



AGENDA

Finance and Administration Committee Meeting

Committee Members

Michael Hennessey, Chairman
Richard Murphy, Vice Chairman
Andrew Do
Gene Hernandez
Steve Jones
Joe Muller
Michelle Steel

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

Wednesday, March 11, 2020 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 Steel

1. Public Comments

Special Calendar

There are no Special Calendar matters.

Consent Calendar (Items 2 through 4)

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 meeting of February 26, 2020.



3. Performance Audit of the Orange County Transportation Authority's Patch Management Program

Ricco Bonelli/Janet Sutter

Overview

On behalf of the Internal Audit Department, the firm BCA Watson Rice, LLP, has completed an audit of the Orange County Transportation Authority's Patch Management Program. The audit found that the Patch Management Program for the Windows operating environment complies with industry standards and best practices; however, the program should be expanded to address areas outside the Windows environment. The auditors identified five areas of improvement to further enhance the program.

Recommendation

Direct staff to implement five recommendations provided in the performance audit of the Orange County Transportation Authority's Patch Management Program.

4. Local Transportation Fund Claims for Fiscal Year 2020-21

Sam Kaur/Andrew Oftelie

Overview

The Orange County Transit District is eligible to receive funding from the Local Transportation Fund for providing public transportation services throughout Orange County. In order to receive these funds, the Orange County Transit District, as the public transit and community transit services operator, must file claims with the Orange County Transportation Authority, the transportation planning agency for Orange County.

Recommendation

Adopt Orange County Transit District Resolution No. 2020-009 authorizing the filing of Local Transportation Fund claims, in the amounts of \$165,118,625 to support public transportation and \$8,753,905 for community transit services.



Regular Calendar

5. **Orange County Local Transportation Authority Measure M2 Maintenance of Effort, Agreed-Upon Procedures Report, City of Stanton, Year Ended June 30, 2019**
Janet Sutter

Overview

Eide Bailly LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Maintenance of Effort expenditures by the City of Stanton for the fiscal year ended June 30, 2019. Based on the audit, the City of Stanton spent sufficient funds to meet the required minimum expenditures as outlined in a settlement agreement between the City of Stanton and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Stanton's Measure M2 eligibility.

6. **Orange County Local Transportation Authority Measure M2 Maintenance of Effort, Agreed-Upon Procedures Report, City of Santa Ana, Year Ended June 30, 2019**
Janet Sutter

Overview

Eide Bailly LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Maintenance of Effort expenditures by the City of Santa Ana for the fiscal year ended June 30, 2019. Based on the audit, the City of Santa Ana spent sufficient funds to meet the required minimum expenditures as outlined in a settlement agreement between the City of Santa Ana and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Santa Ana's Measure M2 eligibility.



Discussion Items

- 7. Chief Executive Officer's Report**
- 8. Committee Members' Reports**
- 9. Closed Session**

There are no Closed Session items scheduled.

10. Adjournment

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, April 8, 2020**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.



Committee Members Present

Michael Hennessey, Chairman
Richard Murphy, Vice Chairman
Gene Hernandez
Steve Jones
Joe Muller

Staff Present

Darrell E. Johnson, Chief Executive Officer
Ken Phipps, Deputy Chief Executive Officer
Laurena Weinert, Clerk of the Board
Gina Ramirez, Deputy Clerk of the Board
James Donich, General Counsel
OCTA Staff and Members of the General Public

Committee Members Absent

Andrew Do
Michelle Steel

The February 26, 2020 regular meeting of the Finance and Administration (F&A) Committee (Committee) was called to order by Committee Chairman Hennessey at 10:32 a.m.

Pledge of Allegiance

Director Muller led in the Pledge of Allegiance.

1. Public Comments

No public comments were received.

Special Calendar

2. Committee Meeting 2020 Schedule

Darrell E. Johnson, Chief Executive Officer (CEO), reported that the F&A Committee has traditionally met twice per month. Over the last few years, staff had developed a calendar that decreases the Committee meetings to one per month in March, June, August, November, and December based upon the work plan.

James Donich, General Counsel, stated special meetings could be added if necessary, with proper notifications under the Brown Act.

A motion was made by Director Hernandez, seconded by Committee Vice Chairman R. Murphy, and declared passed by those present, to approve the 2020 Finance and Administration Committee meeting dates and time schedule.



3. Roles and Responsibilities of the Finance and Administration Committee

Committee Chairman Hennessey provided opening remarks on this item and inquired about the proposed change in the roles and responsibilities.

Darrell E. Johnson, Chief Executive Officer (CEO), reported that the roles and responsibilities for each Committee are reviewed annually for changes or additions, and noted there was one recommended change for the F&A Committee, (9th bullet in Attachment A). Mr. Johnson explained the reason for the proposed change regarding security.

A motion was made by Director Hernandez, seconded by Committee Vice Chairman R. Murphy, and declared passed by those present, to approve the 2020 Finance and Administration Committee Roles and Responsibilities.

4. Audit Responsibilities of the Finance and Administration Committee

Janet Sutter, Executive Director of Internal Audit, provided an overview of the responsibilities for the internal audit plan and Audit Responsibilities of the F&A Committee.

