

**SUMMARY OF AGREED-UPON PROCEDURES REPORTS
Orange County Local Transportation Authority
Measure M2 Local Fair Share for the Year Ended June 30, 2022**

City	Result	City Management Response
City of Cypress (Cypress)	Testing of direct maintenance of effort (MOE) expenditures identified five expenditures totaling \$632, that were not properly classified as street and road expenditures. Expenditures included costs of a retirement lunch for a public works employee, a grilling tools set, a phone case, a renewal fee to South Coast Air Quality Management District and membership dues to the American Public Works Association. However, after removing the amounts from total MOE expenditures, the Cypress continued to meet the minimum MOE requirement.	Management accepts the determination that these expenditures are not eligible to be classified as direct street and road expenditures.
	Cypress reported \$20,201 of indirect expenditures as direct expenditures.	Management accepts the determination that these expenditures are not eligible to be classified as direct street and road expenditures.
	Testing of indirect MOE expenditures found that Cypress applied internal service allocations based on fiscal year 2022 budget amounts for various indirect/overhead expenditures. These expenses included payroll and benefits, liability insurance, monthly print shop/mail/phone charges, monthly office rental charges, monthly tools and equipment replacement charges, monthly computer website maintenance charges, monthly vehicle replacement charges, and various other charges. For indirect costs, the methodology used to allocate the actual costs should be documented and represent a fair and reasonable allocation of costs. Cypress was unable to provide a documented methodology used to support the allocation of costs. As such, the auditors lack information necessary to confirm these costs as fair and reasonable. If unsupported indirect costs were removed from MOE, Cypress would no longer meet the benchmark requirement of \$3,607,878. The shortfall would amount to \$1,381,048.	Management acknowledges the finding and indicated it has been standard practice to allocate a variety of service costs to departments that utilize the services. Management asserts that the methodology is documented and represents a fair and reasonable allocation of costs that has been accepted by the Orange County Transportation Authority (OCTA) in the past. Despite this, management agrees that an update to its methodology is appropriate. Management requests OCTA allow the current methodology to be used until the city can complete a cost allocation study in the next 12 months.
City of Irvine (Irvine)	Irvine reported four indirect Local Fair Share (LFS) expenditures, totaling \$49,624, as direct expenditures.	Management will implement reporting of these types of expenditures in the indirect LFS costs section in future expenditure reports.
City of Laguna Beach (Laguna Beach)	Laguna Beach reported total MOE expenditures of \$7,555,442 on its expenditure report. Actual expenditures, per the general ledger, totaled \$8,269,834, a variance of \$714,392. The variance was due to an indirect cost charge that was counted twice and a prior period audit adjustment that was not accounted for.	Management has identified this discrepancy and will correct it in future reporting. In addition, management could refile the expenditure report with the adjustments.
	Laguna Beach was unable to provide a documented methodology used to support indirect allocations to the MOE totaling \$343,485. However, if these unsupported costs are removed from total MOE expenditures, Laguna Beach continues to meet its MOE benchmark.	Management will refile the expenditure report and remove overhead costs. Management will document the indirect cost allocation methodology for future submittals or exclude it from expenditure reporting.
City of Los Alamitos (Los Alamitos)	Los Alamitos reported total MOE expenditures of \$694,824 on its expenditure report. Actual expenditures, per the general ledger, totaled \$655,511, a variance of \$39,313. The variance was primarily due to an indirect cost charge that was counted twice and a prior year audit adjustment that was not accounted for.	Management will record direct and indirect expenditures separately going forward so there is a clear delineation of MOE expenditures.
	Los Alamitos reported \$47,880 in indirect costs as direct costs on its expenditure report. Los Alamitos was unable to provide a documented methodology used to support these indirect allocations to the MOE. However, after removing these costs from total MOE expenditures, Los Alamitos continues to meet its MOE benchmark.	Management has engaged a consultant to conduct a cost recovery study, including review of internal service fund cost allocation methodology. Once the study is complete, management will draft procedures to support the internal cost allocation.
	Two LFS expenditures, totaling \$72,058, related to two projects that were not listed on Los Alamitos' Seven Year Capital Improvement Program (CIP).	Management agreed and will ensure that partially completed projects, appearing on prior CIP plans will be noted as such and carried forward for inclusion in subsequent CIP plans.
City of Rancho Santa Margarita	None	None
City of San Juan Capistrano	None	None

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City of Villa Park (Villa Park)	One direct expenditure for city-wide electricity of \$1,535 for the civic center was charged to Villa Park's direct MOE expenditures. However, after removing this transaction from total MOE expenditures, Villa Park continued to meet its MOE benchmark.	Management has implemented procedures to ensure that transactions are entered and posted correctly to general ledger accounts.
	Testing of indirect MOE expenditures found that Villa Park applied 50 percent of contractor expenditures, totaling \$55,286, to indirect MOE expenditures. Villa Park could not provide a written methodology to support this allocation of costs. After removing these costs from total MOE expenditures, Villa Park continued to meet its MOE benchmark.	Management will develop a a written methodology for allocation purposes.