Board of Directors and Committee Meetings				260	78	183		
Executive Steering and Agenda Setting Meetings				180	82	98		
Internal Audit Staff Meetings				150	49	101		
Other Administration				1,500	723	778		
Total Hours (B)				8,609	4,321	4,288		
Department Target Efficiency				75%				
Target Efficiency - Professional Staff				80%				

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
1/4/17	FY17-502	Finance and Administration (F&A)	Payment Card Industry/Data Security Standard (PCI-DSS) Compliance	Management should evaluate resources and controls to ensure full compliance and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management should implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute USA's (Cofiroute) PCI DSS compliance information.	Jan-18	Management will take the following actions: (1) engage a third party PCI Security Assessor to perform Self-Assessment Questionnaires (SAQ) going forward; (2) assess the remediation items identified in the SAQ and address items that fall into existing security improvement efforts; (3) perform a yearly assessment of Cofiroute's PCI DSS compliance information; (4) undergo a review to determine if OCTA should take the steps necessary to become fully PCI compliant; (5) continue to allocate and prioritize resources to cybersecurity risks while addressing PCI compliance concerns. <u>Update August 2017</u> : Management has not achieved compliance or fully implemented an approach to address non-compliance.	Dunning	In Process
1/4/17	FY17-502	F&A	PCI-DSS Compliance	Management should implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management should also implement procedures for oversight and monitoring of Cofiroute's activities and incorporate their system scan results into submissions to American Express.	Jan-18	Management agrees with Internal Audit's recommendation and will implement procedures to ensure quarterly network scans are performed. Management will also identify items to be remediated and implement them based on risk and cost. Management will allocate resources to perform periodic assessments of Cofiroute's PCI DSS compliance information. <u>Update August 2017</u> : Quarterly scans are not performed and submitted as management continues to assign resources to areas of non-compliance.	Dunning	In Process

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Procedures should be developed and documented for the budget development and transfer processes. Management should also ensure project variances exceeding the threshold are investigated in accordance with the budget to actual reporting procedures, or alternatively clarify the investigation requirements in such procedures.	Jun-18	Management agrees with the recommendation and will re-evaluate and document all salary and benefit budget assumptions at a lower level of detail. Also, management will ensure project variances exceeding the threshold continue to be investigated in accordance with the budget to actual reporting procedures, and will clarify investigation requirements in such procedures. <u>Update October 2017</u> : Management has addressed the recommendations related to budget development and transfers. However, since changes to the budget to actual reporting procedures will be fully implemented in the first quarter, Internal Audit will follow up on this part of the recommendation by the end of the fiscal year.	Ng	Initiate next update by June 2018
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Management should implement procedures to ensure that changes to salary grade levels are based on reasonable and consistent methodologies and that documentation is maintained. Changes should also be communicated to management prior to seeking Board of Director (Board) approval.	Jun-18	Human Resources (HR) management will ensure that Personnel and Salary Resolution (P&SR) changes are communicated to management prior to seeking Board approval. During the budget process, salary grade level changes to the P&SR will be presented to the Executive Steering Committee prior to Board approval. Current documentation methods for classification salary grade changes will be reviewed to determine the best practice for documenting these actions. HR is in the process of obtaining a compensation and market salary data system. This system will be utilized to enhance data collection, consistency, and documentation. <u>Update June 2017</u> : Internal Audit found that recommended upgrades to a job family were not supported by the data collected and stated criteria and documentation supporting grade change recommendations requires improvement. As such, this recommendation will remain open.	Ng	Initiate next update June 2018

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Management should clarify the Position Control Policy (Policy) with regard to Board approved positions, develop procedures to ensure that the total number of employees does not exceed the Board-approved number, and obtain Chief Executive Officer (CEO)-approval for dual-filled positions. Management should also develop controls to ensure compliance with the Policy.	Jun-18	The Policy will be reviewed and revised to clarify the approval process by OCTA's Board. Current procedures will be reviewed to determine if further action is required to ensure the total number of employees do not exceed the Board-approved number. In addition, recruitments that will result in a dual-fill will require the authorization of the CEO. <u>Update October 2017</u> : Since revisions to the Policy have not been finalized, Internal Audit will keep this recommendation open and return by the end of the fiscal year.	Ng	Initiate next update June 2018
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Actual budgeted amounts should be shown on the Sole Source List. For services that could be performed by multiple vendors, the budget package should provide an explanation and justification for using the selected vendors.	Jun-18	Management agrees with Internal Audit's recommendation and will show the actual budgeted amount for software and hardware maintenance when the Sole Source List is presented to the Board for approval. Management also will develop a budget justification for emergency malware support in the budget package. <u>Update October 2017</u> : Management added the budget amounts to the Sole Source List in accordance with the first part of the recommendation. However, management did not address the second part of the recommendation, regarding the explanations and justifications for using the selected emergency malware support vendors. We will return at the end of the fiscal year to follow-up on the second part of the recommendation.	Ng	Initiate next update June 2018

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/9/17	FY17-507	F&A	OCTA Policies & Procedures	Management should update procedures to include a communications plan to ensure that employees expected to comply with policies are properly notified. Communication should occur, as appropriate, for both new and revised policies.	Mar-18	Management agrees with the recommendation and has taken steps to ensure communication is made to all employees when new policies are created or existing policies are updated. <u>Update October 2017:</u> Policy and procedure updates are being communicated to administrative employees via e-blasts; however, updates applicable to base personnel are not being properly communicated. Management indicated that there are future plans to communicate these policies via digital signage at the bus bases.	Dunning	Initiate Next Update March 2018
3/9/17	FY17-507	F&A	OCTA Policies & Procedures	Management should implement controls to help ensure the accuracy and completeness of the master list of policies and procedures.	Mar-18	Management agrees with the recommendation and will implement procedures to ensure that the master list of policies and procedures is maintained with accuracy and completeness. <u>Update October 2017:</u> Management indicated that an automated system will be implemented to assist in the approval, distribution, and management of policies and procedures.	Dunning	Initiate Next Update March 2018

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
4/12/17	FY17-504	F&A	Investment Management Service Contracts	Management should ensure compliance with procurement policies and ensure that decisions to accept deviations from the Request for Proposals (RFP) are documented, along with the calculations and methodologies used when cost estimates are prepared by staff. Documentation on file should justify the reasons for changes to the RFP after proposals are received and the value of the cost proposal estimate should translate to the value of the contract issued. Finally, management should consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes.	Apr-18	The Contracts Administration and Materials Management Department (CAMP) will ensure an Independent Cost Estimate is provided as required and will re-enforce this requirement with staff during meetings and training exercises. CAMP will remind staff that project managers may not conduct direct negotiations without CAMP staff being present. If the evaluation committee recommends for award a pricing model and methodology that differs from the RFP, the contract administrator will be required to clearly indicate such in the procurement memo along with the reason for the recommendation. CAMP management will ensure that staff understands the need for documentation which demonstrates the method for calculating final pricing as well as how the pricing criteria was scored. Additionally, contracts will be issued consistent with the cost estimate on file. Documentation will be required in the contract file if a contract is issued in an amount that varies greatly from the cost estimate. Lastly, management agrees to consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes. <u>Update December 2017:</u> CAMP has reviewed procedures and provided training as indicated and management has developed a policy on the use of OCTA's logo. Human Resources and Organizational Development (HROD) management plans to incorporate a policy on testimonials into the Code of Conduct in April 2018.	Tang	Initiate Next Update April 2018
8/1/17	FY17-505	HROD	Storm Water Pollution Prevention Plan (SWPPP)	Continue efforts to eliminate the unauthorized non-storm water discharges related to the bus washes.	Feb-18	Bus wash water track-out capturing systems are expected to be finished and operable by August 2017.	Bonelli	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/1/17	FY17-505	HROD	SWPPP	Continue efforts to expand the use of the Ellipse system to include additional storm water-related tasks.	Feb-18	Current Ellipse work orders related to storm water pollution prevention have been updated and modified. New expanded work orders will be established within Ellipse by August 2017.	Bonelli	
8/1/17	FY17-505	Capital Programs	SWPPP	Enhance oversight of contractors and personnel carrying out SWPPP related monitoring activities, particularly related to site inspections, sampling, reporting, etc. OCTA should also ensure that agreements with contractors tasked with SWPPP activities include retention requirements.	Feb-18	Enhanced oversight of contractors and construction management teams will be implemented and monitored. OCTA will ensure current and future agreements with contractors include retention requirements.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Ensure that a copy of the SWPPP is maintained at each bus base facility.	Feb-18	Hard copies of SWPPP will be maintained at each bus base facility in addition to electronic copies. Each hard copy will be singularly identifiable and OCTA SWPPP members will be notified/trained of their locations.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Increase the Health, Safety, and Environmental Compliance (HSEC) group's participation with construction projects and activities to help ensure compliance with the Construction General Permit (CGP).	Feb-18	HSEC will continue to participate in CGP compliance efforts and will identify/allocate necessary resources to ensure compliance with the CGP in partnership with OCTA's Capital Programs group via project planning efforts.	Bonelli	
8/1/17	FY17-505	Capital Programs	SWPPP	Ensure cooperative agreements specifically clarify the roles and responsibilities of all individuals and entities associated with compliance with the CGP.	Feb-18	Management doesn't agree that the roles and responsibilities of all individuals and entities should be included in the cooperative agreements. However, management will implement a procedure to document these roles and responsibilities in a project memo.	Bonelli	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/1/17	FY17-505	HROD	SWPPP	Establish a formal process in which technicians maintain documentation supporting why samples could not be collected during a sampling period.	Feb-18	Monitoring forms used by technicians will be revised to provide supporting documentation/verbiage on why samples could not be collected during a qualified sampling event.	Bonelli	
8/1/17	FY17-505	Capital Programs	SWPPP	Ensure contractors adhere to training required by the CGP by periodically requesting to review training records.	Feb-18	Periodic reviews of training records will be implemented.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Document in the SWPPPs the time periods when the bus bases conduct any function related to industrial activity.	Feb-18	SWPPPs will be revised to describe time periods when bus bases conduct industrial activity. Maintenance staff will be included as SWPPP team members.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Document the date that each SWPPP was initially prepared.	Feb-18	SWPPPs will be revised to include the date that each SWPPP was initially prepared.	Bonelli	
8/30/17	FY17-508	F&A	Contracted Fixed-Route Operations	Internal Audit recommends that CAMM develop procedures for monitoring of performance bond requirements and certificates of insurance to ensure that performance bonds are appropriately adjusted with amendments and insurance requirements are met.	Feb-18	CAMM concurs with this recommendation and has taken steps proactively to review and track bond and insurance documentation for compliance to ensure contract requirements are met. OCTA's Risk Management department recently procured insurance brokerage services and the scope of work includes a requirement for insurance review and certificate tracking system for all contracts. OCTA will seek to include an additional feature related to monitoring bond value adjustments as an enhancement to this service.	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends management reconcile accident reports to monthly reports and develop procedures for progressive enforcement actions to be taken when contract requirements are not being met.	Feb-18	Management agrees to conduct a monthly reconciliation of accident reports. To ensure that contract language permits reimbursement regardless of when the work is initiated, management proposes a modification in the contract language to remove the requirement for OCTA's pre-approval and reflect the process used: "The contractor will not be reimbursed for the replacement or repair of any major mechanical components without the written approval of OCTA's project manager or his/her designee." For unclassified revenue, a process is already in place to monitor unclassified revenue on a weekly and monthly basis and management feels that including documentation related to the oversight including follow-up actions taken with the monthly invoice package would be a valuable addition.	Ng	
8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that management consistently apply penalties as outlined in the contract. Any request to waive a penalty should be documented and accompanied by adequate documentation to support and justify how the failures could not have reasonably been prevented.	Feb-18	Management agrees with the finding and will amend the contract to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained.	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that management consistently apply penalties and consider non-payment of revenue hours for vehicles that have exceeded preventive maintenance intervals. Penalties should only be waived at the request of First Transit and with adequate justification and documentation demonstrating that the failures could not have reasonably been prevented. Finally, management should implement a secondary review of incentives and penalties during the invoice review process to determine that they are consistent with the contract.	Feb-18	<p>Management agrees with the finding and will implement more consistent application of penalties; however, the contract will also be amended to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained.</p> <p>Management will coordinate a monthly meeting to review invoice penalty and incentive amounts for accuracy prior to payment.</p>	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that contracted fixed route performance standards be measured consistent with the standards set forth in the contract. Management should implement procedures to ensure changes to performance standards are processed as formal contract amendments and that notice and justification for the changes is documented. Management should also consider implementing procedures that require Board notification and/or approval for changes to contracted fixed route performance standards. At a minimum, presentations and performance reports provided to the Board should clearly outline changes to the measurement standards and/or methodology.	Feb-18	Management agrees with the finding. The on-time performance window as measured and reported through the automated systems on-board all fixed route vehicles has been adjusted to reflect a zero to five minute window. This change has been made retroactive back to February 2016 when the change to five minutes, 30 seconds was implemented. Future quarterly performance measure reports will outline the methodologies used to collect data and if methodologies change, the report will identify the change.	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/30/17	FY17-508	F&A	Contracted Fixed-Route Operations	<p>Internal Audit recommends that the Price Summary be amended as needed to accurately reflect the agreed-upon rates and costs that will be invoiced to the contract. If rates or costs increase due to additional service added in amendments, the amendments should include a revised Price Summary. Management should also ensure that the increases in maximum obligations be calculated correctly based only on additional costs that will be incurred, without double-counting of costs.</p> <p>Finally, Internal Audit recommends that CAMM review all RFP addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts.</p>	Feb-18	<p>Management concurs that the Price Summary be amended to capture the agreed-upon rates associated with each added service to the contract. Management will ensure the Price Summary is revised to reflect any future costs for additional services.</p> <p>CAMM's standard practice when conforming agreements is to review all RFP addendums to ensure all technical and contractual changes are incorporated in the final agreement. For added quality assurance, conformed agreements are sent to the requesting departments for review and concurrence prior to contract final execution.</p>	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
8/30/17	FY18-501	F&A	Investments: Compliance, Controls, and Reporting	Internal Audit identified a discrepancy between the detailed investment portfolio listing and the investment summary report in the 2017 First Quarter Debt and Investment Report. Also, the Orange County Investment Pool balance reflected in the Second Quarter 2017 Debt and Investment Report was misstated by a minor amount. Internal Audit recommended management enhance review procedures to ensure line items are validated and schedules are reconciled before finalizing the report.	Feb-18	Management agreed and indicated that reconciliation procedures would be developed.	Tang	In Process
9/27/17	FY18-502	Capital Programs	Right-of-Way Acquisition Activities for the Interstate 405 (I-405) Project K	Internal Audit recommends that management develop written procedures for the reporting of administrative settlements and contracts executed under the Incentive Payment Program (Program) for the I-405 Project. The procedures should identify the frequency and method of reporting.	Mar-18	The Real Property Department has drafted a written procedure for the reporting of administrative settlements and contracts executed under the Program for the I-405 Project. The procedure identifies the frequency and method of reporting and includes two exhibits illustrating the format of each report. The I-405 Modified Settlement Delegation Authority Administrative Settlements Authorized Report format will now reflect the appraisal amount, additional compensation amount, total contract amount, and the calculated percentage of the settlement.	Ng	
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop and implement written procedures to ensure that all qualified Health Savings Account (HSA) enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit.	Apr-18	The contributions have been remediated and processed to the two employee Health Savings Accounts. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures.	Bonelli	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop a written policy and procedures for collection of premiums in arrears.	Apr-18	The participant that owed \$1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums.	Bonelli	
10/19/17	17-506	HROD	Employee Health Benefits	Management should seek Board member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve.	Apr-18	Management will consider revisions to the Fiscal Year 2018-2019 (FY19) P&SR to clarify the policy. The FY19 P&SR will be presented for Board of Directors approval in June 2018, along with the annual budget.	Bonelli	
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association (KASA)	KASA violated the SMP requirement to provide wheelchair-accessible vehicles. Internal Audit recommends management continue oversight activities and report any continued non-compliance to the Board for consideration as to future funding of this program.	Jun-18	Based on performance over the past year, contact with the program administrator on a variety of issues regarding compliance, as well as the current audit findings, staff is not confident that even with an enhanced level of oversight, compliance can be ensured. Management recommends that a 90-day termination notification be sent to KASA and funding be discontinued at the end of that period.	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	Unallowable and unsupported costs are charged to the SMP, and costs reported for June 2017 did not agree to KASA's financial records. Internal Audit recommends that the OCTA coordinator review with KASA program guidelines for allowable direct and indirect costs. The coordinator should disallow all indirect costs charged directly to the SMP and any costs that are not adequately supported. The coordinator should also train KASA on monthly reporting requirements. Finally, any continued non-compliance should be reported to the Board for consideration as to future funding of this program.	Jun-18	Funds disbursed to KASA for service provided in 2018 will be adjusted, with the overstated \$1,564 deducted from the disbursement. If support for the program is discontinued as recommended by staff, KASA will receive a portion of the funds left for the current fiscal year through the date of termination.	Ng	
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	The age requirement to join KASA is currently set at 55 years and older; however, the SMP program defines eligible participants as 60 years and older. Internal Audit recommends that management require KASA to develop procedures to ensure only qualified trips are charged to the SMP.	Jun-18	If support for the program is continued, OCTA staff will monitor this during the site visits.	Ng	

