



March 24, 2021

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, 2020

Overview

Crowe LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Local Fair Share funds provided to seven cities, Senior Mobility Program funds provided to six cities, and Senior Non-Emergency Medical Transportation funds provided to the County of Orange for the fiscal year ended June 30, 2020. Local Fair Share program reports include observations of ineligible maintenance of effort expenditures, misreporting of direct or indirect costs, misreporting of expenditures, and a funded project not reflected in the city's Seven-Year Capital Improvement Program plan. Senior Mobility Program reports include observations relating to late submission of a monthly report, third-party contracting, misreporting of expenditures, failure to allocate interest, and overcharge of administrative costs.

Recommendation

Direct staff to monitor implementation of corrective actions proposed by the cities.

Background

Annually, the Audit Subcommittee (Subcommittee) of the Taxpayer 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, 2020, the Subcommittee selected seven cities for review of Local Fair Share (LFS) program funding, and six cities for review of Senior Mobility Program (SMP) funding. The County of Orange (County) was also selected for review of Senior

Non-Emergency Medical Transportation (SNEMT) program 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 typically required to maintain a minimum level of local street and road expenditures to conform to a defined maintenance of effort (MOE) benchmark requirement. However, in response to the impacts of the coronavirus pandemic, the Board of Directors approved an amendment to the Orange County Local Transportation Authority M2 Ordinance to allow agencies to report actual MOE, which could be below the benchmark for FY 2019-20. 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 for these services, 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 OCLTA, to outline requirements of the program and to describe services to be provided. Consistent with the program guidelines, cities are required to submit monthly SMP activity reports within 30 days of month end.

The SNEMT program supplements existing countywide services that are funded with Tobacco Settlement Revenues (TSR). Since the SNEMT program is intended to supplement, not replace, existing TSR expenditures, the County is required to allocate the same percentage of TSR funding that was allocated in November 2006. A cooperative agreement between the County and OCLTA outlines program requirements. Through the terms of this agreement, the County is required to submit quarterly SNEMT activity reports within 45 days of quarter 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.

AUP: LFS Program Funds

The auditors examined the cities of Brea, Costa Mesa, Laguna Hills, Lake Forest, La Palma, Placentia, and Tustin. No observations resulted from the audit of the City of Lake Forest.

At two cities, the auditors identified expenditures that were not properly classified as MOE expenditures. At six cities, the auditors identified reporting errors related to amounts reported on the cities' expenditure reports and at one city, LFS expenditures were charged to a project not listed on the city's Seven-Year Capital Improvement Project program report.

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

AUP: SMP Funds

The auditors examined the cities of Brea, Cypress, Costa Mesa, Laguna Hills, Placentia, and Stanton. No observations resulted from the audits of the cities of Costa Mesa, Cypress, and Stanton.

Two cities failed to allocate and report interest to the SMP program. One city continued to utilize a third party to provide senior transportation services under an agreement that was effective for the calendar year 2014, and one subsequent year. Another city overcharged the SMP program for indirect/administrative costs, misreported total SMP expenditures on its expenditure report, and submitted one monthly report late.

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.

AUP: SNEMT Program Funds

No observations resulted from the audit of the County.

The detailed report can be found at Attachment E.

Summary

The auditors have completed AUP related to M2 LFS, SMP, and SNEMT funds provided to nine cities and the County, for the FY ended June 30, 2020.

Attachments

- A. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Local Fair Share for the Year Ended June 30, 2020
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2020
- C. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Senior Mobility Program for the Year Ended June 30, 2020
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2020
- E. Orange County Local Transportation Authority Measure M2 Senior Non-Emergency Medical Transportation Program Agreed-Upon Procedures Report, County of Orange, Year Ended June 30, 2020

Authorized by:



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