A motion was made by Committee Vice Chairman R. Murphy, seconded by Director Hernandez, and declared passed by those present, to approve the Audit Responsibilities of the Finance and Administration Committee as an information item.

Consent Calendar (Items 5 through 10)

5. Approval of Minutes

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to approve of the minutes of the Finance and Administration Committee meeting of January 22, 2020.

6. Interagency Fare Revenue Agreements, Internal Audit Report No. 20-505

A motion was made by Director Hernandez, seconded by Director Jones, and declared passed by those present, to receive and file the Interagency Fare Revenue Agreements, Internal Audit Report No. 20-505, as an information item.



7. Orange County Transportation Authority Investment and Debt Programs Report - January 2020

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

8. Environmental Mitigation Program Endowment Fund Investment Report for December 31, 2019

This item was pulled by Committee Vice Chairman R. Murphy to inquire about the current California Community Foundation (CCF) Endowment Pool investment return of 2.5 percent and if the CCF follows the same rules as the Orange County Transportation Authority OCTA (OCTA).

Andrew Oftelie, Chief Financial Officer (CFO), responded that the CCF does not follow the same rules, as OCTA which is one of the reasons why the endowment is with the CCF is they can be more aggressive in investment activities.

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

9. Fiscal Year 2019-20 Second Quarter Grant Reimbursement Status Report

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

10. 91 Express Lanes Update for the Period Ending - December 31, 2019

This item was pulled by Committee Chairman Hennessey to inquire about the increase year over year and why the rise in revenue.

Kirk Avila, General Manager of the 91 Express Lanes, responded that the ridership continues to perform well due to economy. Employment is high in Orange County, and housing remains cheaper in the Inland Empire versus Orange County, and commuters are traveling to either Orange County or Los Angeles and other factors.

Andrew Oftelie, CFO, explained the review of refinancing the debt for both the Interstate 405 and 91 Express Lanes. He stated staff would return to the F&A Committee next month with the findings.

A motion was made by Committee Chairman Hennessey, seconded by Director Jones, and declared passed by those present, to receive and file as an information item.



Regular Calendar

There were no Regular Calendar items scheduled.

Discussion Items

11. Fiscal Year 2020-21 Budget Kick-off and Assumptions

Andrew Oftelie, CFO, provided opening comments and introduced Victor Velasquez, Manager of Financial Planning and Analysis, who provided a PowerPoint presentation on the following:

- Fiscal Year 2020-21 Budget Timeline;
- Major Programs;
- Measure M2 Program Assumptions;
- Bus Program Revenue Assumptions;
- Bus Operations Expenditure Assumptions;
- Rail Program Revenue Assumptions;
- Rail Program Expenditure Assumptions;
- 91 Express Lanes Program Assumptions;

Mr. Velasquez noted a correction to Slide 9, under Revenue Assumptions, should read 17.8 million OCTAP trips, and not 17.5 as indicated on the slide.

- Motorist Services & Orange County Taxi Administration Program, and
- Next Steps.

12. Chief Executive Officer's Report

Mr. Johnson, CEO, reported on the following:

Proposed legislative efforts:

- Referenced the three bills Mr. Velasquez discussed during agenda Item 11, which may impact OCTA fare revenues, and staff will not know the impact of those legislative outcomes before budget adoption.

Committee Chairman Hennessey inquired about the budget impacts for OCTA, if the legislation passes, and there are no funds backfill.



12. (Continued)

Andrew Oftelie, CFO, responded staff is currently reviewing the options. If the bills were to pass, it would only impact half of the fiscal year, and a possible one-time source of revenues might be able to get OCTA through the year. Additionally, since this would be ongoing, staff would bring this forward in the Comprehensive Business Plan later this year.

State Route 91 (SR-91) Advisory Committee:

- The first SR-91 Advisory Committee meeting of the year will be held on March 6th. Director Hernandez will serve on the Committee, and staff will discuss the status of the operations, as well as a comprehensive overview of all the capital projects planned and under construction along the 91 Corridor.

Careers in Transportation Expo:

- On Tuesday, March 10th, OCTA will host its fifth annual Careers in Transportation Expo here at OCTA.
- The event is for Orange County high school and college students to learn more about career paths in the transportation industry.
- Participants will take part in mock interviews and have their resumes reviewed by OCTA's human resources staff.
- The event runs from 9:00 a.m. to noon approximately 300 students will attend.

13. Committee Members' Reports

There were no Committee Members' Reports.

14. Closed Session

There were no Closed Session items scheduled.



15. Adjournment

The meeting was adjourned at 10:58 a.m.

The next regularly scheduled meeting of this Committee will be held at **10:30 a.m. on Wednesday, March 11, 2020**, at the Orange County Transportation Authority Headquarters, 550 South Main Street, Board Room - Conference Room 07, Orange, California.

ATTEST

Gina Ramirez
Deputy Clerk of the Board

Michael Hennessey
Committee Chairman



March 11, 2020

To: Finance and Administration Committee

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

Subject: Performance Audit of the Orange County Transportation Authority's Patch Management Program

Overview

On behalf of the Internal Audit Department, the firm BCA Watson Rice, LLP, has completed an audit of the Orange County Transportation Authority's Patch Management Program. The audit found that the Patch Management Program for the Windows operating environment complies with industry standards and best practices; however, the program should be expanded to address areas outside the Windows environment. The auditors identified five areas of improvement to further enhance the program.