Outstanding Audit Recommendations
Audit Reports Issued through December 31, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	Documentation on file indicates that KASA provides some trips outside their approved service plan. Internal Audit recommends that the coordinator disallow costs related to trips outside the service plan. The Coordinator should also instruct KASA to reconcile monthly reports to trips sheets prior to submittal. Any continued non compliance should be reported to the Board for consideration as to future funding of this program.	Jun-18	If support for the program is continued, OCTA staff will monitor this during the site visits.	Ng	



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit

Subject: Purchasing Cards, Internal Audit Report No. 18-503

Overview

The Internal Audit Department has completed an audit of purchasing cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate; however, three recommendations were made to improve compliance with the policies and procedures.

Recommendation

Direct staff to implement three recommendations provided in Purchasing Cards, Internal Audit Report No. 18-503.

Background

A purchasing card administrator within the Contracts Administration and Materials Management Department is responsible for administration and oversight of the Orange County Transportation Authority (OCTA) Purchasing Card Program. OCTA purchasing cards are issued by Bank of America, and transactions are available for review and approval through an internet-based system known as WORKS. For the year ended June 30, 2017, a total of 4,192 transactions were processed, totaling \$855,000.

Discussion

The audit identified five purchases that exceeded the single transaction limit of \$2,500. To improve oversight, the Internal Audit Department (Internal Audit) recommended that the purchasing card administrator enhance monitoring controls by analyzing monthly transaction activity for any transactions that

exceed the stated threshold. Management agreed and indicated that enhanced procedures will be implemented.

Numerous instances were identified where purchasing cards were used to purchase food items and the accompanying receipt was not signed by an executive, as required by procedures. Internal Audit recommended that management implement controls to ensure compliance with procedures or consider revising procedures to exempt certain employees who purchase food items on a regular basis. Management agreed and plans to modify procedures.

Four of the twenty-four designated approving officials are not department managers or directors, as required by procedures. Internal Audit recommended management replace these approving officials or revise procedures to reflect intended practices. Management agreed and plans to modify procedures.

Summary

Internal Audit has completed an audit of purchasing cards and offered three recommendations for improvement.

Attachment

A. Purchasing Cards, Internal Audit Report No. 18-503

Prepared by:



Gerry Dunning
Senior Internal Auditor
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Approved by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Purchasing Cards

Internal Audit Report No. 18-503

January 15, 2018



Performed by:

Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor
Janet Sutter, CIA, Executive Director

GD

Distributed to:

Andrew Oftelie, Executive Director, Finance and Administration
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Pia Veasapen, Manager, Contracts & Procurement
Kristen Mason, Section Manager, Maintenance Procurement

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Purchasing Cards
January 15, 2018**

Table of Contents

Conclusion	1
Background	1
Objectives, Scope, and Methodology	1
Audit Comments, Recommendations, and Management Responses	3
Transaction Limits.....	3
Authorization of Food Purchases.....	3
Guidelines for Designated Approving Officials.....	4

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Purchasing Cards
January 15, 2018**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of purchasing cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate; however, three recommendations were made to improve compliance with the policies and procedures.

Background

The Contracts Administration and Materials Management Department (Camm) of the Finance and Administration Division is responsible for administration of the Orange County Transportation Authority (OCTA) Purchasing Card Program. The purpose of the Purchasing Card Program is to simplify the procurement process for small dollar purchases and to allow employees to purchase items directly from suppliers when necessary to meet business needs. Purchasing cards are also used to make business travel arrangements and to test taxicabs' ability to accept credit card payments as required by the Orange County Taxicab Administration Program. OCTA purchasing cards are issued by Bank of America and transactions are available for review and approval through an internet-based system known as WORKS.

As of the audit, a total of 64 purchasing cards are issued to OCTA employees. For the year ended June 30, 2017, a total of 4,192 transactions were processed totaling \$855,000. The Purchasing Card User Guide Policies and Procedures set a single transaction limit of \$2,500 and a monthly credit limit of \$5,000, or \$10,000 for designated travel coordinators. Purchasing cardholders are required to reconcile transactions to an online monthly statement and provide supporting documentation for review and approval by a designated approving official.

The Section Manager of Maintenance Procurement is the designated Purchasing Card Administrator and is responsible for maintenance and oversight of purchasing cards and related activity.

Objectives, Scope, and Methodology

The objective was to assess the adequacy of controls to ensure transactions are valid, authorized, and in compliance with policies and procedures.

The methodology consisted of interview with the Purchasing Card Administrator and Accounts Payable staff, review of the Purchasing Card User Guide Policies and Procedures, testing of a random sample of purchasing card transactions, verification of the position titles for all approving officials, and data analysis and testing of purchasing card transactions for violation of transaction and/or monthly card limits. In addition, Internal Audit reviewed details of multiple transactions to one vendor to determine whether transactions represent violations of the procurement rules. For judgmental

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Purchasing Cards
January 15, 2018

samples, conclusions are limited to the sample items tested since sampling is non-statistical.

The scope was limited to the purchasing card transactions for the fiscal years ending June 30, 2016 and June 30, 2017.

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

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Purchasing Cards
January 15, 2018**

Audit Comments, Recommendations, and Management Responses

Transaction Limits

Five purchases exceeded the single transaction limit of \$2,500. These violations were not detected during the sample monthly reviews conducted by the purchasing card administrator.

Recommendation 1:

The purchasing card administrator should enhance oversight procedures to include analysis of transaction activity exceeding \$2,500.

Management Response:

Management has reviewed the recommendation and agrees that the purchasing card administrator will enhance oversight procedures to include analysis of all cardholder's monthly transaction activity exceeding \$2,500. Currently, the purchasing card administrator pulls a minimum of three cardholder purchasing card statements monthly, at random, and reviews for compliance to ensure the OCTA Business Expenses Policy is being followed. This change will take place with the January purchasing card statements.

Authorization of Food Purchases

Internal Audit identified numerous instances where purchasing cards were used to purchase food items and the accompanying receipt was not signed by an executive as required by procedures. In some cases, staff attached a memo signed by an executive authorizing food purchases "up to" a stated dollar amount; however, the same memo was used multiple times, and the "up to" maximum was exceeded.

Recommendation 2:

Management should implement controls to ensure compliance with procedures or consider revising procedures to allow certain employees, who purchase food items on a regular basis, to do so without executive approval on each receipt.

Management Response:

Management has reviewed the recommendation and agrees to revise the Business Expenses Policy to include modifications to the current procedure. The modifications will be as follows: require executive approval on each receipt for food item purchases, except for food purchased by the Clerk of the Board for Board of Director and Board Committee

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Purchasing Cards
January 15, 2018**

meetings and new employee orientation conducted by Human Resources. Modifications to the Business Expenses Policy will be completed by March 31, 2018.

Guidelines for Designated Approving Officials

Four of the twenty-four designated approving officials are not department managers or directors, as required by procedures.

Recommendation 3:

Internal Audit recommends management replace these approving officials with either a department manager or a director, or revise procedures to reflect intended practices.

Management Response:

Management has reviewed the recommendation and agrees to update the Purchasing Card User Guide Policies and Procedures to include section managers as approving officials. The Purchasing Card User Guide Policies and Procedures will be updated and posted on OCTA Today no later than January 31, 2018.



January 24, 2018

To: Finance and Administration Committee
From: Darrell Johnson, Chief Executive Officer
Subject: Local Agency Investment Fund - December 2017

Overview

The Orange County Transportation Authority invests a portion of its liquid portfolio in the State of California Local Agency Investment Fund. Each month, the State Treasurer's office publishes a report detailing the composition of the pool. The attached summary statements from the report are for the month ending December 31, 2017. The report has been reviewed and is consistent with the investment practices of the State Treasurer's Office.

Recommendation

Receive and file as an information item.

Discussion

As of December 31, 2017, the fair value including accrued interest of the Pooled Money Investment Account (PMIA) was \$74,320,250,742 with a month-average yield of 1.24 percent and a month-end weighted average maturity of 186 days. The Local Agency Investment Fund (LAIF) is a component of the State of California PMIA. The month-end balance of LAIF was \$21,195,496,377. The Orange County Transportation Authority's month-end balance in LAIF was \$10,305,183.

Summary

The Orange County Transportation Authority is submitting a copy of the Local Agency Investment Fund statements and summary reports to the Finance and Administration Committee. The statements are for the month ending December 31, 2017.

Attachment

A. Local Agency Investment Fund – As of December 31, 2017

Prepared by:



Rodney Johnson
Deputy Treasurer
Treasury/Public Finance
(714) 560-5675

Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649



**JOHN CHIANG
TREASURER
STATE OF CALIFORNIA**



PMIA Performance Report

Date	Daily Yield*	Quarter to Date Yield	Average Maturity (in days)
12/11/17	1.21	1.16	189
12/12/17	1.22	1.16	191
12/13/17	1.22	1.16	190
12/14/17	1.23	1.17	188
12/15/17	1.23	1.17	188
12/16/17	1.23	1.17	188
12/17/17	1.23	1.17	188
12/18/17	1.23	1.17	184
12/19/17	1.24	1.17	182
12/20/17	1.25	1.17	184
12/21/17	1.26	1.17	185
12/22/17	1.26	1.17	191
12/23/17	1.26	1.17	191
12/24/17	1.26	1.18	191
12/25/17	1.26	1.18	191
12/26/17	1.28	1.18	186
12/27/17	1.28	1.18	183
12/28/17	1.30	1.18	186
12/29/17	1.30	1.18	177
12/30/17	1.30	1.18	177
12/31/17	1.30	1.18	186
01/01/18	1.30	1.30	186
01/02/18	1.32	1.31	194
01/03/18	1.33	1.32	193
01/04/18	1.34	1.32	192
01/05/18	1.34	1.33	192
01/06/18	1.34	1.33	192
01/07/18	1.34	1.33	192
01/08/18	1.34	1.33	187
01/09/18	1.34	1.33	187
01/10/18	1.34	1.33	187

*Daily yield does not reflect capital gains or losses

[View Prior Month Daily Rates](#)

LAIF Performance Report

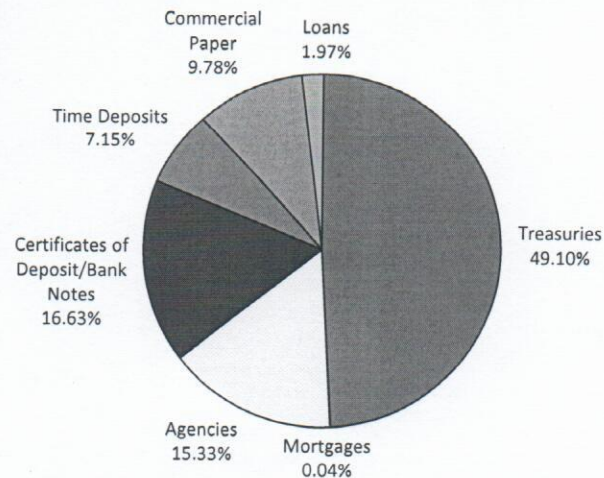
Quarter Ending 12/31/17

Apportionment Rate: 1.20%
 Earnings Ratio: .00003301121703481
 Fair Value Factor: .998093529
 Daily: 1.30%
 Quarter to Date: 1.18%
 Average Life: 186

**PMIA Average Monthly
Effective Yields**

Dec 2017 1.239
 Nov 2017 1.172
 Oct 2017 1.143

**Pooled Money Investment Account
Portfolio Composition
12/31/17
\$74.3 billion**



Based on data available as of 1/12/2018



State of California
Pooled Money Investment Account
Market Valuation
12/31/2017

Description		Carrying Cost Plus Accrued Interest Purch.	Amortized Cost	Fair Value	Accrued Interest
1*	United States Treasury:				
	Bills	\$ 15,798,555,512.89	\$ 15,873,337,714.44	\$ 15,860,404,500.00	NA
	Notes	\$ 20,668,927,462.54	\$ 20,663,056,666.82	\$ 20,567,399,500.00	\$ 51,205,126.00
1*	Federal Agency:				
	SBA	\$ 863,151,176.21	\$ 863,121,107.49	\$ 854,212,976.72	\$ 1,085,497.30
	MBS-REMICs	\$ 32,120,879.43	\$ 32,120,879.43	\$ 33,135,054.84	\$ 150,303.41
	Debentures	\$ 1,378,587,035.45	\$ 1,378,560,299.33	\$ 1,370,297,200.00	\$ 3,311,850.25
	Debentures FR	\$ -	\$ -	\$ -	\$ -
	Debentures CL	\$ 250,000,000.00	\$ 250,000,000.00	\$ 247,477,500.00	\$ 1,374,735.50
	Discount Notes	\$ 8,395,522,888.62	\$ 8,418,489,291.59	\$ 8,414,180,500.00	NA
	GNMA	\$ -	\$ -	\$ -	\$ -
1*	Supranational Debentures	\$ 450,210,930.52	\$ 450,113,708.30	\$ 447,618,000.00	\$ 1,441,215.00
1*	Supranational Debentures FR	\$ 50,000,000.00	\$ 50,000,000.00	\$ 50,063,000.00	\$ 162,067.78
2*	CDs and YCDs FR	\$ 525,000,000.00	\$ 525,000,000.00	\$ 525,000,000.00	\$ 1,499,171.12
2*	Bank Notes	\$ 600,000,000.00	\$ 600,000,000.00	\$ 599,619,554.09	\$ 2,337,722.21
2*	CDs and YCDs	\$ 11,225,000,000.00	\$ 11,225,000,000.00	\$ 11,219,981,017.33	\$ 22,812,888.95
2*	Commercial Paper	\$ 7,261,281,569.44	\$ 7,273,970,472.21	\$ 7,271,584,361.13	NA
1*	Corporate:				
	Bonds FR	\$ -	\$ -	\$ -	\$ -
	Bonds	\$ -	\$ -	\$ -	\$ -
1*	Repurchase Agreements	\$ -	\$ -	\$ -	\$ -
1*	Reverse Repurchase	\$ -	\$ -	\$ -	\$ -
	Time Deposits	\$ 5,307,240,000.00	\$ 5,307,240,000.00	\$ 5,307,240,000.00	NA
	AB 55 & GF Loans	\$ 1,466,657,000.00	\$ 1,466,657,000.00	\$ 1,466,657,000.00	NA
	TOTAL	\$ 74,272,254,455.10	\$ 74,376,667,139.61	\$ 74,234,870,164.11	\$ 85,380,577.52

Fair Value Including Accrued Interest

\$ 74,320,250,741.63

* Governmental Accounting Standards Board (GASB) Statement #72

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and
Reverse Repurchase agreements are carried at portfolio book value (carrying cost).

