

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Comprehensive Transportation Funding Programs

City of Laguna Beach Community-Based Transit/Circulators Program Off-Season Weekend Shuttle Project No. 14-LBCH-CBT-3747 Operations and Maintenance

May 8, 2023



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of the operating subsidy provided under Project Number 14-LBCH-CBT-3747, City of Laguna Beach (City) Off-Season Weekend Shuttle (Project), awarded by the Orange County Local Transportation Authority (OCLTA) under the Comprehensive Transportation Funding Programs (CTFP) Community-Based Transit/Circulators Program.

Based on the audit:

- Materials and supplies charged to the Project were reasonable, allocable, and adequately supported.
- Fuel costs charged to the Project for Fiscal Year (FY) 2018-19 and FY 2019-20 were reasonable, allocable, and adequately supported. However, for FY 2017-18, the City submitted fuel costs of \$9,053 that had previously been submitted for reimbursement and submitted a duplicated materials and supplies charge of \$46 for reimbursement. In addition, an error in the allocation of monthly fuel costs for the period January through June 2018, resulted in submission of \$17,605 in excess fuel charges. The combined overcharges for fuel and materials and supplies costs incurred during the third and fourth quarters of FY 2017-2018 totaled \$26,704, of which OCLTA reimbursed \$21,363.
- The City submitted labor charges of \$35,893 that had previously been submitted for reimbursement and submitted labor charges totaling \$17,201, that were incurred beyond the approved 42-weeks of service per year limit. The combined overcharges for labor costs totaled \$53,094, of which OCLTA reimbursed \$42,475.
- The City could not identify the methodology used to allocate indirect labor charges for a transit supervisor. During the testing period, labor charges allocated totaled \$69,558, of which OCLTA reimbursed \$55,646.
- The City's accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project.
- The City established and maintained separate cost centers for the Project.
- The City submitted quarterly ridership reports to OCLTA within three months of year end, as required by the CTFP guidelines.
- The City utilized Americans with Disabilities Act (ADA)-accessible vehicles and provided transportation services to those with disabilities.

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Background

Community-Based Transit/Circulators Program (Project V)

On May 26, 2014, the OCLTA entered into Cooperative Agreement No. C-3-1846 (agreement) with the City to provide capital funding for three new trolleys and operating funds to subsidize off-season weekend trolley service and expanded summer trolley service, in an amount not to exceed \$3,612,360, for up to seven years. Under the agreement, the operating subsidy for years two through seven is no more than \$8.00 per boarding or 80 percent of annual operations and maintenance costs up to \$514,560, whichever is less. For the same period, the City agreed to provide at least 20 percent in matching funds and to cover any excess costs over the annual cap.

Costs submitted for reimbursement for operations in January 2018 through June 2020, totaled \$1,185,887, of which \$948,710 was funded by the CTFP and \$237,177 was funded by the City.

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Objectives, Scope, and Methodology

The objectives were to determine whether:

1. Costs charged to the Project were reasonable, allocable, eligible, and adequately supported.
2. The Project complied with competitive contracting requirements.
3. The accounting and cash management procedures were adequate to ensure that Project funds were used only for costs chargeable to the Project and were tracked separately within the accounting system.
4. Quarterly ridership reports were submitted to OCLTA within three months of year end as required by CTFP guidelines, and the Project met the minimum standard of boardings per revenue vehicle hour, in accordance with the agreement.
5. Records and documentation related to the Project were adequately maintained.

The scope was limited to the funding provided for Project costs incurred during the period January 2018 through June 2020. The methodology included the following procedures:

1. We reviewed the agreement with the City to obtain an understanding of the Project and CTFP requirements.
1. We obtained and reviewed contracted operator procurement files to verify evidence of competitive bid procedures.
2. We inquired of management and identified fund accounting procedures used by the City to account for Measure M2 revenues and expenditures.
3. We reviewed Project financial records to determine that proper accounting and cash management procedures were followed by the City.
4. We obtained a detailed listing of Project expenditures and haphazardly sampled 60 out of 254 invoices for materials and supplies expenditures, 10 out of 23 monthly journal entries for fuel expenditures, 7 out of 55 pay periods of trolley operation labor charges, and 7 out of 23 monthly journal entries of salary redistribution charges for review. We determined whether the expenditures were properly supported, approved, recorded, and consistent with the approved timeframe and in accordance with the agreement and CTFP requirements. Since the sample was non-statistical, conclusions are limited to the sample items tested.
5. We reviewed the quarterly ridership reports to determine whether the reports were properly supported and submitted to OCLTA within three months of year end, as required by CTFP guidelines, and met the minimum standard of boardings per revenue vehicle hour in accordance with the agreement.
6. We reviewed documentation supplied by the City evidencing that ADA-accessible vehicles are utilized and reviewed trip sheets evidencing that services are being provided to those with disabilities.

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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.

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Detailed Results

Our audit disclosed the following:

Compliance with Competitive Contracting Requirements

The City provided these transportation services, rather than utilizing a contractor.

Separate Project Fund

The City recorded operating costs of the Project in the Transit Fund (Fund 310) under Division Code 3405 and maintained manual schedules detailing fuel charges and eligible materials and supplies.

