



April 6, 2020

To: Regional Planning and Highways Committee
From: Darrell E. Johnson, Chief Executive Officer 
Subject: Measure M2 Eligibility for the City of Santa Ana

Overview

In 2019, the Orange County Transportation Authority conducted an audit of the City of Santa Ana's Measure M2-related expenditures for fiscal year 2017-18. The audit concluded that the City of Santa Ana had not invested sufficient discretionary funds on streets and roads purposes to meet Measure M2 maintenance of effort requirements. As a result, the Orange County Transportation Authority Board of Directors found the City of Santa Ana ineligible to receive Measure M2 net revenues. An audit of the City of Santa Ana's Measure M2-related expenditures for fiscal year 2018-19 has now been completed, and the Orange County Transportation Authority Board of Directors is being asked to consider reinstating the City of Santa Ana's Measure M2 eligibility status, based on the audit results.

Recommendations

- A. Approve the City of Santa Ana as eligible to receive Measure M2 net revenues.
- B. Direct staff to reinitiate payments to the City of Santa Ana for Measure M2 net revenues, which were held during its period of ineligibility (less fiscal year 2018-19 audit costs).

Background

In June 2017, the City of Santa Ana (City) provided required Measure M2 (M2) maintenance of effort (MOE) certification to the Orange County Transportation Authority (OCTA) as part of its M2 eligibility verification package submittal. The certification stated that the City had budgeted sufficient expenditures for fiscal year (FY) 2017-18, consistent with the following M2 requirement:

“The Authority shall not allocate any net revenues to any jurisdiction for any fiscal year until that jurisdiction has certified to the Authority that it has included in its budget for that fiscal year an amount of local discretionary funds for streets and roads purposes, at least equal to the level of its maintenance of effort requirement.”

Per M2 MOE requirements, the City was required to spend \$7,755,107 using discretionary revenues toward streets and roads-related costs. According to the expenditure report that was submitted, the City spent \$8,207,411. However, an OCTA audit could not verify the City’s indirect cost methodology for ten transactions, totaling \$715,626, in order to confirm that those costs were eligible M2 MOE expenditures.

The City, in its response to the audit, agreed that it could not produce its original allocation methodology that was being applied and indicated that it would engage a third party to implement updated internal service charges. After deducting these unverifiable expenditures, the City did not meet its M2 MOE requirement for FY 2017-18 and, consistent with M2 Ordinance requirements, the OCTA Board of Directors (Board) found the City ineligible to receive M2 net revenues. As part of that action, the OCTA Board also specified that the following actions be completed by OCTA staff in order to implement its finding of ineligibility.

- Suspend payments to the City of M2 net revenues;
- Deduct FY 2018-19 audit costs from any future M2 payments to the City;
- Increase the City’s MOE requirement for FY 2018-19 by the amount that the City fell short in meeting the required MOE for FY 2017-18, as identified in the FY 2017-18 audit; and
- Execute a settlement agreement with the City to correct and remedy the issues identified by OCTA’s audit of the City.

Discussion

Throughout fall 2019 and early 2020, OCTA worked with City staff to implement and address these actions. The OCTA Internal Auditor conducted an audit of the City’s M2 MOE-related expenditures for FY 2018-19 in order to verify that its original findings had been addressed and remedied. This audit found that the City had met its FY 2018-19 MOE requirement (which included additional MOE expenditures to make up for the shortfall identified in OCTA’s original FY 2017-18 audit). These findings were presented to the Finance and Administration Committee on March 11, 2020 and Board on March 23, 2020. The settlement agreement includes a requirement for audit of FY 19-2020 as well, which will be completed in early 2021.

Other Eligibility Requirements

M2 includes 13 eligibility requirements that all 35 local agencies are required to comply with in order to receive M2 net revenues and agencies must submit these required documents by June 30. The City submitted all required M2 eligibility verification documents prior to June 30, 2019.

These documents were received, reviewed, and vetted by OCTA staff, the Taxpayer Oversight Committee's (TOC) Annual Eligibility Review Subcommittee, and the full TOC. In December, M2 eligibility findings for FY 2018-19 were advanced to the OCTA Regional Planning and Highways Committee and Board for consideration and approval. However, due to the City's ongoing ineligibility issue, the Board elected to only receive and file the City's M2 eligibility verification documents until the resolution of the prior year's MOE shortcomings had been remedied.

Now that an audit of the City's M2 MOE-related expenditures for FY 2018-19 has been completed and OCTA's Internal Auditor has found that the City met its FY 2018-19 MOE requirement, it is recommended that the City now be found eligible to again receive M2 net revenues and that M2 funds that were being held be released back to the City (less FY 2018-19 audit costs). These actions, if approved by the Board, would conclude the City's period of M2 ineligibility and would also place the City back on an eligibility review cycle consistent with all other eligible Orange County local agencies.

Summary

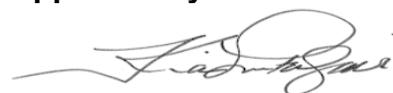
An audit of the City's M2 MOE-related expenditures for FY 2018-19 has been conducted by OCTA's Internal Auditor. Based upon findings from this audit, the City is recommended to be reinstated as eligible to receive M2 net revenues and M2 funds (which were held during the City's ineligibility period and are now recommended for release back to the City). If approved by the Board, these actions would conclude the City's period of M2 ineligibility and place the City back on an eligibility cycle consistent with other eligible local agencies.

Attachment

None.

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