The value of each participating dollar equals the fair value divided by the amortized cost (0.998093529).
As an example: if an agency has an account balance of \$20,000,000.00, then the agency would report its
participation in the LAIF valued at \$19,961,870.58 or \$20,000,000.00 x 0.998093529.

Local Agency Investment Fund
P.O. Box 942809
Sacramento, CA 94209-0001
(916) 653-3001

www.treasurer.ca.gov/pmia-laif/laif.asp
January 15, 2018

ORANGE COUNTY TRANSPORTATION AUTHORITY

MANAGER, TREASURY/PUBLIC FINANCE
550 SOUTH MAIN STREET
P.O. BOX 14184
ORANGE, CA 92613-1584

PMIA Average Monthly Yields

Account Number:
80-30-001

Tran Type Definitions

December 2017 Statement

Account Summary

Total Deposit:	0.00	Beginning Balance:	10,305,183.21
Total Withdrawal:	0.00	Ending Balance:	10,305,183.21



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Investment and Debt Programs Report - December 2017

Overview

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending December 31, 2017. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

Recommendation

Receive and file as an information item.

Discussion

As of December 31, 2017, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$1.4 billion. The portfolio is divided into two managed portfolios: the liquid portfolio for immediate cash needs and the short-term portfolio for future budgeted expenditures. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program. The weighted average book yield for the OCTA portfolio is 1.49 percent.

OCTA's debt portfolio had an outstanding principal balance of \$422 million as of December 31, 2017. Approximately 75 percent of the outstanding balance is comprised of Measure M2 debt and 25 percent is associated with the 91 Express Lanes Program.

Summary

The Treasurer is submitting a copy of the Orange County Transportation Authority Investment and Debt Programs report to the Finance and Administration Committee. The report is for the month ending December 31, 2017.

Attachment

- A. Orange County Transportation Authority Investment and Debt Programs
– For the Period Ending December 31, 2017.

Prepared by:



Rodney Johnson
Deputy Treasurer
Treasury/Public Finance
(714) 560-5675

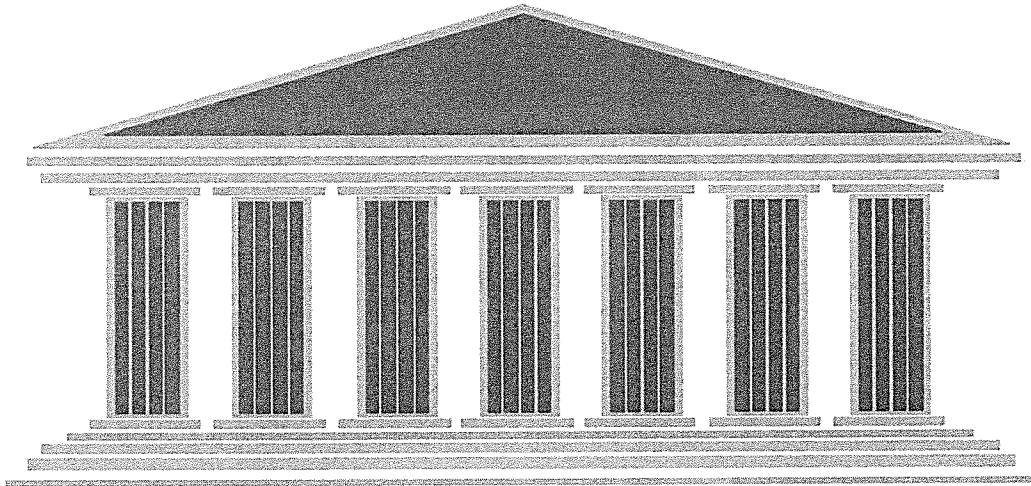
Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649

**Treasury/Public Finance Department's
Report On**

**Orange County Transportation Authority
Investment and Debt Programs**



**Presented to the
Finance and Administration Committee**

**For The Period Ending
December 31, 2017**

INVESTMENT PROGRAM

Investment Profile

12/31/2017

<u>Portfolio Manager</u>	<u>Depository</u>	<u>Role</u>	<u>Type of Investment</u>	<u>Amount (\$ Millions)</u>
<i>ACTIVELY MANAGED INVESTMENTS</i>				
JP Morgan	Union Bank	Custodian	Short-Term Operating	315.5
State Street Global Advisors	Union Bank	Custodian	Short-Term Operating	314.7
Payden & Rygel Investment Counsel	Union Bank	Custodian	Short-Term Operating	315.4
Western Asset Management	Union Bank	Custodian	Short-Term Operating	314.5
<i>POOLED INVESTMENTS</i>				
California State Treasurer	LAIF	Custodian	Liquid	10.3
Orange County Treasurer	OCIP	Custodian	Legal Requirement	15.5
<i>CASH INVESTMENTS</i>				
OCTA	BNY Mellon	Trustee	Liquid	16.9
OCTA	Bank of the West	Broker	Liquid	53.8
OCTA	U.S Bank	Trustee	Liquid	0.0
<i>DEBT SERVICE RESERVE FUNDS</i>				
91 Express Lanes 2013 Ref. Bonds	U.S Bank	Trustee	Commercial Paper	10.9
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	10.0
91 Express Lanes 2013 Ref. Bonds	Bank of the West	Trustee	Commercial Paper	3.0
Bank Deposits/Cash				0.2
TOTAL				\$1,380.7

Short-Term Portfolio - \$1.26 Billion

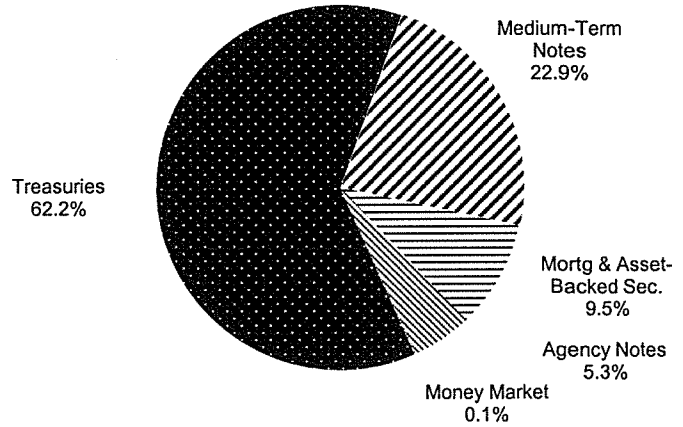
As of 12/31/17

Part 1 of 2

JP Morgan

Book Value \$ 315,450,257

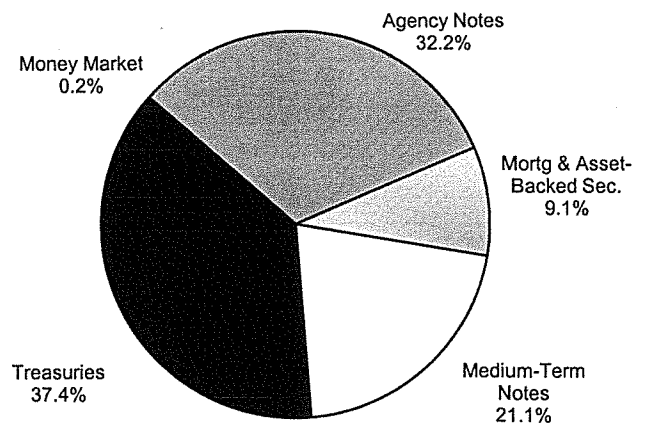
Market Value \$ 311,307,330



State Street Global

Book Value \$ 314,726,370

Market Value \$ 312,260,112



Market Value Reported By Custodial Bank

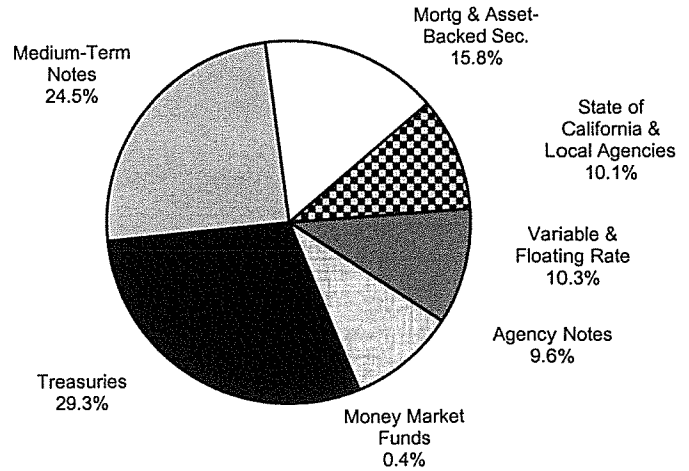
Short-Term Portfolio - \$1.26 Billion

As of 12/31/17

Part 2 of 2

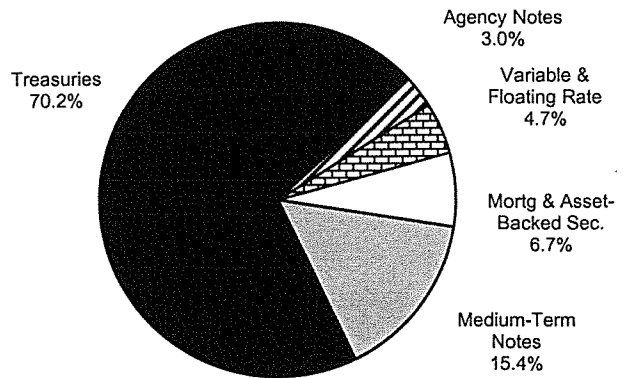
Payden & Rygel

Book Value	\$	315,360,831
Market Value	\$	313,255,883



Western Asset Management

Book Value	\$	314,525,874
Market Value	\$	312,691,198

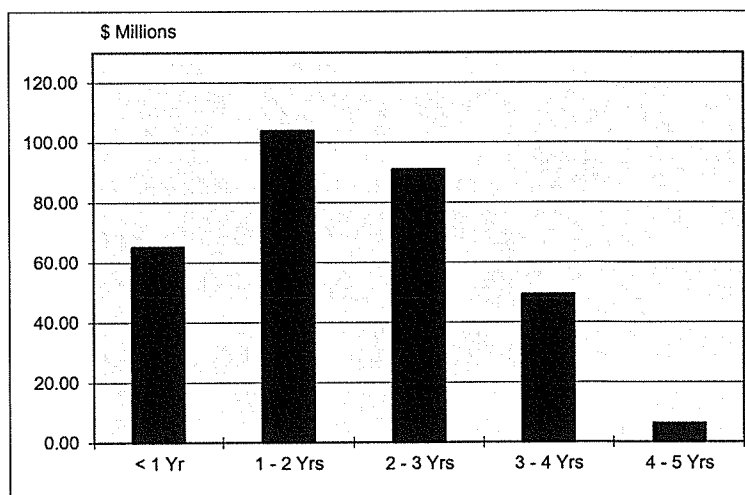


Short-Term Portfolio Maturity Schedule

As of 12/31/17

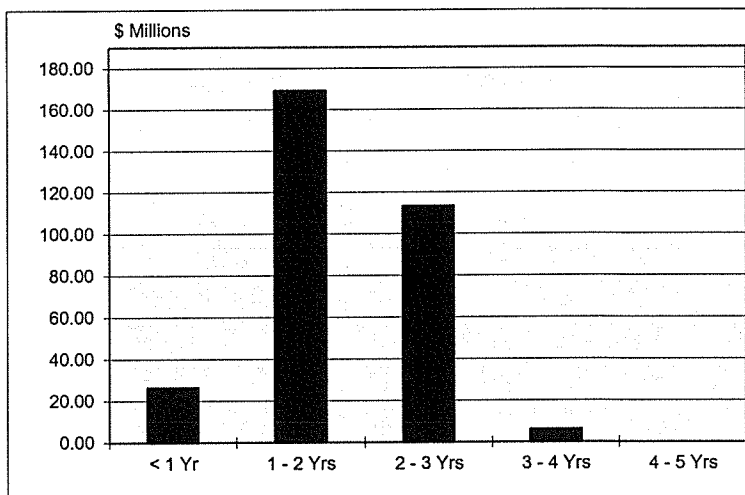
JP Morgan (\$315.5 M)

Monthly Return	0.05%
TSY Benchmark	0.01%
Gov/Corp Benchmark	0.03%
Fiscal YTD Return	0.22%
TSY Benchmark	-0.01%
Gov/Corp Benchmark	0.10%
12 Month Return	0.88%
TSY Benchmark	0.42%
Gov/Corp Benchmark	0.70%



State Street Global (\$314.7 M)

Monthly Return	0.05%
Benchmark Comparison	0.01%
Gov/Corp Benchmark	0.03%
Fiscal YTD Return	0.09%
TSY Benchmark	-0.01%
Gov/Corp Benchmark	0.10%
12 Month Return	0.71%
TSY Benchmark	0.42%
Gov/Corp Benchmark	0.70%

