



**March 27, 2019**

**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, 2018

### **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 eleven cities, and Senior Mobility Program funds provided to four cities, for the fiscal year ended June 30, 2018. Local Fair Share program reports include observations of ineligible Maintenance of Effort expenditures, allocation of unsupported indirect charges, reporting errors, insufficient interest allocation, and funded projects not reflected in Seven-Year Capital Improvement Program plans. Senior Mobility Program audits include observations relating to late submission of monthly reports, reporting errors, lack of evidence of competitive procurement of third-party vendors, missing contract provisions, and participant and trip eligibility.

### **Recommendations**

- A. Direct staff to monitor implementation of recommendations by cities.
- B. Direct staff to review observations with legal counsel and develop recommendations for Board of Directors' consideration related to reviewed cities' compliance with the Measure M2 Ordinance and Eligibility Guidelines.

### **Background**

Annually, the Audit Subcommittee (Subcommittee) of the Taxpayers Oversight Committee selects a sample of local jurisdictions receiving Measure M2 (M2) funding for audit to determine the local jurisdictions' level of compliance with provisions of the M2 Ordinance. For the fiscal year (FY) ended June 30, 2018,

the Subcommittee selected the eleven 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 (AUP's) 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. Cities are required to submit copies of their Seven-Year Capital Improvement Plan (CIP), reflecting projects that will be funded with LFS.

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. Seniors must be age 60 or older to be eligible to participate in the program. A cooperative agreement, along with a written Service Plan, is executed between the local jurisdiction and the Orange County Local Transportation Authority (OCLTA) to outline requirements of the program and to describe services to be provided. 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 on an annual Expenditure Report. The Expenditure Report requires certification by the respective city's finance director and must be adopted by the city council and filed with OCLTA within six months of FY end.

### ***Discussion***

Vavrinek, Trine, Day & Company, LLP, (auditors) made site visits to each of the selected cities, conducted interviews of city finance and program-related staff, and applied the AUP's, including testing of expenditures for compliance with program requirements, review of indirect costs for adequate support and reasonableness, testing to ensure allocation of interest, and testing of annual Expenditure Reports for accuracy.

### **Agreed-Upon Procedures: LFS Program Funds**

The auditors examined the cities of Aliso Viejo, Buena Park, Costa Mesa, Dana Point, La Habra, Orange, San Clemente, Santa Ana, Seal Beach, Stanton, and Westminster. At nine cities, the auditors identified expenditures that were not properly classified as MOE expenditures or were not supported by a

documented allocation methodology, as required. Seven of the cities continued to meet the minimum MOE requirement after removal of these amounts. However, after removal of ineligible amounts, the City of Stanton no longer met the minimum MOE requirement. Removal of unsupported indirect charges by the City of Santa Ana also results in a failure to meet the minimum MOE requirement.

In total, four cities lacked adequate documentation to support indirect costs allocated to MOE and/or LFS, including the City of San Clemente (San Clemente), which was audited for the FY ended 2017, and advised of the same issue. San Clemente had responded that their cost allocation plan, which was outdated, would be updated.

Auditors identified reporting errors on Expenditure Reports submitted by seven of the cities and identified projects not listed in Seven-Year CIPs provided by five cities. Also, one city did not allocate all interest due to the LFS fund.

A summary of all findings and city management responses can be found at Attachment A, and the detailed reports, along with written management letters, can be found at Attachment B.

#### Agreed-Upon Procedures: SMP Funds

The auditors examined the cities of Dana Point, La Habra, Lake Forest, and San Clemente. No observations resulted from the audit of the City of Lake Forest.

Reporting errors and late submission of required reports were identified at three cities, as well as a lack of documentation to evidence that the transportation service provider was competitively procured. Service provider contracts at two cities also lacked a required provision to ensure wheelchair accessibility. Auditors observed that the City of Dana Point did not have contract provisions or monitoring controls in place to ensure verification of participant eligibility. Auditors also identified one trip provided by San Clemente which was not eligible according to their Service Plan.

A summary of all findings and city management responses can be found at Attachment C, and the detailed reports, along with written management letters, can be found at Attachment D.

#### ***Summary***

The auditors have completed agreed-upon procedures related to M2 LFS and SMP funds provided to twelve cities for the FY ended June 30, 2018.

***Attachments***

- A. 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
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2018
- C. Summary of Results of Agreed-Upon Procedures Audits Orange County Local Transportation Authority Measure M2 Senior Mobility Program for the Year Ended June 30, 2018
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2018

**Prepared by:**

A handwritten signature in dark ink, appearing to read 'Janet Sutter', with a long horizontal flourish extending to the right.

Janet Sutter  
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