Recommendation

Direct staff to implement five recommendations provided in the performance audit of the Orange County Transportation Authority's Patch Management Program.

Background

The Orange County Transportation Authority (OCTA) Information Systems (IS) Department is responsible for the effective and secure delivery of computing solutions to all business units. This includes the execution of OCTA's Patch Management Program (PMP). The National Institute of Standards and Technology (NIST) defines patch management as "...the process for identifying, acquiring, installing, and verifying patches for products and systems." Patches aim to correct security and functionality problems in firmware and software applications.

The purpose of the audit was to assess and test the adequacy of OCTA's PMP and to make detailed recommendations for improvement based on industry standards, best practices, economy, and efficiency. The audit included testing of OCTA's compliance with its patch management policies and procedures and best practices, including NIST 800-53, Revision 4 Security Standards and NIST 800-40, Revision 3, titled "Guide to Enterprise Patch Management Technologies".

Discussion

OCTA's IS Department has developed a PMP, supported by a written policy, that focuses on the Windows operating environment. Management's strategy was to focus first on the highest risk area, the Windows environment, and then expand the program to address other risk areas. The auditors offered one recommendation to expand the PMP to address all other operating systems hardware, software, and peripherals, and to incorporate all devices into the PMP. The auditors also offered four recommendations to further enhance the PMP by formalizing plans to address patch vulnerabilities, removing obsolete operating systems and software from the network, restricting users from installing unauthorized software, and developing test scripts to ensure system functionality after implementation of a patch. Management agreed with the recommendations and indicated that progress has been made, and efforts will continue, to implement these improvements.

Summary

An audit of OCTA's PMP has been completed by the firm of BCA Watson Rice, LLP. The detailed audit scope and results are included in the audit report at Attachment A.

Attachment

- A. Orange County Transportation Authority, Performance Audit of OCTA's Patch Management Program, February 18, 2020

Prepared by:



Ricco Bonelli
Principal Internal Auditor
714-560-5384

Approved by:



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

ORANGE COUNTY TRANSPORTATION AUTHORITY

Performance Audit of

OCTA's Patch Management Program

February 18, 2020

FINAL REPORT

Prepared by:
BCA Watson Rice LLP
Certified Public Accountants and Management Consultants

TABLE OF CONTENTS

CONCLUSION.....	1
INTRODUCTION AND BACKGROUND.....	1
METHODOLOGY	2
CRITERIA	2
DETAILED AUDIT RESULTS.....	5
Finding No. 1: OCTA's Patch Management Policy and Program should be expanded.....	5
Finding No. 2: OCTA should formalize plans to address patch vulnerabilities.....	5
Finding No. 3: Numerous workstations and servers are operating with end-of-life software and operating systems	6
Finding No. 4: Allowing for network workstations that are not managed by OCTA's Information System Department (ISD), and granting of local administrative access rights to users, increases exposure to the network.....	6
Finding No. 5: Patch testing should be strengthened and formalized	7

CONCLUSION

Based on the audit, the Orange County Transportation Authority's Patch Management Program for the Windows operating system environment complies with industry standards and best practices; however, the program should be expanded to address areas outside the Windows environment. In addition, we have identified areas of improvement that will further enhance the program.

INTRODUCTION AND BACKGROUND

The Orange County Transportation Authority's (OCTA) Internal Audit Department contracted with BCA Watson Rice (BCAWR) to conduct a performance audit of OCTA's Patch Management Program (PMP). The purpose of the audit was to assess and test the adequacy of OCTA's PMP and to make detailed recommendations for improvement based on industry standards, best practices, economies, and efficiencies. The audit included testing of OCTA's compliance with its patch management policies and procedures and best practices including the National Institute of Standards and Technology (NIST) 800-53, Revision 4 Security Standards and NIST 800-40, Revision 3, titled "Guide to Enterprise Patch Management Technologies". BCAWR used its corporate knowledge of OCTA and its extensive knowledge of best practices to develop a detailed work plan to perform this audit as outlined in the methodology section of this report.

At the time of the audit, OCTA's PMP addresses the following components:

1. Approximately 950 individual user accounts;
2. Approximately 950 Windows workstations;
3. Approximately 90% of the workstations (which are run on Windows 10) with the remaining workstations running on Windows 7;
4. Approximately 200 Linux devices;
5. Approximately 900 network devices; and
6. 350 Windows Servers (Windows Server 2012 and 2016, currently migrating from the remaining 2008 Servers).

BCAWR affirms that it is independent of OCTA and conducted the performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and relevant best practices. GAGAS requires that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. BCAWR believes that the evidence obtained provides a reasonable basis for our findings and recommendations.