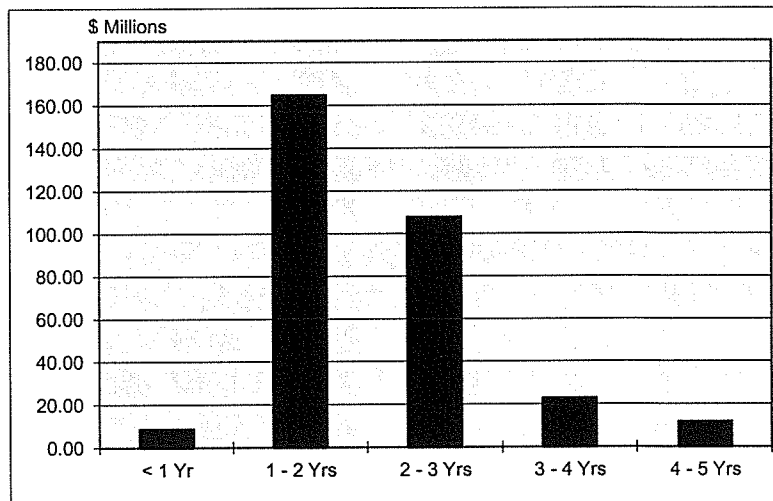


Yield Curve Change From 11/30/17 to 12/31/17			
	11/30/17	12/31/17	Change
1 Year	1.612%	1.738%	0.1260%
2 Year	1.784%	1.885%	0.1010%
3 Year	1.893%	1.972%	0.0790%
5 Year	2.138%	2.207%	0.0690%
30 Year	2.828%	2.740%	-0.0880%

Short-Term Portfolio Maturity Schedule As of 12/31/17

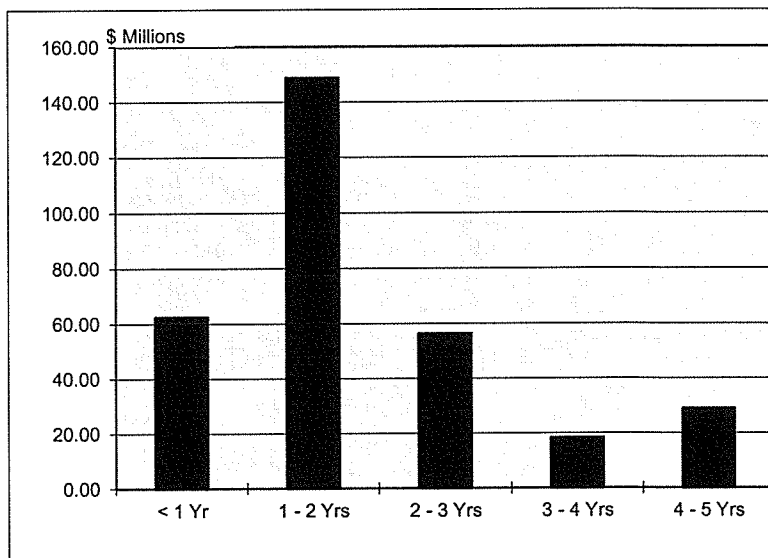
Payden & Rygel (\$315.4 M)

Monthly Return	0.05%
TSY Benchmark	0.01%
Gov/Corp Benchmark	0.03%
Fiscal YTD Return	0.28%
TSY Benchmark	-0.01%
Gov/Corp Benchmark	0.10%
12 Month Return	0.94%
TSY Benchmark	0.42%
Gov/Corp Benchmark	0.70%



Western Asset Management (\$314.5 M)

Monthly Return	0.04%
TSY Benchmark	0.01%
Gov/Corp Benchmark	0.03%
Fiscal YTD Return	0.15%
TSY Benchmark	-0.01%
Gov/Corp Benchmark	0.10%
12 Month Return	0.87%
TSY Benchmark	0.42%
Gov/Corp Benchmark	0.70%

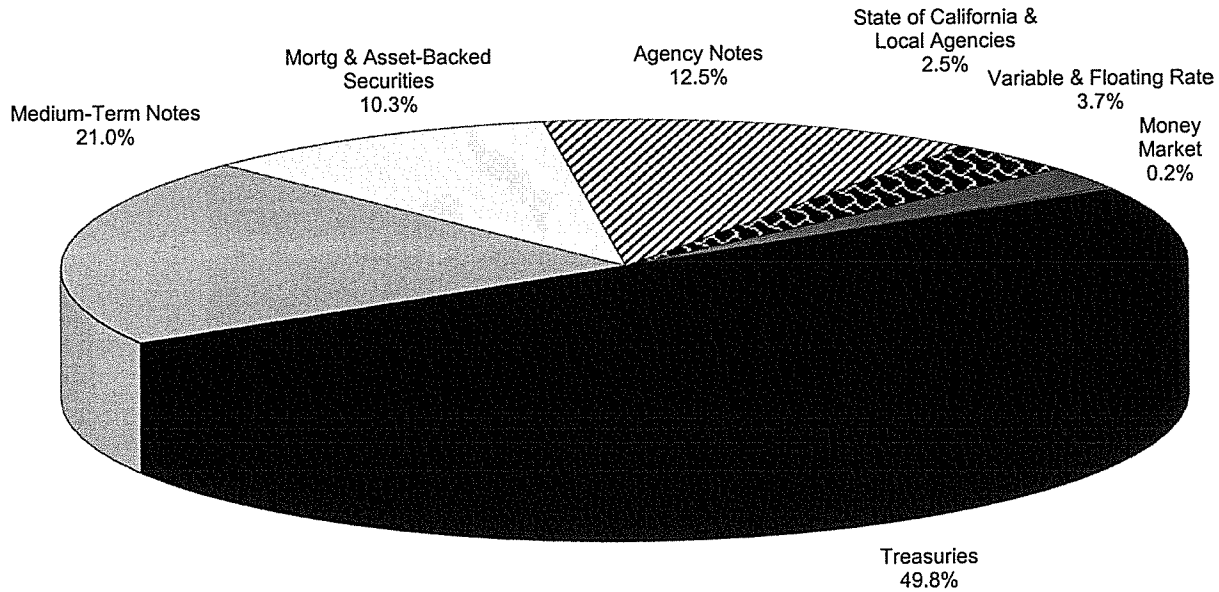


Yield Curve Change From 11/30/17 to 12/31/17			
	11/30/17	12/31/17	Change
1 Year	1.612%	1.738%	0.1260%
2 Year	1.784%	1.885%	0.1010%
3 Year	1.893%	1.972%	0.0790%
5 Year	2.138%	2.207%	0.0690%
30 Year	2.828%	2.740%	-0.0880%

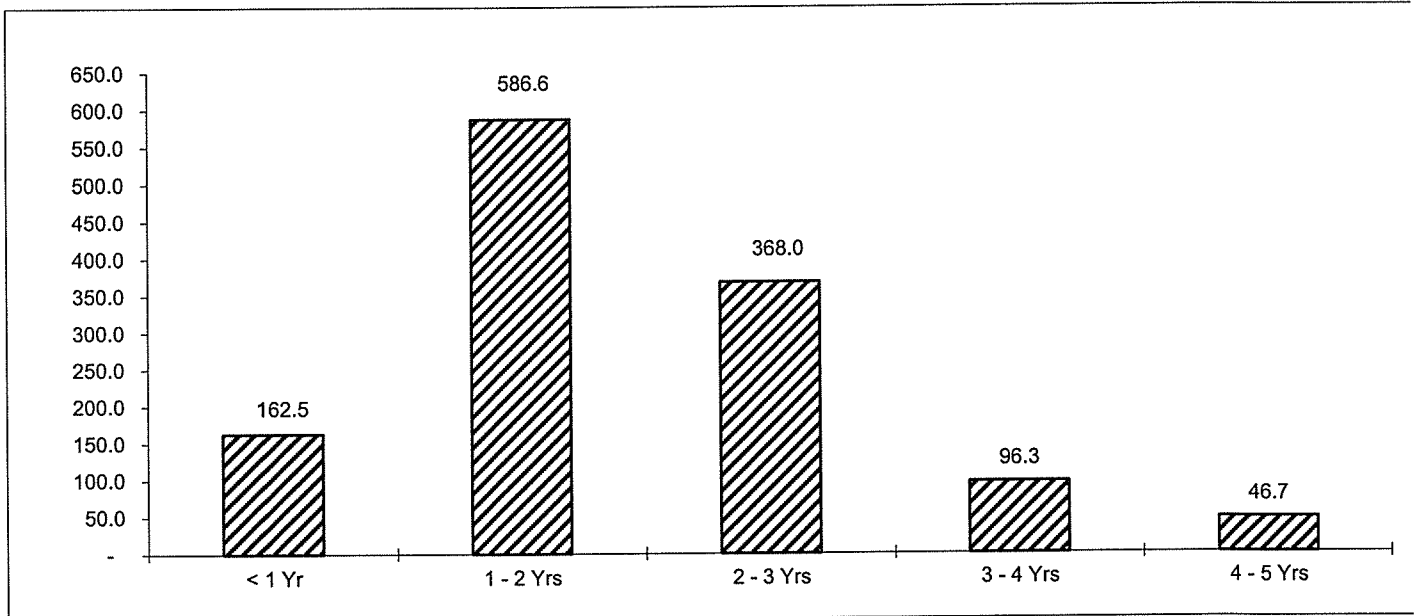
Short-Term Portfolio

As of 12/31/17

Total Portfolio Composition



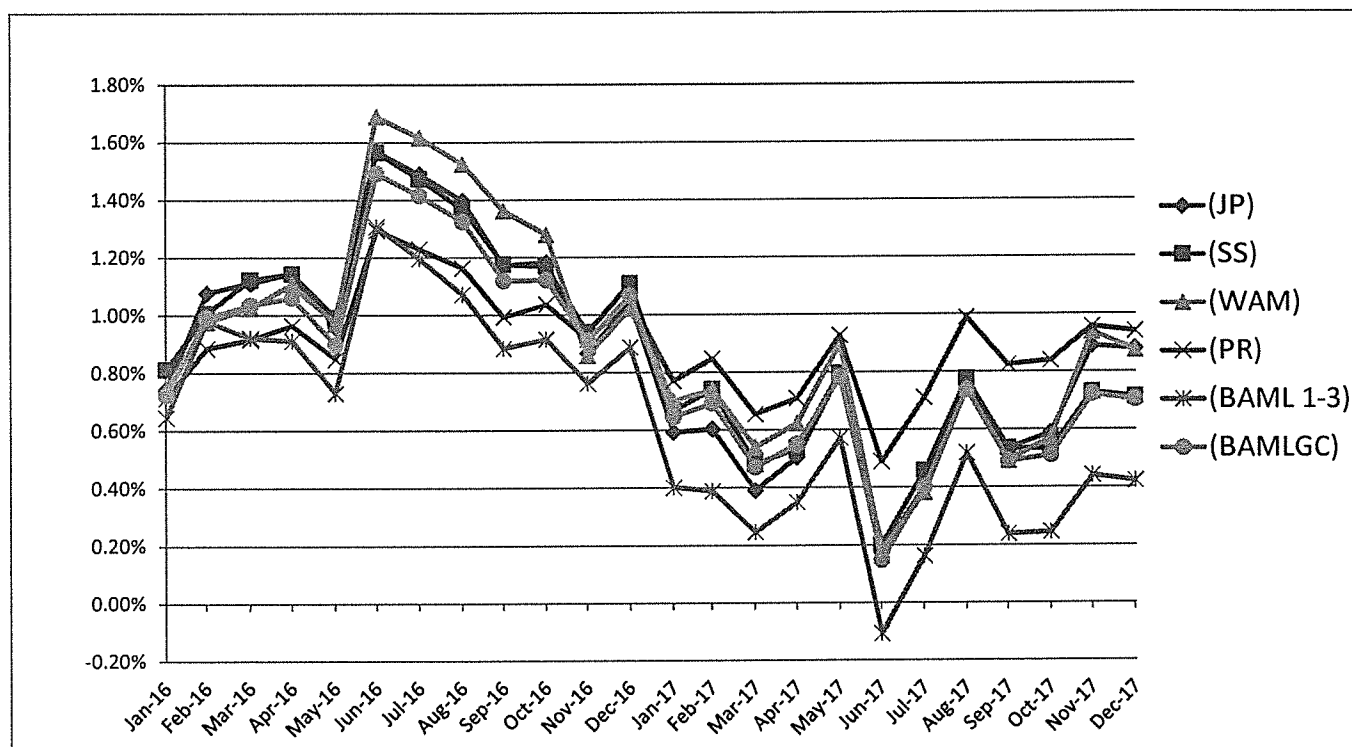
Total Portfolio Maturity Schedule



Short-Term Portfolio Performance

As of 12/31/17

Trailing 1-Year Total Return
Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks

