



March 22, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Orange County Local Transportation Authority Measure M2
Agreed-Upon Procedures Reports, Year Ended June 30, 2016

Overview

Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has completed agreed-upon procedures related to Measure M2 Senior Non-Emergency Medical Transportation Program funds provided to the County of Orange, Local Fair Share funds provided to nine cities, and Senior Mobility Program funds provided to four cities, for the fiscal year ended June 30, 2016. Observations were made relating to the classification of Maintenance of Effort and Local Fair Share expenditures, errors in reporting of amounts on required activity reports and annual expenditure reports, failure to allocate interest income, senior mobility program trips, inclusion of projects in city Capital Improvement Program plans, and service contractor procurement.

Recommendations

- A. Direct staff to monitor implementation of recommendations by the County of Orange and all cities.
- B. Receive and file the Orange County Local Transportation Authority Measure M2 Senior Non-Emergency Medical Transportation Program Agreed-Upon Procedures Report Fiscal Year Ended June 30, 2016, the Orange County Local Transportation Authority Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2016, and the Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2016, as information items.

Background

Annually, the Audit Subcommittee (Subcommittee) of the Taxpayer Oversight Committee selects a sample of local jurisdictions receiving Measure M2 (M2) funding for review to determine the local jurisdictions' level of compliance with provisions of the M2 Ordinance (Ordinance). For the fiscal year (FY) ended June 30, 2016, the Subcommittee selected the County of Orange (County) for review of the Senior Non-Emergency Medical Transportation (SNEMT) Program funding, nine cities for review of Local Fair Share (LFS) program funding, and four cities for review of Senior Mobility Program (SMP) funding. The agreed-upon procedures applied for these reviews were approved by the Subcommittee.

The SNEMT program supplements existing countywide services that are funded with Tobacco Settlement Revenue (TSR). Since the SNEMT program is intended to supplement, not replace, existing TSR expenditures, the County is required to allocate the same percentage of TSR funding that was allocated in November 2006. A cooperative agreement between the County and the Orange County Local Transportation Authority (OCLTA) outlines program requirements. The County is required to submit quarterly SNEMT activity reports within 45 days of quarter end.

The LFS program is a formula-based allocation provided to eligible jurisdictions for use on allowable transportation planning and implementation activities. Since the LFS program is intended to augment, not replace, existing transportation expenditures, each jurisdiction is required to maintain a minimum level of local street and roads expenditures to conform to a defined maintenance of effort (MOE) requirement.

The SMP funds local community transportation services for seniors. This program provides 80 percent of the funding allocation, and participating local jurisdictions provide a 20 percent match. A cooperative agreement is executed between the local jurisdiction and OCLTA to outline requirements of the program and required matching funds. Cities are required to submit monthly SMP activity reports within 30 days of month end.

All M2 revenues, interest earned on net revenues, expenditures, and expenditures of earned interest are required to be reflected, along with a certification by the finance director, on an annual M2 Expenditure Report that must be adopted and filed with OCLTA within six months of fiscal year end.

Discussion

Vavrinek, Trine, Day & Company, LLP, (auditors) conducted the agreed-upon procedures, including site visits to each of the selected cities, and conducted

interviews of city finance and program-related staff. Procedures included sample testing of expenditures for compliance with related program requirements, review of indirect costs for adequate support and reasonableness, testing to ensure allocation of interest, and testing of activity reports and annual expenditure reports for accuracy.

Agreed-Upon Procedures: SNEMT Program Funds

The auditors identified omissions in the annual M2 Expenditure Report filed by the County. The M2 Expenditure Report did not include \$233,672 in administrative charges or any of the indirect charges to the SNEMT program. In addition, the fourth quarter SNEMT activity report under-reported expenditures by \$898,245. The auditors also reported that the County had not allocated interest to the fund, as required. The County responded that administrative and indirect cost charges will be reported with an explanation on the expenditure report for June 30, 2017, and procedures will be updated to ensure inclusion of these costs on all reports going forward. With regard to the quarterly activity report, the County indicated that the variance resulted from the timing of payments that were recorded in the general ledger after preparation of the report. The County will revise procedures to include accrual amounts in the fourth quarter summary reports; however, the County advised there will still be some differences. Finally, the County responded that interest revenue and costs will be tracked and allocated to the fund going forward.

The Orange County Local Transportation Authority Measure M2 Senior Non-Emergency Medical Transportation Program Agreed-Upon Procedures Report Year Ended June 30, 2016, can be found at Attachment A.

Agreed-Upon Procedures: LFS Program Funds

The auditors examined the cities of Fountain Valley, Fullerton, Laguna Niguel, Laguna Woods, Lake Forest, Newport Beach, Placentia, San Juan Capistrano, and Yorba Linda. At seven cities, the auditors identified expenditures not properly classified as MOE expenditures; however, after removing the amounts from MOE, all of the cities still met the minimum MOE requirement. Three cities failed to report indirect costs on their annual M2 Expenditure Reports, one city misreported LFS fund balance, and another city reported budget, rather than actual amounts, on the M2 Expenditure Report. Finally, one city did not include certain pavement management plan projects for which LFS funds were expended, in their Capital Improvement Project Plan, as required. Finally, a LFS expenditure of \$29 was found to be improperly classified.

A summary of all findings, by city, can be found at Attachment B and the detailed reports can be found at Attachment C.

Agreed-Upon Procedures: SMP Funds

The auditors examined the cities of Fullerton, Mission Viejo, Newport Beach, and Yorba Linda. Reporting errors in monthly activity reports were identified at two cities, and another city had not reflected fare revenue and other match expenditures in its general ledger system. The City of Fullerton (Fullerton) funded three trips to out-of-county destinations, contrary to revised guidelines for SMP trips. Also, Fullerton had not allocated interest to the funds and did not have evidence of insurance coverage on file for one of its SMP vendors. The City of Mission Viejo utilized two SMP vendors acquired through competitive bid in 2003 and 2006, and continued to extend those contracts, rather than conduct another competitive procurement for the services. The City of Yorba Linda (Yorba Linda) over-allocated interest to the SMP fund in error. Also, Yorba Linda revised its SMP program from allowing participants 55 and older to allowing participants 60 and older, in order to align with the ordinance.

A summary of all findings, by city, can be found at Attachment B and the detailed reports can be found at Attachment D.

Summary

The auditors have completed agreed-upon procedures related to Measure M2 SNET, LFS, and SMP funds provided to the County and ten cities for the FY ended June 30, 2016.

Attachments

- A. Orange County Local Transportation Authority Measure M2 Senior Non-Emergency Medical Transportation Program Agreed Upon Procedures Report Year Ended June 30, 2016
- B. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority
- C. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2016
- D. Orange County Local Transportation Authority Senior Mobility Program Agreed-Upon Procedures Report Year Ended June 30, 2016

Prepared by:



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