



May 21, 2026

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, 2025

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 Senior Non-Emergency Medical Transportation funds provided to the County of Orange for the fiscal year ended June 30, 2025. Local Fair Share reports include observations of disallowed maintenance of effort expenditures, misreporting of direct and indirect costs, expenditure report errors, and incomplete Capital Improvement Program reports. The County of Orange Senior Non-Emergency Medical Transportation Program report included no observations.

Recommendations

Direct staff to monitor implementation of corrective actions by cities, as applicable.

Background

Annually, the Audit Subcommittee (Subcommittee) of the Taxpayer Oversight Committee selects a sample of local jurisdictions receiving Measure M2 (M2) funding for review to determine the local jurisdictions' level of compliance with provisions of the M2 Ordinance. For the fiscal year (FY) ended June 30, 2025, the Subcommittee selected nine cities for review of Local Fair Share (LFS) Program funding and the County of Orange (County) for review of Senior Non-Emergency Medical Transportation (SNEMT) Program funding. The agreed-upon procedures (AUP) applied for these reviews were originally 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 investments, each jurisdiction is required to maintain a minimum level of local streets and roads expenditures to conform to a defined maintenance of effort (MOE) requirement. MOE expenditures are required to conform to State Controller's Office Gas Tax Guidelines, and cities are required to submit copies of their Capital Improvement Program (CIP) plan, reflecting projects that will be funded with LFS.

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 the Orange County Local Transportation Authority (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 the OCLTA, within six months of FY end.

Discussion

Crowe LLP (auditors) conducted interviews of city finance and program-related staff, and applied the AUPs, including testing of expenditures for compliance with program requirements, review of indirect costs for adequate support and reasonableness, testing application of interest to fund balances, and testing of expenditure reports for accuracy.

Agreed-Upon Procedures: LFS Program Funds

The auditors examined the cities of Anaheim, Brea, Costa Mesa, Garden Grove, Irvine, Lake Forest, Placentia, Santa Ana, and Tustin. No exceptions resulted from the AUPs applied to Lake Forest, Placentia, Santa Ana, and Tustin.

The auditors identified unallowable charges to MOE by two cities; however, after removing the charges, the cities continued to meet their MOE minimum requirement.

The auditors also identified reporting errors in the expenditure reports submitted by five cities and noted that the CIP plan submitted by one city did not include an eligible project funded by LFS.

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

AUP: SNEMT Program Funds

No observations resulted from the review of the County SNEMT Program.

The detailed report can be found at Attachment C.

Summary

The auditors have applied AUPs related to M2 LFS provided to nine cities and SNEMT funds provided to the County, FY ended June 30, 2025.

Attachments

- A. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Local Fair Share for the Year Ended June 30, 2025
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Report Year Ended June 30, 2025
- C. Orange County Local Transportation Authority Measure M2 Senior Non-Emergency Medical Transportation Program County of Orange Agreed-Upon Procedures Report Year Ended June 30, 2025

Approved by:



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