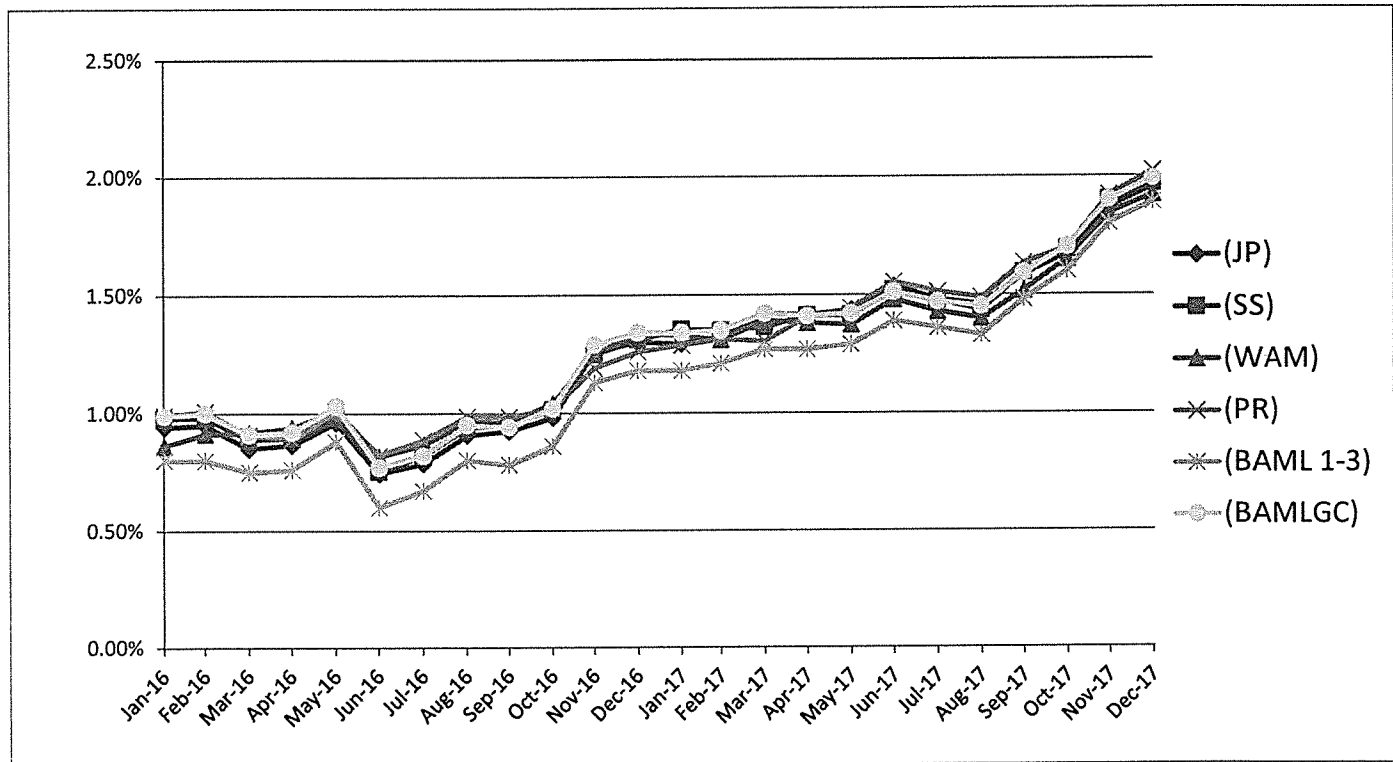


	JP Morgan (JP)	State Street (SS)	Western Asset Mgmt (WAM)	Payden & Rygel (PR)	ICE/BAML 1-3 Yr Trsy (BAML 1-3)	ICE/ BAML 1-3 Yr Gov/Corp (BAMLGC)
Jan-16	0.74%	0.81%	0.74%	0.71%	0.65%	0.72%
Feb-16	1.08%	1.01%	0.98%	0.89%	0.98%	0.99%
Mar-16	1.11%	1.12%	1.03%	0.92%	0.92%	1.04%
Apr-16	1.15%	1.14%	1.11%	0.96%	0.91%	1.06%
May-16	0.96%	0.99%	0.97%	0.85%	0.73%	0.90%
Jun-16	1.57%	1.56%	1.69%	1.30%	1.31%	1.49%
Jul-16	1.49%	1.47%	1.62%	1.23%	1.20%	1.42%
Aug-16	1.40%	1.37%	1.52%	1.16%	1.07%	1.32%
Sep-16	1.17%	1.18%	1.36%	0.99%	0.88%	1.12%
Oct-16	1.18%	1.17%	1.28%	1.04%	0.92%	1.12%
Nov-16	0.87%	0.94%	0.86%	0.92%	0.76%	0.91%
Dec-16	1.04%	1.11%	1.02%	1.05%	0.89%	1.07%
Jan-17	0.59%	0.67%	0.70%	0.77%	0.40%	0.65%
Feb-17	0.60%	0.74%	0.74%	0.85%	0.39%	0.69%
Mar-17	0.39%	0.48%	0.54%	0.65%	0.25%	0.47%
Apr-17	0.51%	0.54%	0.62%	0.71%	0.35%	0.55%
May-17	0.79%	0.80%	0.90%	0.93%	0.57%	0.78%
Jun-17	0.17%	0.20%	0.18%	0.49%	-0.11%	0.15%
Jul-17	0.40%	0.46%	0.38%	0.71%	0.16%	0.40%
Aug-17	0.76%	0.78%	0.74%	0.99%	0.52%	0.74%
Sep-17	0.54%	0.54%	0.49%	0.82%	0.24%	0.49%
Oct-17	0.59%	0.53%	0.57%	0.84%	0.24%	0.51%
Nov-17	0.89%	0.73%	0.94%	0.96%	0.44%	0.72%
Dec-17	0.88%	0.71%	0.87%	0.94%	0.42%	0.70%

Comparative Yield Performance

As of 12/31/17

Historical Yields Vs. The Bank of America Merrill Lynch (BAML) 1-3 Benchmarks



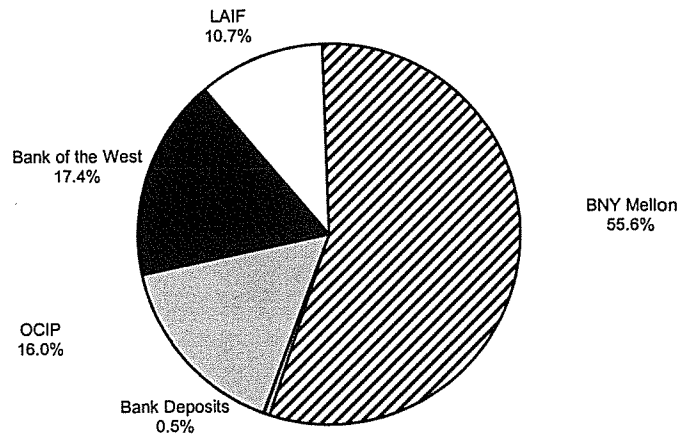
	JP Morgan (JP)	State Street (SS)	Western Asset Mgmt (WAM)	Payden Rygel (PR)	ICE/BAML 1-3 Yr Trsy (BAML 1-3)	ICE/ BAML 1-3 Yr Gov/Corp (BAMLGC)
Jan-16	0.94%	0.98%	0.86%	0.99%	0.80%	0.99%
Feb-16	0.95%	0.98%	0.91%	1.01%	0.80%	1.00%
Mar-16	0.85%	0.89%	0.92%	0.91%	0.75%	0.91%
Apr-16	0.87%	0.90%	0.94%	0.89%	0.76%	0.92%
May-16	0.96%	0.98%	1.01%	1.01%	0.88%	1.03%
Jun-16	0.74%	0.75%	0.82%	0.82%	0.60%	0.77%
Jul-16	0.79%	0.82%	0.87%	0.89%	0.67%	0.82%
Aug-16	0.91%	0.94%	0.96%	0.99%	0.80%	0.95%
Sep-16	0.92%	0.95%	0.96%	0.98%	0.78%	0.94%
Oct-16	0.98%	1.02%	1.04%	1.02%	0.86%	1.02%
Nov-16	1.26%	1.25%	1.25%	1.19%	1.13%	1.29%
Dec-16	1.30%	1.31%	1.34%	1.26%	1.18%	1.34%
Jan-17	1.29%	1.36%	1.33%	1.29%	1.18%	1.34%
Feb-17	1.32%	1.35%	1.31%	1.31%	1.21%	1.35%
Mar-17	1.42%	1.36%	1.39%	1.30%	1.27%	1.42%
Apr-17	1.42%	1.41%	1.38%	1.41%	1.27%	1.41%
May-17	1.44%	1.42%	1.37%	1.44%	1.29%	1.42%
Jun-17	1.54%	1.52%	1.48%	1.55%	1.39%	1.51%
Jul-17	1.48%	1.48%	1.43%	1.51%	1.36%	1.47%
Aug-17	1.46%	1.44%	1.40%	1.49%	1.33%	1.45%
Sep-17	1.59%	1.59%	1.52%	1.63%	1.48%	1.59%
Oct-17	1.67%	1.69%	1.65%	1.70%	1.60%	1.70%
Nov-17	1.87%	1.90%	1.84%	1.92%	1.80%	1.90%
Dec-17	1.96%	1.97%	1.92%	2.02%	1.89%	1.99%

Liquid Funds Portfolio - \$97.1 M

As of 12/31/17

Other Liquid Funds

Book Value	\$	96,746,069
Market Value	\$	96,746,069



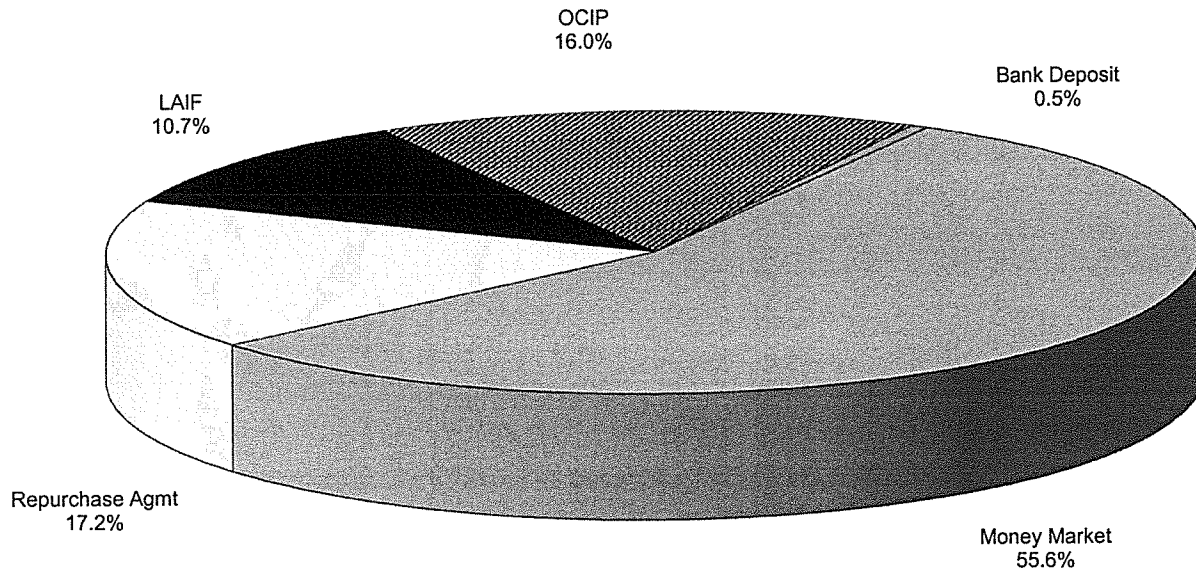
Yield Curve Change From 11/30/17 to 12/31/17			
	11/30/17	12/31/17	Change
1 Month	1.128%	1.234%	0.1060%
3 Month	1.260%	1.382%	0.1220%
6 Month	1.440%	1.533%	0.0930%

Market Value Reported By Custodial Bank

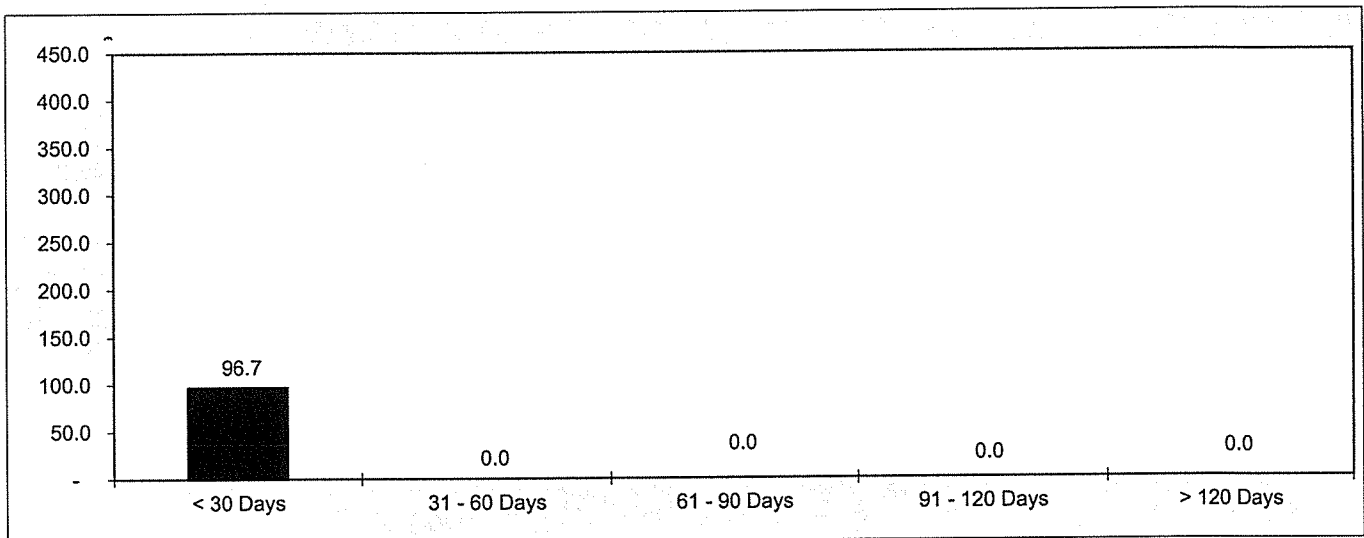
Liquid Portfolio

As of 12/31/17

Total Portfolio Composition



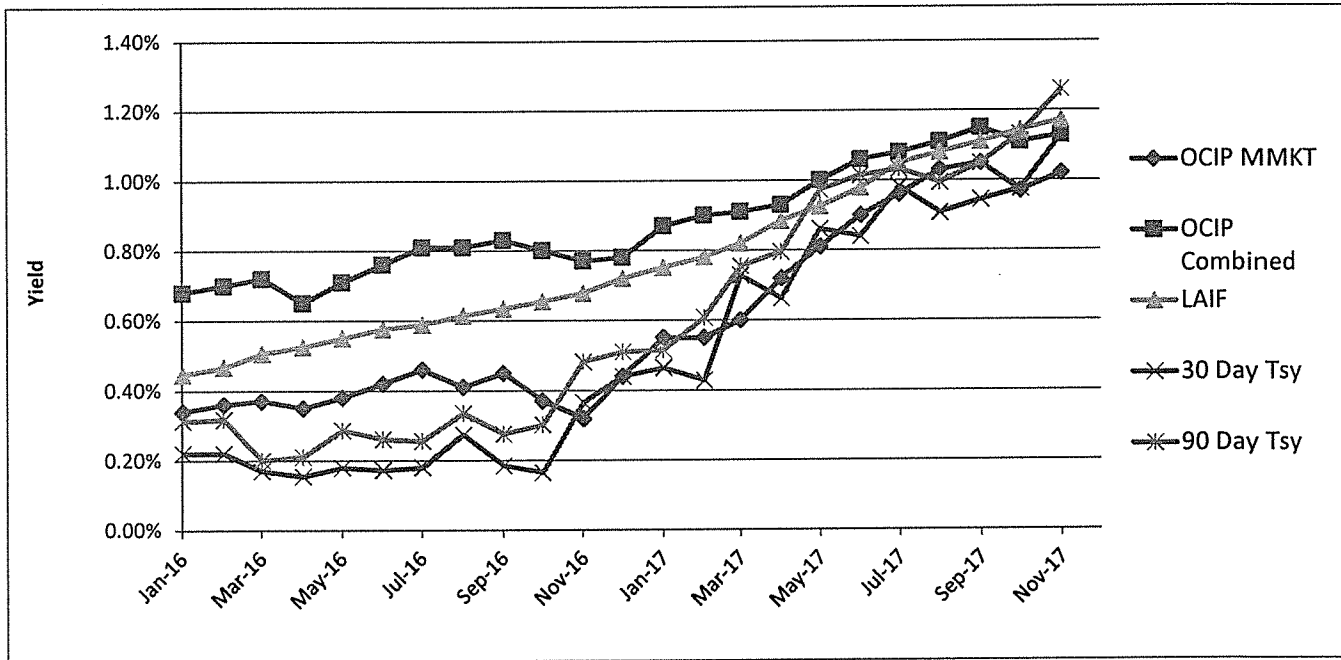
Maturity Schedule For Liquid Portfolio



Liquid Portfolio Performance

As of 12/31/17

Trailing 2-Year Yield OCIP, LAIF, 30 & 90 Day Treasury Bills



	OCIP MMKT	OCIP Combined	LAIF	30 Day Tsy	90 Day Tsy
Jan-16	0.34%	0.68%	0.45%	0.22%	0.31%
Feb-16	0.36%	0.70%	0.47%	0.22%	0.32%
Mar-16	0.37%	0.72%	0.51%	0.17%	0.20%
Apr-16	0.35%	0.65%	0.53%	0.16%	0.21%
May-16	0.38%	0.71%	0.55%	0.18%	0.29%
Jun-16	0.42%	0.76%	0.58%	0.17%	0.26%
Jul-16	0.46%	0.81%	0.59%	0.18%	0.26%
Aug-16	0.41%	0.81%	0.61%	0.27%	0.34%
Sep-16	0.45%	0.83%	0.63%	0.19%	0.28%
Oct-16	0.37%	0.80%	0.65%	0.17%	0.30%
Nov-16	0.32%	0.77%	0.68%	0.37%	0.48%
Dec-16	0.44%	0.78%	0.72%	0.44%	0.51%
Jan-17	0.55%	0.87%	0.75%	0.46%	0.52%
Feb-17	0.55%	0.90%	0.78%	0.43%	0.61%
Mar-17	0.60%	0.91%	0.82%	0.73%	0.75%
Apr-17	0.72%	0.93%	0.88%	0.66%	0.80%
May-17	0.81%	1.00%	0.93%	0.86%	0.97%
Jun-17	0.90%	1.06%	0.98%	0.84%	1.01%
Jul-17	0.96%	1.08%	1.05%	0.98%	1.03%
Aug-17	1.03%	1.11%	1.08%	0.91%	0.99%
Sep-17	1.05%	1.15%	1.11%	0.94%	1.05%
Oct-17	0.97%	1.11%	1.14%	0.98%	1.13%
Nov-17	1.02%	1.13%	1.17%	1.13%	1.26%
Dec-17	N/A	N/A	1.24%	1.23%	1.38%