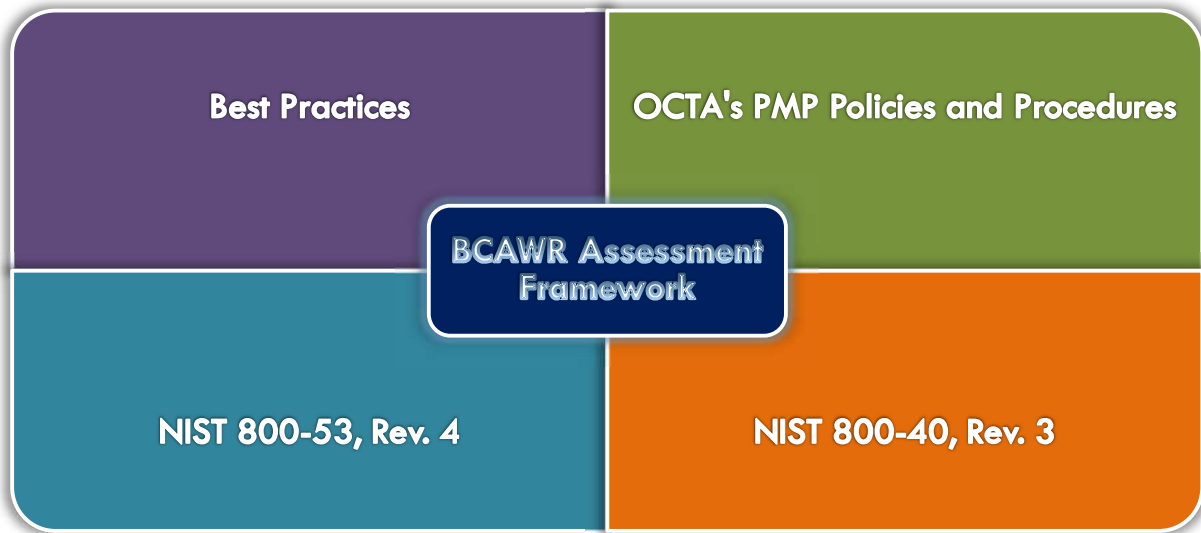
METHODOLOGY

This section contains the methodology used to assess OCTA's PMP based on the scope and objectives of this audit:

AUDIT STEPS	TESTING METHODOLOGY
Reviews and Observations	We requested and reviewed all relevant and existing PMP documentation. We observed, where possible, activities related to the PMP operations and overall management process.
Inquiries and Meetings	We made inquiries of management and corroborated responses with appropriate operations personnel. We also conducted inquiries of personnel responsible for carrying out distinct aspects of the PMP and corroborated responses with other personnel and documentation. Our inquiries included interviews and meetings with OCTA's PMP key stakeholders.
Examinations and Walk-Throughs	We inspected PMP documents and other related documentation to determine the adequacy and appropriateness of OCTA's PMP. We also determined whether the PMP development process was conducted in accordance with specific control policies and procedures, and any established industry standards. Our examination process involved reviewing and analyzing the PMP and related documents.
Substantive Testing	We conducted substantive testing of OCTA's PMP, where appropriate.

CRITERIA

To guide our audit and to adequately assess OCTA's PMP, our criterion was based on the requirements outlined in the agreement between OCTA and BCAWR, industry "Best Practices", and the relevant NIST Special Publications. BCAWR used these criteria as the framework for the development of our audit methodology, findings and recommendations. The audit was conducted in accordance with Generally Acceptable Government Auditing Standards. Below is a pictorial representation of the criteria used.



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DETAILED AUDIT RESULTS

OCTA's Information Systems Department has developed a PMP, supported by a Patch Management Policy that focuses on the Windows operating system environment. Management's strategy was to focus first on OCTA's highest risk area, the Microsoft Windows environment, and then expand the program to address other risk areas. The findings and recommendations described below, if implemented, would cause OCTA to leverage their success in the Windows environment across all platforms and systems.

Finding No. 1: OCTA's Patch Management Policy and Program should be expanded

To reduce the risk of security breaches, OCTA should expand the PMP to address all other operating systems software, hardware, and peripherals, and to incorporate all devices; including firewalls, Linux and Mac Operating systems, IoT devices, 3rd party devices, applications that communicate with the network, and other technology-based devices (e.g. field fuel stations).

Recommendation 1:

We recommend OCTA expand the PMP to address all software, hardware, peripherals, and devices; including firewalls, Linux and Mac Operating systems, IoT devices, 3rd party devices, applications that communicate with the network, and other technology-based devices.

Management Response:

Management agrees with the recommendation to expand the patch management program. The Information Systems (IS) Department will identify and develop a plan to comply with the recommendations that will focus on security and core infrastructure and applications first, and then continue to address all other areas. The additional resource as recommended in Finding #2, will play a critical role in this process.

Finding No. 2: OCTA should formalize plans to address patch vulnerabilities

Through regular scanning, OCTA identifies a high number of critical and severe vulnerabilities in the Windows environment. Many of the identified vulnerabilities have not been addressed and have been outstanding over 90 days. Management indicated that other operational activities, including relocation of the data center, have hampered efforts at remediating these vulnerabilities.

Recommendation 2:

We recommend that OCTA identify a dedicated operations staff person to coordinate with employees who have designated responsibility for remediating vulnerabilities. These employees should develop and document a Plan of Action with Milestones and create desktop procedures for patch management.

