

SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS
Orange County Local Transportation Authority
Measure M2 Local Fair Share for the Year Ended June 30, 2018

City	Result	City Management Response
Aliso Viejo	Aliso Viejo allocated interest based on the net cash balance of three different Measure M funds. Since one fund was overdrawn, the Local Fair Share (LFS) fund was not allocated its appropriate share of interest earnings.	Aliso Viejo will begin allocating interest to each of the Measure M funds separately; in addition, Aliso Viejo will recalculate the interest previously allocated and add it to the current year's interest earnings.
Buena Park	Testing of Maintenance of Effort (MOE) expenditures identified two expenditures totalling \$13,732 that were not properly classified as street and road expenditures. However after removing the amounts from total MOE expenditures, Buena Park continued to meet the MOE requirement.	Buena Park will instruct staff to no longer include Metrolink maintenance costs in the reporting of MOE expenditures.
	Buena Park included "Administration" on the list of projects funded by LFS on Schedule 4 of the Expenditure Report. Administration is not a project listed in Buena Park's Seven-Year Capital Improvement Project (CIP) plan.	Buena Park will evaluate methods to allocate indirect administrative expenditures to specific M2 projects going forward.
Costa Mesa	Testing of MOE expenditures identified one expenditure for \$9,700 that was not properly classified as a street and road expenditure. However after removing the amount from total MOE expenditures, Costa Mesa continued to meet the MOE requirement.	Costa Mesa will exclude this type of expenditure when calculating MOE going forward.
	Costa Mesa recorded expenditures to Traffic Data Counts as indirect charges rather than direct charges. Traffic Data Counts is not a project listed on Costa Mesa's CIP plan.	Going forward, Costa Mesa will account for this type of expenditure under the appropriate projects from the CIP plan.
Dana Point	Dana Point reported MOE expenditures of \$2,546,144 on its Expenditure Report; actual MOE expenditures totalled \$2,553,004, a difference of \$6,860.	Dana Point has amended its reconciliation and review procedures for the Expenditure Report.
	Dana Point reported a LFS fund balance of \$4,942 on its Expenditure Report; the actual fund balance was \$93,534, a difference of \$88,592.	Dana Point will submit a revised Expenditure Report.
	Dana Point reported LFS expenditures of \$579,268 on its Expenditure Report; actual LFS expenditures totalled \$541,600, a difference of \$37,668.	Dana Point will submit a revised Expenditure Report.
La Habra	La Habra reported MOE expenditures of \$2,501,291 on its Expenditure Report; actual MOE expenditures totalled \$2,583,608, a difference of \$82,317.	La Habra will ensure that future reports reflect actual MOE expenditures, rather than budgeted amounts. A revised Expenditure Report will be prepared and submitted.
	Testing of MOE expenditures identified two expenditures totalling \$2,812 that were not properly classified as street and road expenditures. In addition, La Habra allocated 19.95% of total park maintenance costs, totalling \$78,328, but could not demonstrate the basis for the allocation. However, after removing the amounts from total MOE expenditures, La Habra continued to meet the MOE requirement.	In the future, La Habra will exclude Parks and Landscaping expenditures from MOE, except for expenditures that are specifically related to parkway and median maintenance.
	La Habra reported \$357,494 in indirect costs on its Expenditure Report; actual indirect costs totalled \$602,072, a difference of \$244,578.	In the future, La Habra will identify and report indirect costs properly. A revised Expenditure Report will be prepared and submitted.

SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS
Orange County Local Transportation Authority
Measure M2 Local Fair Share for the Year Ended June 30, 2018

City	Result	City Management Response
	La Habra listed two LFS-funded projects on its Expenditure Report which were not listed in its CIP plan.	La Habra will ensure the accuracy of future reporting by cross-referencing the LFS projects.
Orange	Testing of MOE expenditures identified five transactions totalling \$17,476, that resulted from a cost allocation methodology that Orange was unable to provide support for. However, after removing the amounts from total MOE expenditures, Orange continued to meet the MOE requirement.	Orange has implemented a new method for cost allocation beginning with fiscal year 2019, and will maintain documentation to support future allocations.
	Orange reported indirect costs of \$278,879 on its Expenditure Report; however, inspection of the general ledger identified additional indirect charges totalling \$110,618.	Orange has implemented a new method for cost allocation beginning with fiscal year 2019, and will maintain documentation to support future allocations.
San Clemente	Testing of MOE expenditures, identified one expenditure for \$3,885 that was not properly classified as a street and road expenditure. However, after removing the amount from total MOE expenditures, San Clemente continued to meet the MOE requirement.	San Clemente erroneously charged cleaning and removal of debris from a canyon to the MOE.
	Testing of LFS expenditures identified three expenditures totalling \$5,396 related to payroll overhead costs. The allocation is based on an analysis performed in 2008. During the audit of LFS for Fiscal Year 2017, San Clemente was advised that an updated cost study was required to support these allocations, and San Clemente responded that its cost allocation percentages would be updated; however, charges for Fiscal Year 2018 were based on the same, outdated cost study.	San Clemente is in the process of submitting a Request for Proposal (RFP) for an external review on overhead costs. The RFP will be issued and the study completed by December 2019. A prior period entry was posted to transfer the \$20,500 out of this fund.
	San Clemente reported indirect charges of \$0 on its Expenditure Report; actual indirect charges totalled \$20,500.	A prior period entry was posted to transfer the \$20,500 out of this fund.
Santa Ana	Testing of MOE expenditures identified \$715,626 in indirect costs which were not supported by a documented methodology. If these charges were removed, Santa Ana would not meet the minimum MOE requirement.	These expenditures represent Internal Service Fund charges. The methodology was initially developed based on a review of services and associated costs; however, due to staff changes and records retention, Santa Ana is unable to locate supporting documentation. Santa Ana will engage a third party to develop and implement an updated allocation for internal service charges. In addition, subsequent to filing year end reports, Santa Ana became aware of \$1,161,335 in Graffiti Abatement expenditures that Santa Ana believes to be eligible MOE expenditures but were not included in MOE. The addition of these expenditures would reflect Santa Ana's continued compliance in meeting MOE requirements.
	Santa Ana reported indirect charges of \$0 on its Expenditure Report; actual indirect charges totalled \$1,456,821.	Santa Ana will properly report indirect charges effective with the Fiscal Year 2018-19.
	Santa Ana reported a LFS fund balance of \$9,747,041 on its Expenditure Report; however, the actual fund balance was \$9,615,851, a difference of \$131,190.	The fund balance of \$9,615,851 did not include \$220,775 in interest; therefore, the fund balance should be \$9,836,626, which results in a difference of \$89,585. This difference is an unidentified variance carried over from prior fiscal years. Due to staff turnover and records retention, Santa Ana is unable to find supporting documentation for the variance. Santa Ana will continue to review and improve controls to ensure accurate financial reporting.

SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS
Orange County Local Transportation Authority
Measure M2 Local Fair Share for the Year Ended June 30, 2018

City	Result	City Management Response
Seal Beach	Testing of MOE expenditures identified six expenditures totalling \$31,499 that were not properly classified as street and road expenditures. In addition, review of the general ledger detail report identified nine additional expenditures for \$730 that were not properly classified as street and road expenditures. However, after removing the amounts from total MOE expenditures, Seal Beach continued to meet the MOE requirement.	Seal Beach will develop procedures to ensure that only allowable MOE expenditures are included. The procedures will include a mid-year review and status report to ensure Seal Beach is on target regarding projected MOE and that invoices have been properly coded.
	Seal Beach reported a LFS fund balance of \$1,270,756 on its Expenditure Report; however, the actual fund balance was \$1,192,815, a difference of \$77,941. The difference was due to Seal Beach not properly calculating the ending fund balance and subsequently identifying LFS expenditures not included in previously submitted Expenditure Reports.	Seal Beach now has a better understanding of the reporting dynamics and have already begun procedural changes that will ensure correct fund balance reporting going forward.
	Seal Beach reported LFS expenditures of \$370,191 on Schedule 2 of its Expenditure Report; however, actual LFS expenditures totalled \$369,283, a difference of \$908. Schedule 4 of the Expenditure Report reflected the correct figure.	Seal Beach has submitted a revised Expenditure Report. Additional review will be performed prior to report submission to help ensure accuracy going forward.
	Testing identified five expenditures, totalling \$24,125, that were not tied directly to a CIP project. In addition, Seal Beach included "Street Maintenance Overhead and Administration" and "Battery Back-up Project" on the list of projects funded by LFS on Schedule 4 of the Expenditure Report; however, these are not projects included in their Seven-Year CIP plan.	Seal Beach will thoroughly review the CIP plan during the budget process each year to ensure that each project listed conforms to the Expenditure Report.
	Testing identified \$5,540 of indirect charges relating to payroll costs that were not directly related to an approved project and for which there was no basis for the percentage allocated.	Seal Beach will develop procedures to ensure that indirect costs are only charged to eligible capital projects listed in the CIP plan.
Stanton	Testing of MOE expenditures identified five expenditures totalling \$8,593, that were not properly classified as street and road expenditures. After removing the amounts from total MOE expenditures, Stanton did not meet the minimum MOE requirement.	Stanton has identified other local street and road expenditures in the amount of \$13,482.89 that were not recorded as MOE expenditures that we believe will qualify as local street and road expenditures. This amount exceeds the disallowed costs. Stanton also has over \$25,000 in street and road expenditures charged to a Lighting and Landscaping District fund that could be transferred, if necessary. Alternatively, Stanton would be willing to transfer from the General Fund or overspend MOE in the next year. Stanton has already revised internal controls to ensure this situation will not reoccur.
Westminster	Testing of MOE expenditures identified six expenditures totalling \$160,378, that were not properly classified as street and road expenditures. After removing the amount from total MOE expenditures, Westminster continued to meet the minimum MOE requirement.	In the future, Westminster will review expenditures to ensure they are MOE eligible.
	Westminster reported \$0 in indirect costs on its Expenditure Report; however indirect costs totalling \$913,575 were identified.	Indirect charges will be reflected on the indirect/overhead field in the future.

SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS
Orange County Local Transportation Authority
Measure M2 Local Fair Share for the Year Ended June 30, 2018

City	Result	City Management Response
	Four projects listed on Schedule 4 of Westminster's Expenditure Report were not listed in Westminster's CIP plan.	Westminster will ensure that projects listed on Schedule 4 are included in the CIP plan.