Accounting and Cash Management Procedures

The City established adequate controls to ensure that Project funds were used only for approved Project costs. Costs charged to the Project were reviewed and approved by the project manager. Payments from OCLTA were tracked separately within the accounting system.

Project Costs and City Documentation

Costs submitted for reimbursement from January 2018 through June 2020, totaled \$1,185,887, of which \$948,710 was funded by the CTFP and \$237,177 was funded by the City. Internal Audit haphazardly sampled 60 out of 254 invoices of materials and supplies expenditures, 10 out of 23 monthly journal entries of fuel expenditures, 7 out of 55 pay periods of trolley operation labor charges, and 7 out of 23 monthly journal entries of salary redistribution charges for review totaling \$327,109, and determined the following:

- Materials and supplies invoices charged to the Project were reasonable, allocable, and adequately supported.
- Fuel costs charged to the Project were reasonable, allocable, and adequately supported for FY 2018-19 and FY 2019-20. However, the City submitted fuel costs of \$9,053 that had previously been submitted for reimbursement and submitted a duplicated materials and supplies charge of \$46 for reimbursement. In addition, an error in the allocation of monthly fuel costs for the period January through June 2018, resulted in submission of \$17,605 in excess fuel charges. The combined overcharges for fuel and materials and supplies costs incurred during the third and fourth quarters of FY 2017-18 totaled \$26,704, of which OCLTA reimbursed \$21,363.

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- Labor costs charged to the Project were not always reasonable nor allocable. The City submitted labor charges of \$35,893 that had previously been submitted for reimbursement during the third and fourth quarters of FY 2017-18. The City also submitted labor charges totaling \$10,968 for FY 2018-19 and \$6,233 for FY 2019-20, that were incurred beyond the approved 42-weeks of service per year limit, as per the agreement. The combined overcharges for labor costs totaled \$53,094, of which OCLTA reimbursed \$42,475.
- The City could not identify the methodology used to allocate indirect labor charges for a transit supervisor. During the testing period, labor charges allocated totaled \$69,558, of which OCLTA reimbursed \$55,646.

Quarterly Ridership Report

We reviewed four quarterly ridership reports and determined that reports were properly supported, submitted to OCLTA within three months of year end as required by CTFP guidelines, and reflected that the minimum standard of boardings per revenue vehicle hour was met, in accordance with the agreement.

ADA Compliance

We reviewed documentation evidencing that ADA-accessible vehicles are utilized, and transportation services are provided to those with disabilities.

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Audit Comments, Recommendations, and Management Responses

Fuel Overcharges

The City submitted fuel costs of \$9,053 that had previously been submitted for reimbursement and submitted a duplicated materials and supplies charge of \$46 for reimbursement. In addition, an error in the allocation of monthly fuel costs for the period January through June 2018, resulted in submission of \$17,605 in excess fuel charges. The combined overcharges for fuel and materials and supplies costs incurred during the third and fourth quarters of FY 2017-18 totaled \$26,704, of which OCLTA reimbursed \$21,363.

Recommendation 1:

Internal Audit recommends the City refund OCLTA \$21,363 for the overcharges and implement controls to ensure the accuracy of charges prior to submission.

Management Response:

Concur. The City has already implemented additional controls to ensure that duplicate charges are not submitted for reimbursement moving forward. Staff now completes a detailed written checklist prior to submitting invoices to OCLTA to ensure all data is correct and in compliance with the terms of the agreement. In addition, staff changed the methodology used to allocate fuel expenses to improve accuracy. Fuel reimbursements are now requested based on average fuel cost and actual vehicle miles traveled. The City will work with OCLTA to provide reimbursement for any past overcharges.

Labor Overcharges

The City submitted labor charges of \$35,893 that had previously been submitted for reimbursement during the third and fourth quarters of FY 2017-18. The City also submitted labor charges totaling \$10,968 for FY 2018-19 and \$6,233 for FY 2019-20, that were incurred beyond the approved 42-weeks of service per year limit, as per the agreement. The combined overcharges for labor costs totaled \$53,094, of which OCLTA reimbursed \$42,475.

Lastly, the City could not identify the methodology used to allocate indirect labor charges for a transit supervisor. During the testing period, labor charges allocated totaled \$69,558, of which OCLTA reimbursed \$55,646.

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Recommendation 2:

Internal Audit recommends the City refund OCLTA \$42,475 for the overcharges and work with OCLTA staff to identify and apply a reasonable methodology for recalculating indirect labor charges. If a reasonable methodology and recalculation is not applied, the City should refund the full \$55,646 to OCLTA. If recalculated indirect labor charges are less than the amount originally submitted, the amount of OCLTA reimbursement exceeding the recalculated amount should be refunded to OCLTA.

Going forward, the City should implement controls to ensure the accuracy of charges prior to submission and should retain evidence of the allocation methodology used for deriving indirect costs.

Management Response:

Concur. The City has already implemented additional controls to ensure that duplicate charges are not submitted for reimbursement moving forward, as described above. The City will work with OCLTA to provide reimbursement for any past overcharges. The City also changed the methodology for calculating indirect labor charges in the Transit division to ensure greater accuracy. The City's "salaries redistributed" calculation is now based on the relative percentage of vehicle service hours for the Project V-funded trolley service vs. the City's total transit service hours. City staff will work with OCLTA to recalculate indirect labor costs using the revised methodology.