Management Response:

Management agrees with the recommendation to dedicate an operations staff person to coordinate with those responsible for remediating vulnerabilities and support the completion of the recommendations. The dedicated resource will document a plan of action with milestones and create desktop procedures.

Finding No. 3: Numerous workstations and servers are operating with end-of-life software and operating systems

OCTA vulnerability scans identify a number of devices with obsolete operating systems and/or software. Allowing these unsupported system components makes the network more vulnerable to attack and renders the system less reliable.

Recommendation 3:

We recommend that OCTA remove all obsolete operating systems and software from the network. Where operations currently require the use of obsolete software, we recommend that OCTA work with the vendors to acquire more secure software. In cases where the vendor is not able to supply more secure functionality, we recommend that OCTA develop plans to migrate to an alternative software solution and develop mitigating controls in the interim.

Management Response:

Management agrees with the recommendation to remove all obsolete Operating Systems (OS) and software from the network. This is a continuing process that will rely on cybersecurity to provide guidance to help the IS operational teams plan for the removal or upgrade of obsolete software. All obsolete OS and software that can't be removed due to business requirements will use alternative vulnerability remediation methods until removed. This process will continue the best practice of separation of duties as used in the recent removal of all Windows 7 machines.

Finding No. 4: Allowing for network workstations that are not managed by OCTA's Information System Department (ISD), and granting of local administrative access rights to users, increases exposure to the network

During our audit, we identified software on workstations that are not managed by OCTA's ISD. One department within OCTA has historically purchased and managed its own workstations.

In addition, we identified unsupported software, like iTunes, VLC player, and Wireshark (a tool used by hackers), installed on workstations. In most of the cases noted, the software was installed by users with local administrative access; which should be limited.

Recommendation 4:

We recommend that OCTA restrict users from installing unauthorized software and that the ISD be authorized to manage all OCTA workstations. Also, management should strictly enforce policies against installing unauthorized software on workstations. Any workstation that requires local administrative rights should be closely monitored by ISD.

Management Response:

Management agrees with the recommendation to restrict users from installing unauthorized software and that IS be authorized to manage all OCTA workstations. IS will continue to scan for new devices and software on the network. IS is aware of and in the process of taking back the management of found devices that are not IS managed, to include non-IS administrative accounts that will no longer be needed.

Finding No. 5: Patch testing should be strengthened and formalized

Use of formalized test scripts helps ensure system functionality after implementation of a patch, and is part of a mature patch management program.

As new patches are introduced, testing of basic functions is performed; however, formalized test scripts should be developed and implemented for each of the mission critical systems. Formalized test scripts identify critical functions of the particular system and provide a guide for testing after implementing a patch.

Recommendation 5:

We recommend that patch management test scripts be developed through collaboration between ISD and users of the mission critical systems. These scripts should mirror those used in the change management process.

Management Response:

Management agrees with the recommendation that patch management test scripts be developed for mission critical systems. IS and system/application owners will develop test scripts to follow the IS patching schedule for critical systems as defined in the Continuity of Operations Plan. As this is a continuous process, IS will implement and maintain the process for all defined systems.

February 18, 2020

BCA Watson Rice, LLP



March 11, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Local Transportation Fund Claims for Fiscal Year 2020-21

Overview

The Orange County Transit District is eligible to receive funding from the Local Transportation Fund for providing public transportation services throughout Orange County. In order to receive these funds, the Orange County Transit District, as the public transit and community transit services operator, must file claims with the Orange County Transportation Authority, the transportation planning agency for Orange County.

Recommendation

Adopt Orange County Transit District Resolution No. 2020-009 authorizing the filing of Local Transportation Fund claims in the amounts of \$165,118,625 to support public transportation and \$8,753,906 for community transit services.

Background

The Transportation Development Act (TDA) of 1971 established a funding source dedicated to transit and non-transit related projects. The funding source consists of two parts: Local Transportation Fund (LTF), which is derived from a 1/4 cent of the current retail sales tax in Orange County, and State Transit Assistance Fund, which is generated from the sales tax on diesel and funded through the Public Transportation Account.

The LTF revenues are collected by the California Department of Tax and Fee Administration and returned monthly to local jurisdictions based on the volume of sales during each month. In Orange County, the LTF receipts are deposited in the Orange County LTF account at the Orange County Treasury and administered by the Orange County Auditor-Controller. LTF receipts are distributed by the Orange County Auditor-Controller among the various administrative, planning, and program apportionments as specified in the TDA.

Discussion

Section 6630 of the California Code of Regulations requires Orange County Transit District (OCTD) to file a claim with the Orange County Transportation Authority (OCTA) in order to receive an allocation from the LTF for providing public transportation services (Article 4 claims).

Since OCTA has previously designated the OCTD as the consolidated transportation service agency for Orange County, the OCTD is also required to file a claim with OCTA in order to receive an allocation from the LTF for operating community transit services (Article 4.5 claims). The total amount of these claims for fiscal year 2020-21 equals \$173,872,531.

