



March 28, 2018

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
Agreed-Upon Procedures Reports, Year Ended June 30, 2017

Overview

Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Local Fair Share funds provided to eight cities, and Senior Mobility Program funds provided to six cities, for the fiscal year ended June 30, 2017. Observations were made relating to the classification of Maintenance of Effort expenditures, indirect charges not properly supported, errors in reporting of amounts on required activity reports and annual expenditure reports, and service contractor procurement.

Recommendations

- A. Direct staff to monitor implementation of recommendations by cities.
- B. Receive and file the Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2017, and the Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2017, as information items.

Background

Annually, the Audit Subcommittee (Subcommittee) of the Taxpayers 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. For the fiscal year (FY) ended June 30, 2017, the Subcommittee selected eight cities for review of Local Fair Share (LFS) program funding, and six cities for review of Senior Mobility Program (SMP)

funding. The agreed-upon procedures applied for these reviews were approved by the Subcommittee.

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 the Orange County Local Transportation Authority (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: LFS Program Funds

The auditors examined the cities of Cypress, Irvine, Laguna Beach, Los Alamitos, Rancho Santa Margarita, San Clemente, San Juan Capistrano, and Villa Park. At five cities, the auditors identified expenditures not properly classified as MOE expenditures; however, after removing the amounts from MOE, the cities still met their respective MOE requirements. The cities responded that steps would be taken to ensure proper classification of costs going forward. The auditors also identified \$5,886 in indirect costs charged to the LFS fund by the City of San Clemente (San Clemente). The indirect charges were based on an overhead analysis performed in 2008. San Clemente indicated that an updated

allocation recovery percentage will be developed. Finally, the auditors identified various errors in amounts reported on annual expenditure reports by four cities. The cities responded with actions to be taken to address these issues going forward.

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

Agreed-Upon Procedures: SMP Funds

The auditors examined the cities of Buena Park, Costa Mesa, Laguna Niguel, Laguna Woods, San Clemente, and San Juan Capistrano. Reporting errors in monthly activity reports were identified at five cities, and two of the cities had not submitted reports within 30 days as required. The cities responded that amounts will be properly reported and submitted timely going forward. The City of Costa Mesa (Costa Mesa) did not have documentation to evidence that their transportation service provider had been competitively procured, as required. Also, auditors found that the service provider charged nine service hours per day, regardless of actual vehicle service hours. Costa Mesa responded that a competitive procurement has since been conducted and a new contract, that defines service hours and billing, is in place. At San Clemente, auditors found that the contract with the transportation service provider had been renewed for five years beyond what the original contract allowed. San Clemente responded that a new procurement would be conducted. The auditors also found that the service provider did not verify participant ages to ensure eligibility. San Clemente responded that there had been staff turnover and a new individual will be trained to oversee this program.

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

Summary

The auditors have completed agreed-upon procedures related to M2 LFS and SMP funds provided to fourteen cities for the FY ended June 30, 2017.

Attachments

- A. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Local Fair Share for the Year Ended June 30, 2017
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2017
- C. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Senior Mobility Program for the Year Ended June 30, 2017
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2017

Prepared by:



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