



**November 15, 2023**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

**Subject:** Fiscal Year 2022-23 Audited Financial Statements and Independent Auditor's Reports on Internal Control Over Financial Reporting

**Overview**

The Orange County Transportation Authority is required to obtain an independent auditor's opinion on various financial statements and schedules. Crowe LLP, an independent accounting firm, has completed its annual audit of the Orange County Transportation Authority for fiscal year 2022-23. In addition, a report has been issued on the results of additional analysis performed by Crowe LLP, to assist management in determining compliance with certain state requirements.

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

**Recommendations**

- A. Receive and file the fiscal year 2022-23 audited financial statements and independent auditor's report on internal control over financial reporting as information items.
- B. Direct staff to implement auditor recommendations related to findings over internal controls.

**Background**

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

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

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

### ***Discussion***

Crowe has completed its annual audit of OCTA's financial records and systems and has issued its opinion on OCTA's financial statements for the FY ended June 30, 2023. The auditors have issued an unmodified (also known as "clean") opinion on the financial statements, indicating that the statements present fairly, in all material respects, the financial position of OCTA at June 30, 2023, and the results of its operations and cash flows of the proprietary funds for the FY then ended (Attachment A). Fund financial statements for the Orange County Local Transportation Authority as a component unit of OCTA (Attachment B), the 91 Express Lanes (91 EL) (Attachment C), the Local Transportation Fund (Attachment D), and the State Transit Assistance Fund (Attachment E) were also prepared and an unmodified opinion on each fund's financial statements was issued.

The ACFR will be submitted to the Government Finance Officers Association (GFOA) for consideration of the Certificate for Excellence in Financial Reporting for FY 2022-23. The GFOA awards certificates only to those governments whose annual financial reports are deemed in conformance with the highest standards of public financial reporting. OCTA has been awarded the GFOA certificate for each year of its existence, commencing with the FY ended June 30, 1992. Such recognition has a positive effect on OCTA's ability to borrow at favorable interest rates. The ACFR is a useful tool in business dealings with outside organizations. The 91 EL Fund financial statements will be forwarded to rating agencies, investors, and insurance companies.

In connection with the audit of these financial statements, Crowe has issued an auditor's report on internal control over financial reporting identifying one deficiency as defined by the American Institute of Certified Public Accountants, Statement on Auditing Standards Number 115. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Management has responded to this recommendation.

Crowe reported a deficiency related to Deferred Compensation Contribution Calculation. Management noted that contributions for the OCTA 401(a) and 457(b) deferred compensation plans were being incorrectly calculated due to an issue with the initial set up of the Lawson Human Resource/Payroll system in 2004. The errors were related to proper identification of eligible or included earnings in the calculation of employees' 457(b) plan contributions and/or with the employer match contributions in the 401(a) plans. Other errors identified were related to the occasional resetting of plan dates and miscalculated contributions on final paychecks. Management made a payment in FY 2023-24 to correct the approximate \$7.4 million in missed contributions and related interest. Crowe found that management did not have effective controls in place over deferred compensation plan contribution calculation inputs or outputs.

Their recommendation is to formalize a periodic review of contribution calculations and plan documents to ensure plan changes (if any) are appropriately reflected within the calculation. Management agrees with the recommendation and has implemented several management controls to identify errors in a timely manner.

The auditor's report on internal control over financial reporting for FY 2022-23 is included herewith as Attachment F.

### ***Summary***

Staff has prepared OCTA's ACFR and various stand-alone Fund Financial Statements for the FY ended June 30, 2023. Crowe has audited these financial statements and schedules and has issued unmodified opinions as to fair presentation of the financial statements and schedules.

In connection with the annual audit of OCTA's financial statements for FY 2022-23, Crowe has issued independent auditor's report on internal control over financial reporting, which identified one deficiency along with a recommendation for improvement to internal controls. Management has responded that this deficiency will be addressed.

***Attachments***

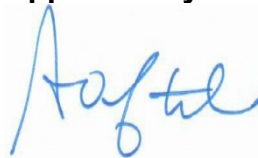
- A. Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2023
- B. Orange County Local Transportation Authority (A Component Unit of the Orange County Transportation Authority) Annual Financial and Compliance Report Year Ended June 30, 2023
- C. 91 Express Lanes Fund (An Enterprise Fund of the Orange County Transportation Authority) Financial Statements for the Year Ended June 30, 2023
- D. Orange County Transportation Authority Local Transportation Fund Financial Statements Year ended June 30, 2023
- E. Orange County Transportation Authority State Transit Assistance Fund Financial Statements Year ended June 30, 2023
- F. Crowe LLP's Independent Auditor's Report

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