Summary

The LTF provides funds to the OCTD for public transit services. In order to receive these funds, the OCTD must file the appropriate LTF claims with the OCTA. Staff recommends the OCTA Board of Directors adopt the OCTD Resolution No. 2020-009 to authorize the filing of these claims.

Attachment

- A. Resolution of the Orange County Transit District, Authorizing the Filing of Local Transportation Fund Claims

Prepared by:

Sam Kaur
Department Manager,
Revenue Administration
(714) 560-5889

Approved by:

Andrew Oftelie
Chief Financial Officer,
Finance and Administration
(714) 560-5637

**RESOLUTION OF THE
ORANGE COUNTY TRANSIT DISTRICT**

**AUTHORIZING THE FILING OF
LOCAL TRANSPORTATION FUND CLAIMS**

WHEREAS, the Orange County Local Transportation Fund was created by the Transportation Development Act (SB 325:1971) to aid in meeting the public transportation and community transit needs that exist in Orange County; and

WHEREAS, the Orange County Transit District is submitting transportation claims for funds from the Orange County Local Transportation Fund; and

WHEREAS, the Orange County Transportation Authority has the authority to review claims and allocate such funds in accordance with the California Code of Regulations and the California Transportation Development Act.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Orange County Transit District hereby requests the Orange County Transportation Authority to allocate funds to the Orange County Transit District for the purpose of providing the support of a public transportation system as described under the California Transportation Development Act, Article 4, and for funding community transit services as described under the California Transportation Development Act, Article 4.5.

BE IT FURTHER RESOLVED that the Orange County Transit District agrees to provide the Orange County Transportation Authority with such information as may be necessary to support these transportation claims.

ADOPTED, SIGNED AND APPROVED this 23rd day of March 2020.

AYES:

NOES:

ABSENT:

ATTEST:

Laurena Weinert
Clerk of the Board

Steve Jones, Chairman
Orange County Transit District



March 11, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Orange County Local Transportation Authority Measure M2
Maintenance of Effort, Agreed-Upon Procedures Report, City of
Stanton, Year Ended June 30, 2019

Overview

Eide Bailly LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Maintenance of Effort expenditures by the City of Stanton for the fiscal year ended June 30, 2019. Based on the audit, the City of Stanton spent sufficient funds to meet the required minimum expenditures as outlined in a settlement agreement between the City of Stanton and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Stanton's Measure M2 eligibility.

Background

On May 13, 2019, the Orange County Transportation Authority (OCTA) Board of Directors (Board) found the City of Stanton (City) ineligible to receive Measure M2 revenues after an audit found that the City had not met the minimum Maintenance of Effort (MOE) requirement of the Measure M2 Ordinance (Ordinance). In addition, the Board directed staff to conduct an audit of the City for the fiscal year (FY) ending June 30, 2019, to assess compliance with MOE requirements and to increase the MOE requirement for FY 2018-19 by the shortfall amount identified in the FY 2017-18 audit.

A written settlement agreement, dated July 22, 2019, was executed between OCTA and the City which outlined requirements for the City to re-establish eligibility. Among other items, the settlement agreement required the City to

undergo, and pay for, an audit of FY 2018-19 to determine compliance with MOE requirements.

Discussion

Eide Bailly LLP (auditors), tested a sample of MOE expenditures for FY 2018-19, and found the City met the minimum required expenditures per the settlement agreement with OCTA.

Per the settlement agreement, the City was required to spend \$252,775 in MOE. The City reported total MOE expenditures of \$303,195, and the auditors tested \$163,627, or 54 percent, for compliance with the Ordinance. After removing \$12,413 in ineligible expenditures, the City still met the minimum requirement.

The detailed audit report can be found at Attachment A.

Summary

The auditors have completed agreed-upon procedures related to Measure M2 MOE expenditures for the City for FY ended June 30, 2019.

Attachment

- A. Measure M2 Maintenance of Effort Agreed-Upon Procedures Report
Year Ended June 30, 2019 Orange County Local Transportation
Authority – City of Stanton

Prepared by:



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



Measure M2 Maintenance of Effort
Agreed-Upon Procedures Report
Year Ended June 30, 2019

Orange County
Local Transportation Authority –
City of Stanton



**Independent Accountant's Report on Applying
Agreed-Upon Procedures — City of Stanton, California**

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 Board of Directors of the Orange County Local Transportation Authority (OCLTA) (the specified party), on the City of Stanton's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2019. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the Settlement Agreement between OCTA and the City and identified the required minimum amount to be spent on MOU expenditures.

Findings: The City was required to spend \$252,775 in MOE expenditures during the fiscal year ended June 30, 2019, which included \$245,213 for FY 2018-19 MOE expenditures and \$7,562 of MOE shortfall from fiscal year 2017-18. No exceptions were found as a result of this procedure.

