



**April 22, 2020**

**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, 2019

### **Overview**

Crowe LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Local Fair Share funds provided to nine cities and the County of Orange, and Senior Mobility Program funds provided to five cities, for the fiscal year ended June 30, 2019. Local Fair Share program reports include observations of ineligible maintenance of effort expenditures, misreporting of indirect cost charges, and misreporting of fund balance. Senior Mobility Program reports include observations relating to late submission of monthly reports, lack of evidence of competitive procurement of third-party vendors, missing contract provisions, and inadequate tracking of ineligible trips.

### **Recommendations**

- A. Direct staff to monitor implementation of corrective actions proposed by the cities.
- B. Direct staff to review observations and develop recommendations, as appropriate, for Board of Directors' consideration related to the City of Anaheim's 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, 2019,

the Subcommittee selected nine cities and the County of Orange for review of Local Fair Share (LFS) program funding, and five cities for review of Senior Mobility Program (SMP) funding. The agreed-upon procedures (AUP) 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 road expenditures to conform to a defined maintenance of effort (MOE) requirement. Cities are required to submit copies of their Seven-Year Capital Improvement Plan, reflecting projects that will be funded with LFS.

The SMP funds local community transportation services for seniors. This program provides up to 80 percent of the funding, 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***

Crowe LLP (auditors), conducted interviews of city finance and program-related staff, and applied the AUP, 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 Anaheim, Dana Point, Garden Grove, Huntington Beach, La Habra, Mission Viejo, San Clemente, Seal Beach, and Westminster. The auditors also examined the County of Orange. No observations resulted from the audits of the City of Garden Grove or the County of Orange.

At two cities, the auditors identified expenditures that were not properly classified as MOE expenditures. The City of San Clemente continued to meet the minimum MOE requirement after removal of the ineligible amounts. However, after removal of ineligible amounts for the City of Anaheim (Anaheim), the city no longer met the minimum MOE requirement. Anaheim staff responded that they believed the expenditures, which are allowable costs against LFS, would also qualify as MOE. However, guidelines require MOE expenditures comply with California State Constitution Article XIX street and road expenditures, while LFS expenditures may be used for other transportation needs. In addition, Anaheim noted that they recorded allowable MOE expenditures, sufficient to meet their MOE requirement, against LFS.

In total, four cities misreported the amount of indirect costs on their expenditure report, and four cities misreported their LFS fund balance on their expenditure report.

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, Fountain Valley, La Habra, San Clemente, and Tustin. No observations resulted from the audit of the City of San Clemente.

Late submission of required reports was identified at three cities, and two cities lacked documentation to evidence that their transportation service provider was competitively procured. Service provider contracts at those two cities also lacked a required provision to ensure wheelchair accessibility. One city also provides transportation services to persons under age 60 but did not have an adequate process in place to ensure costs related to these ineligible trips were not funded by SMP.

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 AUP related to M2 LFS and SMP funds provided to twelve cities for the FY ended June 30, 2019.

***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, 2019
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2019
- 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, 2019
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2019

**Prepared by:**



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