Investment Policy Compliance

As of 12/31/17

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Portfolio</u>	<u>Investment Policy Maximum Percentages</u>
U.S. Treasuries	627,002,872	45.4%	100%
Federal Agencies & U.S. Government Sponsored *	157,748,048	11.4%	100%
State of California & Local Agencies	31,914,470	2.3%	25%
Money Market Funds & Mutual Funds	56,126,375	4.1%	20%
Bankers Acceptances	0	0.0%	30%
Negotiable Certificates of Deposit	0	0.0%	30%
Commercial Paper	23,929,866	1.7%	25%
Medium Term Maturity Corporate Securities	264,297,332	19.1%	30%
Mortgage and Asset-backed Securities	129,587,772	9.4%	10%
Repurchase Agreements	16,595,937	1.2%	75%
Investment Agreements Pursuant To Indenture	0	0.0%	100%
Local Agency Investment Fund (LAIF)	10,305,183	0.7%	\$ 40 Million
Orange County Investment Pool (OCIP)	15,514,598	1.1%	\$ 40 Million
CAMP	0	0.0%	10%
Variable & Floating Rate Securities	47,218,430	3.4%	30%
Debt Service Reserve Funds - Investment Agreements	0	0.0%	Not Applicable
Bank Deposits	499,262	0.0%	5%
Derivatives (hedging transactions only)	0	0.0%	5%
TOTAL	1,380,740,146	100.0%	

* See attached page for a detailed listing of this category

Investment Policy Compliance

As of 12/31/17

Detail Composition

<u>Investment Instruments</u>	<u>Dollar Amount Invested</u>	<u>Percent Of Total Portfolio</u>	<u>Investment Policy Guidelines</u>
<u>Federal Agencies & U.S. Government Sponsored</u>			
Federal Home Loan Bank (FHLB)	60,381,865	4.4%	35%
Federal Home Loan Mortgage Corporation (FHLMC)	73,390,114	5.3%	35%
Federal Farm Credit Bank (FFCB)	12,300,000	0.9%	35%
Federal National Mortgage Association (FNMA)	55,923,613	4.1%	35%
	201,995,592 *	14.6%	

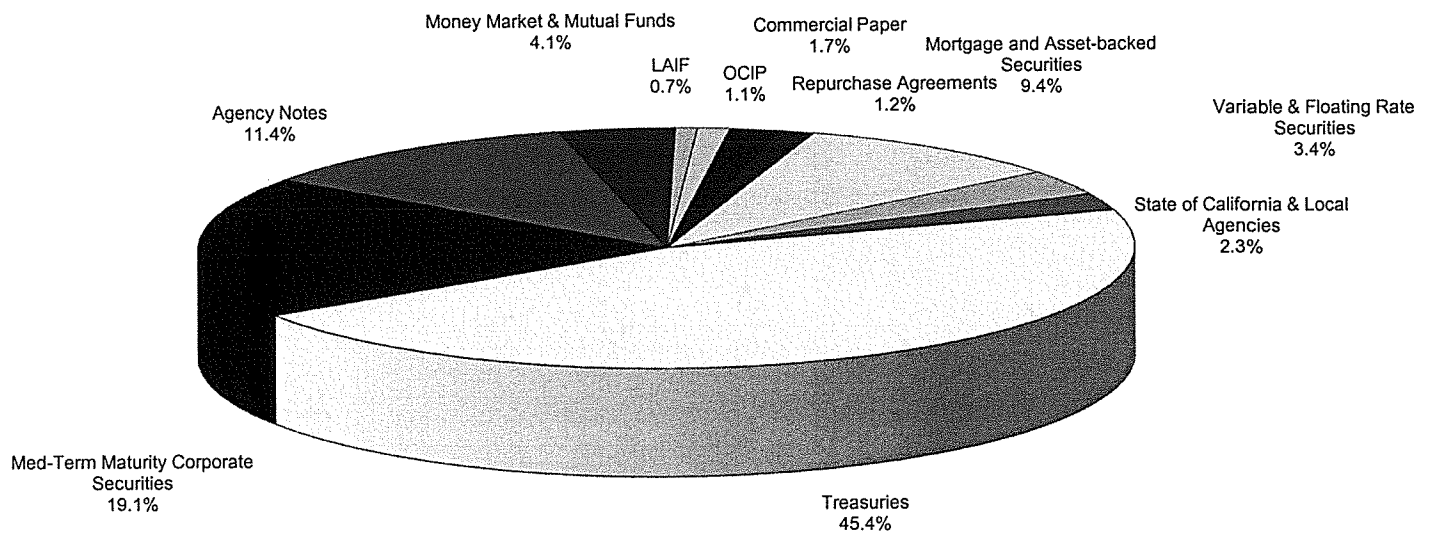
* The Total Dollar Amount Invested Equals The Dollar Amount Invested For Federal Agency Securities, Variable & Floating Rate (Agency) Securities, And A Portion Of Mortgage (Agency) & Asset-back Securities.

Money Market Funds (MMF) & Mutual Funds

First American Obligations Treasury Fund	2,511	0.0%
Goldman Sach Fin. Square Govt. MMF	0	0.0%
Blackrock Institutional T-Fund	2,294,408	0.2%
Fidelity Treasury Obligations MMF	32,949,979	2.4%
Federated Treasury Obligations Fund	<u>20,879,478</u>	<u>1.5%</u>
	56,126,375	4.1%

Investment Allocation

As of 12/31/17



Negative Credit Watch

As of 12/31/17

<u>Manager / Security</u>	<u>Par Amount</u>	<u>Maturity</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch Ratings</u>
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JPM

<i>Bayer US Financial</i>	200,000	10/8/2019	A-	A3	NA
During May 2016, Standard & Poor's and Moody's placed the long-term ratings of Bayer Financial under review for possible downgrade.					

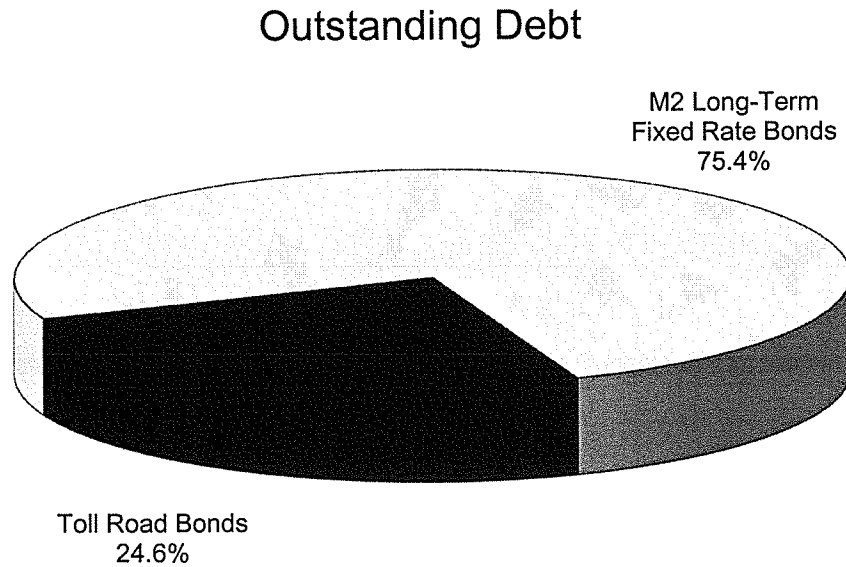
<i>Walt Disney</i>	447,000	Various*	A+	A2	A
On December 14, 2017, Standard & Poor's placed the long-term ratings of Walt Disney under review for possible downgrade.					

* Securities will mature on 9/17/18, 1/8/19, 7/12/19, and 6/5/20.

DEBT PROGRAM

Total Outstanding Debt

As of 12/31/17



TOTAL OUTSTANDING DEBT: \$421,615,000

Outstanding Debt

As of 12/31/17

Orange County Local Transportation Authority (OCLTA-M2)

2010 Series A Taxable Build America Bonds - Sales Tax Revenue Bonds

Issued:	\$	293,540,000
Outstanding:	\$	293,540,000
Debt Service FY 2018:		13,409,389
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings	Aa2/AA+/AA+	
Final Maturity		2041

2010 Series B Tax-Exempt Sales Tax Revenue Bonds

Issued:	\$	59,030,000
Outstanding:	\$	24,470,000
Debt Service FY 2018:		8,913,100
Pledged Revenue Source:	M2 Sales Tax Revenues	
Ratings	Aa2/AA+/AA+	
Final Maturity		2020

91 Express Lanes

2013 OCTA 91 Express Lanes Refunding Bonds

Issued:	\$	124,415,000
Outstanding:		103,605,000
Debt Service FY 2018:		10,794,700
Pledged Revenue Source:	91 Toll Road Revenues	
Underlying Ratings	A1/AA-/A	
Final Maturity		2030

405 Express Lanes

2017 TIFIA Loan

Outstanding:	\$	0
Debt Service FY 2018:		0
Pledged Revenue Source:	405 Toll Road Revenues	
Ratings	Baa2/BBB-/BBB-	
Final Maturity		2058



January 24, 2018

To: Finance and Administration Committee
From: Darrell Johnson, Chief Executive Officer
Subject: Second Quarter Fiscal Year 2017-18 Procurement Status Report

Overview

The second quarter procurement status report summarizes the procurement activities for information purposes to the Orange County Transportation Authority Board of Directors. This report focuses on procurement activity from October 1 through December 31, 2017, that was approved by the Board of Directors during this period. The second quarter procurement status report also projects future procurement activity for the third quarter as identified in the fiscal year 2017-18 budget.

Recommendation

Receive and file as an information item.

Background

The Board of Directors (Board) approved the Orange County Transportation Authority (OCTA) Fiscal Year (FY) 2017-18 Budget, which identifies the goods and services that will be purchased during the FY. A quarterly procurement report has been prepared detailing the procurement activity for line items that were approved by the Board during the second quarter of FY 2017-18. The report also provides a “look-ahead” of upcoming procurement activity by Board committee. The quarterly procurement report identifies contractual activity, not dollars spent.

Discussion

During the second quarter of FY 2017-18, the Contracts Administration and Materials Management Department handled 408 different contractual documents. Of the total, 304 procurements, valued at \$30,023,101 were completed; the remaining procurements will be executed during the third quarter of FY 2017-18.

In the second quarter, the Board took action on 14 procurements. The procurements were split between four new agreements valued at \$11,646,627, three amendments valued at \$893,886, one construction change order valued at \$863,000, one cooperative agreement valued at \$3,188,042, one amendment to cooperative agreement valued at \$1,994,000, one purchase order valued at \$550,000, one amendment to purchase order valued at \$77,107, one sole source agreement valued at \$13,307,125, and one option-term amendment valued at \$1,100,966. Not all procurements are completed within the quarter in which they begin. Often, the procurements require cost and price reviews and negotiations which can lengthen the procurement process. Procurements not completed within the second quarter will be completed in the third quarter of FY 2017-18. Attachment A shows a list of Board-approved procurements during the second quarter.

Looking forward to the third quarter of FY 2017-18 (January through March, 2018), the Board committees will be asked to take action on several items such as:

- Consultant selection for the toll lane system integration services for the Interstate 405 and 91 Express Lanes;
- Award an agreement for the manufacture and delivery of rail vehicles for the OC Streetcar Project;
- Cooperative Agreement with the California Department of Transportation for the Interstate 5 widening project between Oso Parkway and Alicia Parkway;
- Consultant selection for OCTA's Investment Management Services; and
- Construction change order for additional design and construction efforts for the Interstate 405 Improvement Project.

The estimated value of these upcoming procurements is \$220,131,594. Attachments B through D identify procurement activity anticipated in the third quarter of FY 2017-18 by the committee that will review the items.

Summary

This report provides an update of the procurement activity for the second quarter of FY 2017-18, October through December 2017, as well as a look-ahead at anticipated procurement activity for the third quarter of FY 2017-18. Staff recommends that this report be received and filed as an information item.