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

Findings: All MOE expenditures were tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (101) under the Street Maintenance Department (3500). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2019 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2019 were \$303,195 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$303,195 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

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

Findings: MOE expenditures tested totaled \$163,627, representing approximately 54% of total MOE expenditures for the fiscal year ended June 30, 2019. We identified eleven expenditures, totaling \$12,413 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

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

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

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


Laguna Hills, California
March 4, 2020

Orange County Local Transportation Authority
Schedule of Measure M2 Maintenance of Effort Expenditures (Unaudited)
City of Stanton, California
Year Ended June 30, 2019

Schedule A

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Other Street Purpose Maintenance - Schedule 3, line 15	\$ 122,846
Indirect and/or Overhead - Schedule 3, line 1	<u>180,349</u>
Total MOE expenditures	<u>303,195</u>

MOE Benchmark 2018-19	\$ 245,213
MOE Shortfall 2017-18	<u>7,562</u>
Total required MOE expenditures	<u>252,775</u>

Direct MOE expenditures tested	\$ 106,124
Indirect MOE expenditures tested	<u>57,503</u>
Total MOE expenditures tested	163,627

% tested of total MOE expenditures 54%

Ineligible costs identified	<u>12,413</u>
Total Allowable MOE expenditures Tested	\$ 151,214

% allowable tested of required MOE expenditure total 60%

Note:

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



David J. Shawver
Mayor

Carol Warren
Mayor Pro Tem

Gary Taylor
Council Member

Hong Alyce Van
Council Member

Rigoberto A. Ramirez
Council Member

Jarad L. Hildenbrand
City Manager

March 4, 2020

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City Stanton as of and for the fiscal year ended June 30, 2019.

Procedure #4

We haphazardly selected a sample of MOE expenditures from the City's general ledger expenditure detail. For each item selected, we performed the following:

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

Findings: MOE expenditures tested totaled \$163,627, representing approximately 54% of total MOE expenditures for the fiscal year ended June 30, 2019. We identified twelve expenditures, totaling \$12,413 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

City's Response:

Management has reviewed the types of expenditures that were disallowed by the auditors with the Public Works Department's staff who are responsible for coding vendor invoices to inform them of the appropriate division these expenditures should be coded to in the future. For fiscal year 2019-20, Finance Department staff is working with Public Works Department staff to scan the expenditure detail to reclassify similar costs that may have been incorrectly coded to the street maintenance division before the completion of the Measure M2 audit.

Board of Directors

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

Orange County Local Transportation Authority
Page Two

Sincerely,



Jarad Hildenbrand, City Manager



Michelle Bannigan, Director of Finance



Allan Rigg, Director of Public Works



March 11, 2020

To: Finance and Administration Committee

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

Subject: Orange County Local Transportation Authority Measure M2
Maintenance of Effort, Agreed-Upon Procedures Report, City of
Santa Ana, Year Ended June 30, 2019

Overview

Eide Bailly LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Maintenance of Effort expenditures by the City of Santa Ana for the fiscal year ended June 30, 2019. Based on the audit, the City of Santa Ana spent sufficient funds to meet the required minimum expenditures as outlined in a settlement agreement between the City of Santa Ana and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Santa Ana's Measure M2 eligibility.

Background

On May 13, 2019, the Orange County Transportation Authority (OCTA) Board of Directors (Board) found the City of Santa Ana (City) ineligible to receive Measure M2 revenues after an audit found that the City had not met the minimum Maintenance of Effort (MOE) requirement of the Measure M2 Ordinance. In addition, the Board directed staff to conduct audits of the City for the fiscal years (FY) ending June 30, 2019 and June 30, 2020, to assess full (100 percent) compliance with MOE requirements and to increase the MOE requirement for FY 2018-19 by the shortfall amount identified in the FY 2017-18 audit.

A written settlement agreement, dated October 22, 2019, was executed between OCTA and the City which outlined requirements for the City to re-establish

eligibility. Among other items, the settlement agreement required the City to undergo, and pay for, audits for FY 2018-19 and 2019-20, to determine compliance with MOE requirements.

Discussion

Eide Bailly LLP (auditors), tested MOE expenditures representing 100 percent of the City's minimum required expenditures and found it met the minimum required expenditures per the settlement agreement with OCTA.

Minimum required MOE expenditures totaled \$8,018,429, per the settlement agreement. The City spent a total of approximately \$10.7 million per its expenditure report and detailed general ledger. Of the amount spent, the auditors tested \$8,761,215 and, after removing ineligible and questioned expenditures, found that the City met the minimum required expenditures.

The detailed audit report can be found at Attachment A.

Summary

The auditors have completed agreed-upon procedures related to Measure M2 MOE expenditures for the City for FY ended June 30, 2019.

Attachment

- A. Measure M2 Maintenance of Effort Agreed-Upon Procedures Report
Year Ended June 30, 2019 Orange County Local Transportation
Authority – City of Santa Ana

Prepared by:



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



Measure M2 Maintenance of Effort
Agreed-Upon Procedures Report
Year Ended June 30, 2019

Orange County
Local Transportation Authority –
City of Santa Ana



**Independent Accountant's Report on Applying
Agreed-Upon Procedures — City Santa Ana, California**

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 Board of Directors of the Orange County Local Transportation Authority (OCLTA) (the specified party), on the City of Santa Ana's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2019. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the Settlement Agreement between OCTA and the City and identified the required minimum amount to be spent on MOU expenditures.