Attachments

- A. Board-Approved Contracts – Second Quarter FY 2017-18
- B. Regional Planning and Highways Committee – Third Quarter Outlook
(January 1, 2018 – March 31, 2018)
- C. Transit Committee – Third Quarter Outlook
(January 1, 2018 – March 31, 2018)
- D. Finance and Administration Committee - Third Quarter Outlook
(January 1, 2018 – March 31, 2018)

Prepared by:



Virginia Abadessa
Director, Contracts Administration and
Materials Management
(714) 560-5623

Approved by:



Andrew Oftelie
Executive Director,
Finance and Administration
(714) 560-5649

Board Approved Contracts - Second Quarter FY 2017-18

AGREEMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
Gems Environmental Management Services, Inc.	7-1756	Removal of Liquefied Natural Gas Storage Tanks at Anaheim and Garden Grove Bus Bases	1/29/2018	9/30/2018	\$1,500,000
Trillium USA Company, LLC	7-1577	Installation of Hydrogen Station Including Operations, Maintenance, and Liquid Hydrogen	11/13/2017	11/15/2021	\$6,472,127
CALTROP Corporation	7-1834	Construction Management Support Services for the I-5 HOV Improvement Project from SR 55 to SR 57	4/15/2018	4/30/2021	\$3,600,000
PCI	7-1925	Pavement Striping and Markings at Garden Grove Bus Base	1/29/2018	3/30/2018	\$74,500
TOTAL NUMBER OF CONTRACTS					4
TOTAL DOLLAR VALUE					\$11,646,627

AMENDMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
National Data and Surveying Services, Inc. dba Southland Car Counters	3-1855	Amendment No. 3 Provide Bus System Scheduling Checking Services	1/1/2018	12/31/2018	\$244,184
WKE, Inc.	3-2189	Amendment No. 5 Additional Design Services for I-5 Widening Project Between SR 73 and Oso Parkway	12/19/2017	9/30/2023	\$449,702
So Cal Sandbags, Inc.	3-1428	Amendment No. 5 Continued On-Call Property Maintenance Services for the Former Pacific Electric Railroad Right-of-Way and other Authority Owned Properties.	12/27/2017	9/30/2018	\$200,000
TOTAL NUMBER OF AMENDMENTS					3
TOTAL DOLLAR VALUE					\$893,886

CONTRACT CHANGE ORDERS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
Bornel Construction	7-1737	Contract Change Order No. 1.1 Removal and Disposal of Contaminated Materials at the Metrolink Parking Structure at the Orange Transportation Center	1/3/2018	7/14/2019	\$863,000
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$863,000

COOPERATIVE AGREEMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
California Department of Transportation	6-1527	Fiscal Year 2017-18 Freeway Service Patrol Program Funding	7/1/2017	6/30/2018	\$3,188,042
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$3,188,042

Board Approved Contracts - Second Quarter FY 2017-18

COOPERATIVE AMENDMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
California Department of Transportation	7-1817	Amendment No. 1 Consultant Construction Management I-5 HOV Improvement Project Between SR 55 and SR 57	1/2/2018	12/31/2021	\$1,994,000
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$1,994,000

PURCHASE ORDERS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
Marsh Risk and Insurance Services	A38332	Purchase Property Insurance on Behalf of the Authority	12/1/2017	12/1/2018	\$550,000
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$550,000

PURCHASE ORDER AMENDMENTS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
iCIMS, Inc.	A36775	Annual Maintenance Support for iCIMS Software	11/1/2017	10/31/2019	\$77,107
TOTAL NUMBER OF CONTRACTS					1
TOTAL DOLLAR VALUE					\$77,107

SOLE SOURCE

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
New Flyer Industries, Inc.	7-1701	Purchase of Ten Hydrogen Fuel Cell Electric Buses	11/13/2017	3/30/2020	\$13,307,125
TOTAL NUMBER OF SOLE SOURCE					1
TOTAL DOLLAR VALUE					\$13,307,125

OPTION YEARS

Prime Vendor	Contract #	Contract Description	Eff Date	Exp Date	Amount
ShelterClean Services, Inc.	4-1620	Amendment No. 5 Exercise the First Two-Year Option Term for Bus Stop Maintenance.	11/27/2017	11/30/2019	\$1,100,966
TOTAL NUMBER OF AMENDMENTS					1
TOTAL DOLLAR VALUE					\$1,100,966

REGIONAL PLANNING and HIGHWAYS COMMITTEE - Third Quarter Outlook (January 1, 2018 - March 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
January 4, 2018	Meeting Cancelled		
February 5, 2018	Cooperative Agreement with the California Department of Transportation for the Interstate 5 Widening Project between Oso Parkway and Alicia Parkway	\$101,045,000	Capital Programs
March 5, 2018	Contract Change Order for additional design and construction efforts for the Interstate 405 Improvement Project	\$500,000	Capital Programs

TRANSIT COMMITTEE - Third Quarter Outlook (January 1, 2018 - March 31, 2018)


<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
January 11, 2018	Consultant selection for the operation and maintenance of the compressed natural gas facility at the Irvine Sand Canyon Bus Base	\$534,600	Transit
February 8, 2018	Award an Agreement for the manufacture and delivery of rail vehicles for the OC Streetcar Project	\$54,777,680	Capital Programs
	Amendment to Agreement with Trillium USA Company for the operation of the hydrogen station at the Santa Ana Bus Base	\$442,305	Transit
March 8, 2018	Award an Agreement to purchase three-position bicycle racks	\$765,980	Transit

FINANCE AND ADMINISTRATION COMMITTEE - Third Quarter Outlook (January 1, 2018 - March 31, 2018)

<u>Committee Date</u>	<u>Item Description</u>	<u>Estimated Value</u>	<u>Division</u>
January 10, 2018	Award a sole source agreement to Xerox Corporation for printing supplies, equipment repair and maintenance	\$100,000	Finance and Administration
January 24, 2018	No procurement actions on this agenda		
February 14, 2018	Exercise one-year option terms with Helpmates and AppleOne for temporary staffing services	\$1,000,000	Human Resources and Organizational Development
	Consultant selection for the Toll Lane System Integration Services for the Interstate 405 and 91 Express Lanes	\$60,966,029	Capital Programs
February 28, 2018	No procurement actions on this agenda		
March 14, 2018	No procurement actions on this agenda		
March 28, 2018	No procurement actions on this agenda		



January 24, 2018

To: Finance and Administration Committee
From: Darrell Johnson, Chief Executive Officer 
Subject: 91 Express Lanes Property Insurance Renewal

Overview

The Orange County Transportation Authority currently has a primary property and flood insurance policy for the 91 Express Lanes with Zurich American Insurance Company, and six earthquake insurance policies with Empire Indemnity Insurance Company, General Security Indemnity Company of Arizona, Everest Indemnity Insurance Company, QBE Specialty Insurance Company, Endurance American Insurance Company, and Princeton Excess and Surplus Lines Insurance Company which will expire on March 1, 2018.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A38806, in the amount of \$500,000, to Marsh USA, Inc., to purchase the 91 Express Lanes' property, flood, and earthquake insurance on behalf of the Orange County Transportation Authority for the policy period of March 1, 2018 to March 1, 2019.

Discussion

Insurance companies determine property insurance quotes based upon current insurance market conditions affecting rates per \$100 in property values and the total value of property to be insured. Currently, seven insurers provide primary property, flood, and earthquake coverage with a combined premium rate of 0.2331 per \$100 of the 91 Express Lanes property values, or \$321,057, for a total policy coverage limit of \$137 million. These policies provide catastrophic protection for the roadway, structures, and business personal property, including business interruption coverage against losses caused by fire, flood, and earthquake. Other coverage includes losses due to civil authority, ingress/egress, debris removal, demolition and increased costs of construction, equipment breakdown including electronic data processing equipment, valuable papers, earthquake sprinkler leakage, and boiler and machinery.

Policy deductibles for these seven policies vary by category of coverage. The current policies carry a \$50,000 deductible that applies to all losses except:

- \$25,000 deductible for property in transit
- \$100,000 deductible for flood
- 12-hour deductible for business interruption
- \$1 million deductible for earthquake

Flood protection is provided in the current policy with a \$50 million coverage limit and a \$100,000 deductible. As with many properties in Orange County, the 91 Express Lanes has structures and buildings that are in areas susceptible to flooding. Flood is defined in the policy to mean “a general and temporary condition of partial or complete inundation of normally dry land areas from (1) the rising or overflow of inland or tidal waters, (2) the unusual and rapid accumulation of run off of surface waters from any source, (3) mudslide (i.e., mud-flow), meaning a river or flow of liquid mud proximately caused by flooding as defined in (1) above or by the accumulation of water under the ground, or (4) water that backs up from a sewer or drain. Each loss by flood shall constitute a single claim hereunder; provided if more than one flood shall occur within any period of 72 hours during the term of the policy, such floods shall be deemed to be a single flood.”

Earthquake protection is provided in the current policy with a \$70 million limit and a \$1 million deductible. Earthquake means “any natural or man-made earth movement (except mudslide or mud-flow caused by accumulation of water on or under the ground) including, but not limited to, earthquake and resultant earthquake sprinkler leakage, volcanic action, landslide, subsidence or tsunami, regardless of any other cause or event contributing concurrently or in any other sequence of loss. Notwithstanding anything in the above to the contrary, to the extent mudslide or mud-flow caused by accumulation of water on or under the ground is caused by or results from a tsunami, it shall be considered to be an earthquake.”

The Orange County Transportation Authority (OCTA) Broker of Record, Marsh USA, Inc. (Marsh), will provide marketing and will purchase the 91 Express Lanes insurance coverage on behalf of OCTA for this renewal. Marsh is paid a flat fee of \$100,000 for marketing and placing all property and casualty insurance per Agreement No. C-7-1585, approved by the Board of Directors (Board) on May 22, 2017. This flat fee paid to Marsh is not part of the premium OCTA anticipates paying to the selected insurers for the renewal of this policy. By agreement, Marsh does not earn any additional compensation or commission for its services. The contract further requires that any commissions offered by insurers will offset OCTA's premiums.

OCTA will pursue a renewal strategy that will include five possible goals for renewing this policy. The goals are:

1. Market to all viable insurers using a target price marketing approach to determine interest from potential insurers that have not previously provided premium quotes.
2. Attempt to achieve a premium price reduction for the all-risk property coverage.
3. Maintain the current earthquake coverage structure with a \$1 million earthquake deductible and explore opportunities to obtain a reduction or at least a flat premium price renewal.
4. Provide improved policy sub-limits for days, limits, and distance for the current ingress/egress and civil authority provisions of the coverage.
5. Add coverage to protect against loss of revenue due to a cyber-event.

Staff is requesting Board approval to renew the current policy in an amount not to exceed the Board approved budget of \$500,000 and to fund any enhancements or additional coverage negotiated to improve the insurance protection. Marsh is currently contacting the insurance market for competitive quotes for the renewal of OCTA's 91 Express Lanes' property insurance coverage. Marsh has been directed to seek quotes from property insurance carriers and additional markets and wholesale companies, if needed, to obtain a sufficient number of competitive quotes. Furthermore, Marsh has been instructed not to disclose broker compensation to prospective insurers to avoid having insurers net the broker's commission against the quoted premiums.

The carriers listed below will be approached for proposals and have transit insurance coverage experience and an A.M. Best financial rating of A-7 or better:

ACE American Insurance Company
Affiliated FM
Allied World Assurance Corporation
AXIS Insurance Company
Beazley Insurance Company
Continental Casualty Company (CNA)
Hartford Casualty Insurance Company
Lexington Insurance Company
Liberty Mutual Insurance Company
Travelers Property Casualty Company of America
XL Insurance Company
Zurich American Insurance Company

Since some of these carriers are unable to provide earthquake and flood coverage in a combined program, Marsh will approach the following markets and wholesalers:

Arch Excess and Surplus Insurance Company
Clarendon National Insurance Company
Empire Indemnity Insurance Company
Endurance American Insurance Company
Essex Insurance Company
Everest Indemnity Insurance Company
General Star Indemnity Company
General Security Indemnity Company of Arizona
Glencoe Insurance Company
Insurance Company of the West
James River Insurance Company
Pacific Insurance Company
Princeton Excess and Surplus Lines Insurance Company
QBE Specialty Insurance Company
Redland Insurance Company
RLI Insurance Company
RSUI Indemnity Company

Fiscal Impact

The project was approved in OCTA's Fiscal Year 2017-2018 Budget, Human Resources and Organizational Development Division, Risk Management Department, Account 0036-7563-A0017-GGN, and is funded through the 91 Express Lanes.

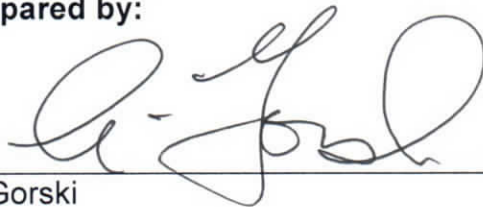
Summary

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A38806, in the amount of \$500,000, to Marsh to purchase the 91 Express Lanes' property, flood, and earthquake insurance on behalf of OCTA for the period of March 1, 2018 to March 1, 2019.

Attachment

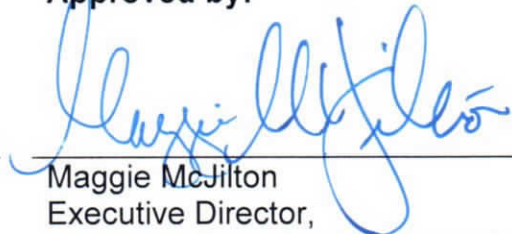
None.

Prepared by:

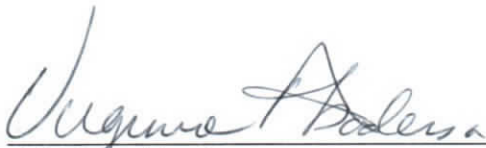


Al Gorski
Risk Manager
Risk Management Department
714-560-5817

Approved by:



Maggie McJilton
Executive Director,
Human Resources & Organizational
Development Division
714-560-5824



Virginia Abadessa
Director, Contracts Administration and
Materials Management
714-560-5623



January 24, 2018

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Investigation and Limited Scope Review of the Senior Mobility Program Operated by the Korean American Senior Association

Overview

The Internal Audit Department has completed an investigation of a report received from Orange County Transportation Authority's Transit Division related to the Korean American Senior Association of Orange County's Senior Mobility Program. Specifically, the Transit Division raised concerns about compliance with program requirements for wheelchair accessibility and with the service plan. The Internal Audit Department confirmed that the Korean American Senior Association of Orange County had not made trips available to those requiring wheelchair accessibility and that some trips provided were not outlined in the current service plan agreement. The Internal Audit Department also identified unsupported costs charged to the program and non-compliance with the program's minimum age requirement.

Recommendation

Direct staff to implement proposed corrective action to terminate the funding agreement with the Korean American Senior Association of Orange County.

Background

The General Manager of Transit reported concerns about the Korean American Senior Association of Orange County's (KASA) Senior Mobility Program (SMP); specifically, whether KASA was equipped to provide services to those requiring wheelchair accessibility and whether KASA was providing trips to locations not outlined in their current service plan agreement.

Investigation and Limited Scope Review of the Senior Mobility Program Operated by the Korean American Senior Association *Page 2*

The SMP provides local funding to support community-based transportation service for seniors. Objectives include allowing local jurisdictions to develop and implement senior transportation services to serve their community and providing transit options for seniors which complement, rather than duplicate, Orange County Transportation Authority (OCTA) fixed-route and ACCESS paratransit services. For fiscal year (FY) 2016-17, OCTA provided \$101,121 in local funding to KASA. Due to concerns about program compliance, OCTA distributed only half of the expected funding, or \$51,460, to KASA for FY 2017-18.

Discussion

The Internal Audit Department (Internal Audit) confirmed that KASA violated the SMP requirement to provide wheelchair-accessible vehicles. During a 2016 site visit, Transit Division (Transit) staff observed that KASA had removed wheelchair lifts from vehicles donated by OCTA. When Transit staff reiterated the wheelchair-accessibility requirement, KASA submitted a signed Certification of Equivalent Service, indicating that services would be provided through an agreement with Yellow Cab Company; however, no such agreement was executed. In August 2017, OCTA donated another wheelchair-accessible vehicle; however, during a site visit the following month, KASA staff acknowledged that their drivers do not know how to operate the lift. Internal Audit recommended that management continue oversight activities and report any continued non-compliance to the Board of Directors (Board) for consideration as to future funding of the program. Management responded they are not confident that compliance can be ensured even with an enhanced level of oversight. Management is recommending that the agreement with KASA be terminated and that a 90-day termination notification be sent to KASA.