Findings: The City was required to spend \$8,018,429 in MOE expenditures during the fiscal year ended June 30, 2019, which included \$7,755,107 for 2018-19 MOE expenditures and \$263,322 of MOE shortfall from fiscal year 2017-18. No exceptions were found as a result of this procedure.

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

Findings: All MOE expenditures were tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund under the following accounting units: Roadway Markings/Signs (AU 01117625), Street Light Maintenance (AU 01117630), Street Trees (AU 01117643), Street Lights (AU 05117620), Traffic/Transportation Engineering (AU 01117620), and Graffiti Abatement Program (AU 01117642). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2019 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2019 were \$10,738,892 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$10,738,892 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

4. We tested MOE expenditures representing 100 percent of the City's minimum required expenditures, from the City's general ledger expenditure detail. For each item selected, we performed the following:
 - a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation. For indirect charges, we reviewed supporting documentation for reasonableness and appropriate methodology.
 - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$8,761,215, representing approximately 109% of the minimum required for the fiscal year ended June 30, 2019. Of the total tested, we identified the following exceptions:

- \$341,070 of expenditures were not allowable per the Ordinance, as they were not local street and road expenditures.
- \$71,864 of expenditures were questioned due to lack of support demonstrating that the expenditures were eligible local street and road expenditures.
- \$225,000 in graffiti removal expenditures were questioned after testing of the City's methodology for allocating these costs and identified a 35% error rate.

After removing \$637,934 from total MOE expenditures, the City continued to meet the minimum MOE requirement, with \$8,123,281 in expenditures tested, or 101% of the MOE benchmark. No other exceptions were found as a result of this procedure.

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

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

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


Laguna Hills, California
February 28, 2020

Orange County Local Transportation Authority
Schedule of Measure M2 Maintenance of Effort Expenditures (Unaudited)
City of Santa Ana, California
Year Ended June 30, 2019

Schedule A

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Street Lights & Traffic Signals - Schedule 3, line 13	\$ 5,369,845
Other Street Purpose Maintenance - Schedule 3, line 15	2,991,125

Construction:

Signals, Safety Devices & Street Lights - Schedule 3, line 4	1,719,634
Indirect and/or Overhead - Schedule 3, line 1	658,288
Total MOE expenditures	<u>10,738,892</u>

MOE Benchmark 2018-19	\$ 7,755,107
MOE Shortfall 2017-18	263,322
Total required MOE expenditures	<u>8,018,429</u>

Direct MOE expenditures tested	\$ 8,102,927
Indirect MOE expenditures tested	658,288
Total MOE expenditures Tested	<u>8,761,215</u>

Ineligible costs identified	341,070
Questioned costs identified (non-graffiti removal)	71,864
Questioned costs identified (graffiti removal)	225,000
Total exceptions	<u>637,934</u>
Total allowable MOE expenditures tested	<u>\$ 8,123,281</u>

% allowable tested of required MOE expenditure total	101%
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Note:

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

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



CITY OF SANTA ANA

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Santa Ana, California 92702
www.santa-ana.org

EXHIBIT 1
CITY MANAGER
Kristine Ridge
CITY ATTORNEY
Sonia R. Carvalho
CLERK OF THE COUNCIL
Daisy Gomez

February 28, 2020

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Santa Ana as of and for the fiscal year ended June 30, 2019.

Procedure #4

We tested MOE expenditures representing 100 percent of the City's minimum required expenditures, from the City's general ledger expenditure detail. For each item selected, we performed the following:

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

Findings: MOE expenditures tested totaled \$8,761,215, representing approximately 109% of the minimum required for the fiscal year ended June 30, 2019. Of the total tested, we identified the following exceptions:

- \$341,070 of expenditures were not allowable per the Ordinance, as they were not local street and road expenditures.
- \$71,864 of expenditures were questioned due to lack of support demonstrating that the expenditures were eligible local street and road expenditures.
- \$225,000 in graffiti removal expenditures were questioned after testing of the City's methodology for allocating these costs and identified a 35% error rate.

SANTA ANA CITY COUNCIL

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After removing \$637,934 from total MOE expenditures, the City continued to meet the minimum MOE requirement, with \$8,123,281 in expenditures tested, or 101% of the MOE benchmark. No other exceptions were found as a result of this procedure.

City's Response:

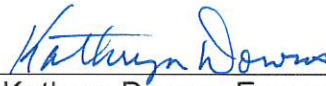
- The Public Works Agency (PWA), with the assistance of the Finance and Management Services Agency, will update its department procedures to properly identify and code Maintenance of Effort (MOE) expenditures to ensure only eligible costs associated with Right-of Way are included in the General Fund accounting units identified for MOE.
- The City will review internal charges to ensure that MOE eligible expenditures are properly supported. MOE employee labor hours will be supported by daily timesheets and/or crew logs.
- PWA will review procedures related to graffiti services and explore the possibility of adding additional categories under the graffiti tracking system to improve the allocation process for MOE eligible expenditures.

With the implementation of procedures noted above, the City will continue to meet its MOE requirements.

Sincerely,



Kristine Ridge, City Manager



Kathryn Downs, Executive Director
Finance and Management Services
Agency



Nabil Saba, Acting Executive
Director of Public Works

SANTA ANA CITY COUNCIL

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