Internal Audit reviewed costs for a three-month period and identified unsupported and unallowable costs and errors in reporting of expenses. Several checks, ranging from \$100 to \$400, and totaling \$1,000, were made payable to KASA employees or to "cash" and were not accompanied by supporting documentation as to the expense. Under SMP guidelines, eligible costs include direct, program-related expenses and administrative (indirect) costs up to 10 percent. Internal Audit found that, instead of charging the allowable 10 percent mark-up, KASA is assessing administrative (indirect) costs directly to the SMP. Also, KASA's monthly report for June 2017 overstated SMP costs by \$1,564. Internal Audit recommended that management review with KASA the program guidelines for allowable costs, including requirements for adequate supporting documentation, and train KASA on monthly reporting requirements. Unsupported costs should be disallowed. Since management has withheld half of the annual allocation, management will deduct the overstated \$1,564 from the remaining disbursement. If support for the program is discontinued as

recommended, KASA will receive a portion of the funds left for the current fiscal year through the date of termination.

The age requirement to join KASA is currently set at 55 years and older; however, the SMP defines eligible participants as 60 years and older. To comply with SMP guidelines, KASA would be required to account for service costs related to participants 55 to 59 years old separately, and not include these costs in the SMP for reimbursement. KASA staff asserted this is not necessary because all participants are 60 years and older; however, Internal Audit identified at least four members under 60 years of age as of their last renewal date. Internal Audit recommended that management require KASA to develop procedures to ensure that SMP trips are only provided to individuals 60 years of age and older. Management responded that, if support for the program is continued, staff will monitor this during the site visits.

Internal Audit also confirmed that KASA provided trips to churches and buffets, which are outside their approved service plan. In addition, the total trips provided per trip sheets prepared in August 2017 did not agree to total trips reported by KASA on their monthly report. Internal Audit recommended that management disallow costs related to trips outside the service plan and instruct KASA to reconcile monthly reports to trips sheets prior to submittal. Management responded that, if support for the program is continued, OCTA staff will monitor this during site visits.

Summary

Internal Audit completed an investigation related to KASA's SMP and confirmed Transit's concerns about wheelchair accessibility and trips provided outside the service plan. Internal Audit also identified unsupported costs charged to the program and non-compliance with the program's 60-year minimum age requirement.

Attachment

- A. Investigation and Limited Scope Review of the Senior Mobility Program Operated by the Korean American Senior Association of Orange County

Prepared by:

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714-560-5938

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investigation and Limited Scope Review of the Senior Mobility Program Operated by the Korean American Senior Association of Orange County

December 26, 2017



Performed by: Serena Ng, CPA, Senior Manager
Janet Sutter, CIA, Executive Director

Distributed to: Beth McCormick, General Manager, Transit
Curt Burlingame, Joanne Jacobsen

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017**

Table of Contents

Conclusion	1
Background	1
Observations, Recommendations, and Management Response	4
Lack of Wheelchair Accessibility	4
Unallowable and Unsupported Costs.....	4
Non-Compliance with the Age Requirement.....	5
Trips Outside of Service Plan	6

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017**

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an investigation of a report received from OCTA's Transit Division (Transit) related to the Korean American Senior Association of Orange County's (KASA) Senior Mobility Program (SMP). Transit staff identified concerns related to KASA's compliance with SMP requirements for wheelchair accessibility. In addition, staff reported concerns that KASA may be providing trips outside those approved in their service plan. Internal Audit confirmed that KASA had not made trips available to those requiring wheelchair accessibility and that some trips provided were not outlined in the current service plan agreement. Internal Audit also identified unallowable and unsupported costs charged to the program and non-compliance with SMP's 60-year minimum age requirement.

Background

Investigations

Complaints received either through the OCTA Fraud Hotline, or made directly to Internal Audit, are reviewed to determine whether an investigation can be performed and, if so, by whom. When appropriate, Internal Audit will investigate and determine whether the allegation and/or concern can be substantiated. During the investigations, Internal Audit may identify control weaknesses or opportunities to enhance existing policies and procedures. Findings and recommendations resulting from these investigations are incorporated into limited scope review reports, that include management's response and planned corrective actions. While these investigations are not considered audits, like internal audits, recommendations are tracked through to implementation.

On August 21, 2017, the General Manager of Transit reported concerns about KASA's SMP; specifically, whether KASA was equipped to provide services to those requiring wheelchair accessibility and whether KASA was providing trips to locations not outlined in their current service plan agreement.

SMP

The SMP provides local funding to support community-based transportation service for seniors. Objectives include allowing local jurisdictions to develop and implement senior transportation services to serve their community and providing transit options for seniors which complement, rather than duplicate, OCTA fixed route and ACCESS paratransit services. For Fiscal Year (FY) 2016-17, OCTA provided \$101,121 in local funding to KASA. Due to concerns about program compliance, OCTA distributed only half of the expected funding, or \$51,460, to KASA for FY 2017-18.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017**

SMP guidelines have been developed, approved, and incorporated into cooperative agreements with jurisdictions receiving SMP funding. The OCTA Community Transportation Coordinator performs annual site visits of all jurisdictions.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017**

Objectives, Scope, and Methodology

The objective of the investigation and limited scope review was to determine whether allegations about provision of wheelchair-accessible vehicles and trips outside the approved service plan could be substantiated. The scope was limited to KASA's SMP.

In conducting the investigation and limited scope review, Internal Audit employed the following methodology:

- Reviewed the Cooperative Agreement No. C-1-2491 between OCTA and City of Garden Grove and KASA for SMP and related amendments, which include the SMP policy guidelines;
- Reviewed documentation of oversight activities by OCTA staff;
- Participated in an annual site visit of KASA and observed vehicles used for the program;
- Interviews with KASA SMP staff and OCTA staff involved in oversight of the SMP program;
- Reviewed supporting documentation for June, July, and August 2017 program costs;
- Reviewed trip sheets for August 2017; and
- Reviewed KASA's member rosters.

This report is the result of an investigation of concerns expressed by Transit management, and does not represent an audit conducted in accordance with Generally Accepted Government Auditing Standards.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017**

Observations, Recommendations, and Management Response

Lack of Wheelchair Accessibility

KASA violated the SMP requirement to provide wheelchair-accessible vehicles.

During a 2016 site visit, the Community Transportation Coordinator (Coordinator) observed that KASA had removed wheelchair lifts from vehicles donated by OCTA. When asked, KASA staff responded that seniors in wheelchairs do not participate in their activities. The Coordinator reiterated the requirement to make available wheelchair-accessible vehicles and KASA responded by submitting a signed Certification of Equivalent Service, indicating that services would be provided through an agreement with Yellow Cab Company (Yellow Cab). The Coordinator contacted Yellow Cab and was advised that no such agreement had been executed.

In August 2017, OCTA donated another wheelchair-accessible vehicle to KASA and advised KASA against removing the wheelchair lift. In September 2017, during an OCTA site visit, KASA staff acknowledged that their drivers do not know how to operate the lift.

Recommendation 1:

Internal Audit recommends Transit management continue oversight activities and report any continued non-compliance to the Board of Directors (Board) for consideration as to future funding of this program.

Management Response:

Based on performance over the past year, contact with the program administrator on a variety of issues regarding compliance, as well as the current audit findings, staff is not confident that even with an enhanced level of oversight, compliance can be ensured.

Since the site visit in 2016, OCTA staff has spent a significant amount of time monitoring the KASA SMP compared to other SMPs. Despite actions taken and ongoing assurances provided to OCTA on a variety of issues, compliance with the SMP guidelines continues to be inconsistent. OCTA staff recommends that the agreement with KASA be terminated, and that a 90-day termination notification be sent to KASA to discontinue the program.

Unallowable and Unsupported Costs

Unallowable and unsupported costs are charged to the SMP, and costs reported for June 2017 did not agree to KASA's financial records.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017

During a three-month period, Internal Audit identified several checks, ranging from \$100 to \$400, made payable to KASA employees or to “cash” without supporting documentation. These charges represented a total of \$1,000 in SMP costs.

Under SMP guidelines, eligible costs include direct, program-related expenses and administrative (indirect) costs up to 10 percent. Instead of charging a 10 percent administrative cost mark-up, KASA is assessing administrative (indirect) costs directly to the SMP, including accounting costs, workers’ compensation costs, and income tax withholdings.

Finally, KASA’s monthly report for June 2017 overstated SMP costs by \$1,564.

Recommendation 2:

Internal Audit recommends that the Coordinator review with KASA program guidelines for allowable direct and indirect costs, including requirements for adequate supporting documentation. The Coordinator should disallow all indirect costs charged directly to the SMP and any costs that are not adequately supported. The Coordinator should also train KASA on monthly reporting requirements. Finally, any continued non-compliance should be reported to the Board for consideration as to future funding of this program.

Management Response:

Because OCTA staff responsible for SMP oversight had concerns in a number of areas related to the KASA program, only half of the annual allocation was provided to KASA for service from July through December 2017. As a result, funds disbursed to KASA for service provided in 2018 will be adjusted, with the overstated \$1,564 deducted from the disbursement. If support for the program is discontinued as recommended by staff, KASA will receive a portion of the funds left for the current fiscal year through the date of termination.

Non-Compliance with the Age Requirement

The age requirement to join KASA is currently set at 55 years and older; however, the SMP program defines eligible participants as 60 years and older.

In order to comply with SMP guidelines, KASA would be required to account for service costs related to participants 55 to 59 years old separately and not include these costs in the SMP for reimbursement. KASA staff asserted this is not necessary because all participants are 60 years and older.

However, KASA’s member roster included at least four members under 60 years of age as of their last renewal date.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investigation and Limited Scope Review of the Senior Mobility Program
Operated by the Korean American Senior Association of Orange County
December 26, 2017**

Recommendation 3:

Internal Audit recommends that the Coordinator require KASA to develop procedures to ensure that SMP trips are only provided to individuals 60 years of age and older. Any continued non-compliance should be reported to the Board for consideration as to future funding of this program.

Management Response:

If support for the program is continued, OCTA staff will monitor this during the site visits.

Trips Outside of Service Plan

Documentation on file indicates that KASA provides some trips outside their approved service plan.

Per SMP policies and procedures, providers must outline, in a written service plan, all types of trips to be provided. KASA's approved service plan identifies social/recreation trips to Orange County beaches, museums, historical/cultural venues and activities, and parks. KASA's monthly summary report for June 2017 reflected some trips to churches and review of trip sheets for August 2017 reflected some trips to both churches and buffets. These trip types are not allowable under the current service plan.

In addition, prior to mid-July 2017, KASA did not maintain trip sheets detailing trips provided. Total trips, per trip sheets prepared in August 2017, did not agree to total trips reported by KASA on the monthly report.

Recommendation 4:

Internal Audit recommends that the Coordinator disallow costs related to trips outside the service plan. At a minimum, driver labor costs for trips to and from churches and buffets should be disallowed as ineligible SMP costs. The Coordinator should also instruct KASA to reconcile monthly reports to trips sheets prior to submittal. Finally, any continued non-compliance should be reported to the Board for consideration as to future funding of this program.

Management Response:

If support for the program is continued, OCTA staff will monitor this during the site visits.

SUPPLEMENTAL

INFORMATION

RECEIVED

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OCTA
CLERK OF THE BOARD



KOREAN AMERICAN SENIORS ASSOCIATION
OF ORANGE COUNTY, INC.

사단법인 오렌지카운티 한미노인회

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January 4, 2017

Orange County Transportation Authority ("OCTA")
Internal Audit Department
OCTA Clerk of the Board
550 S. Main Street
Orange, CA 92683

Re: Review of the KASA Senior Mobility Program ("SMP")

Dear OCTA Board of Directors,

I recently received a letter regarding the Investigation and Limited Scope Review of the KASA SMP conducted by your Internal Audit Department, and would like to sincerely apologize for violating its stated guidelines. Please do accept our deepest apologies.

I would like to appeal to the Board for your continued support for our program.

We promise to rectify the situation and strictly adhere to the SMP requirements. We will retrain and discipline staff to properly comply with the guidelines, and, where necessary, we will replace and hire new staff to ensure full compliance is executed. All activity will be duly monitored to avoid this type of scenario in the future.

To address the various matters outlined in your letter, please see below our responses and course of action to address and correct the situation according to the SMP guidelines.

- Wheelchair accessibility: We at KASA plan to provide wheelchair accessibility on our vehicles within 20 days from today for seniors in wheelchairs to have equal opportunity to join in all activities offered. We will also ensure and require all of our drivers to know how to operate the wheelchair lift properly and safely.

- Unallowable and unsupported costs: Our employee had improperly calculated our costs and budget figures. Upon researching the situation, it turns out that he had miscalculated based on numbers from bank statement rather than figures from actual checks, which resulted in an imbalance in our financial statements. We understood this to be an unintentional error, and have attached a revised report for your reference.

- Non-compliance with the Age Requirement: We have implemented the revised age requirement per your guidelines, such that eligible participants now must be 60 years and older. Please note that at times, our driver felt obliged to take on elderly passengers regardless of age, including those under 60, out of sympathy; however, we will ensure the driver complies with the guidelines regarding the 60 year age requirement.
- Trips Outside of Service Plan: Per your recommendation we have cancelled any trips, such as church and buffet restaurant visits, that do not fit within the approved service plan. We will also ensure that our staff diligently maintains trip sheets to detail all trips provided.


We believe we are the only group serving the Korean senior community in this capacity within Orange County, and seek to continue providing services for their well-being. We currently have over 800 members, and providing transportation services is a critical component in being able to support them.

We hope that you will consider our response and planned/executed course of action to appropriately address the issues at hand, as we earnestly appeal for your continued support for the KASA SMP.

We thank you and greatly appreciate your time, and look forward to hearing from you.

Kind regards,

Korean American Senior Association
("KASA") of Orange County
Chol Sun Pak
Chairman of KASA of Orange County
9884 Garden Grove Blvd.
Garden Grove, Ca. 92844


Chol Sun Pak

Orange County Transportation Authority Cyber-Security Update

Security Program Remediation Plan

- Objective #1:
Prevent and contain future attacks
- Objective #2:
Enable security risk based management decisions
- Objective #3:
Implement recommended security best practices

Progress-to-date

- Up-to-date patching on 30-day cycle
- Implemented and refining network segmentation
- Finished training – white phishing is next
- Extensive evaluations and testing
- Continue our migration into the cloud
- Looking at machine learning tools
- Testing two-factor authentication
- Reviewing industrial control systems
- Data loss prevention insurance has been renewed

Recent Threats – Meltdown and Spectre

- Exploits modern CPUs to access protected memory
- Sensitive information theft, such as extracting encryption keys or passwords from memory
- Servers, desktops, laptops, mobile devices, and cloud servers are vulnerable
- Meltdown will be patched as part of OCTA's normal patch cycle
- No fix yet for Spectre

Industrial Controls Review

- Review and solidify incident management process
- Findings:
 - Generally in good shape
 - Co-managed systems responsibilities need to be solidified
 - Segment ICS from corporate network
 - Definition of some policies and procedures pertaining to Scada systems
 - Risk management framework

Next Steps

- Phishing
- Implement Spectre vulnerability patch
- Review/Implement Industrial Control Recommendations
- Return to Finance and Administration Committee in 6 months