



April 23, 2025

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, 2024

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, 2024. Local Fair Share program reports include observations of disallowed Local Fair Share and maintenance of effort expenditures, expenditure report errors, an incomplete Capital Improvement Program report, and expenditure reports lacking project detail. Senior Mobility Program reports included observations relating to expenditure report errors, late submission of a monthly report, and overcharging for administrative costs.

Recommendations

- A. Direct staff to monitor implementation of corrective actions by cities.
- B. Direct staff to review with legal counsel the results of agreed-upon procedures applied to the City of Huntington Beach and develop recommendations for Board of Directors' consideration to address the exception related to disallowed Local Fair Share expenditures.
- C. Direct staff to follow up with the City of Mission Viejo to obtain a revised Measure M2 Expenditure Report, evaluate whether administrative costs related to the Senior Mobility Program exceeded the ten percent threshold, and, if applicable, recover the overage.

- D. Direct staff to consult with legal counsel, develop guidelines for allowable uses of Local Fair Share funds for “other transportation purposes” and provide communication to cities.

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, 2024, the Subcommittee selected eight 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 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. Cities are required to submit copies of their Seven-Year Capital Improvement Plan, reflecting projects that will be funded with LFS.

The SMP is a formula-based allocation provided to eligible, participating jurisdictions for local community transportation services that best meet the needs of their senior communities. M2 revenues provide 80 percent of the program cost, 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 AUPs, 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 Garden Grove, Huntington Beach, La Habra, Laguna Hills, Mission Viejo, San Clemente, Seal Beach, Westminster, and the County of Orange. No exceptions resulted from the AUPs applied to La Habra, Laguna Hills, and the County of Orange.

The auditors identified one or more reporting errors on the expenditure reports submitted by six cities.

The auditors identified unallowable charges to the MOE at one city, and two cities lacked adequate documentation to support indirect costs allocated to MOE. Without sufficient documentation of a reasonable methodology used to support the indirect charges, the auditors were unable to determine that the allocation of these costs was fair and equitable, as required. After removing these costs from the cities' MOE, the cities continued to meet the minimum MOE requirement.

The auditors noted that the expenditure reports submitted by two cities included generic project titles that could not be readily traced to projects listed in their Capital Improvement Program (CIP) reports. The Ordinance requires the CIP report to include all projects funded by M2. In addition, the auditors identified LFS expenditures by one city for a project not listed in their CIP report.

The auditors identified \$29,249 in LFS expenditures by the City of Huntington Beach (Huntington Beach) that were not allowable per the Ordinance. Huntington Beach acknowledged the error and indicated that the amount would be refunded.

Use of LFS funds as a Match to Project V Grants

In the report for the City of Mission Viejo (Mission Viejo), auditors identified LFS expenditures for a bus operations project in the amount of \$32,503 to fund operations of a local shuttle service that is jointly funded with the M2 Project V grant program. Mission Viejo uses LFS funds to provide the ten percent local match required under the Project V program. The Ordinance states that LFS

funds may be used for "...other transportation purposes" and the Transportation Investment Plan, incorporated into the Ordinance, includes examples of "...other transportation needs such as residential street projects, traffic and pedestrian safety near schools, signal priority for emergency vehicles, etc." While the examples provided do not include transit operations, the M2 Comprehensive Transportation Funding Program (CTFP) guidelines issued at the time of the Project V award, defines LFS revenues as "non-OCTA resources". Current CTFP guidelines do not include this reference. Internal Audit is recommending staff be directed to consult with legal counsel and develop guidelines to better define allowable uses of LFS for "other transportation purposes".

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.

Agreed-Upon Procedures: SMP Funds

The auditors examined the cities of Buena Park, Laguna Niguel, Laguna Woods, Mission Viejo, and San Juan Capistrano. No exceptions resulted from the AUPs applied to the City of Laguna Niguel.

The auditors identified errors in reporting SMP expenditures in the expenditure reports submitted by two cities. The auditors also identified two cities that did not submit one of four monthly SMP reports within 30 days of month end, as required.

The auditors also identified that the City of Mission Viejo (Mission Viejo) charged \$22,114 in administrative costs, approximately 11 percent of total SMP expenditures, which exceeded the threshold of ten percent allowed under M2 Project U Senior/Disabled Program Funding Policy guidelines. Mission Viejo responded that the expenditure report submitted contained errors. Internal Audit is recommending staff be directed to follow-up with Mission Viejo to obtain a revised M2 Expenditure Report, evaluate whether administrative costs related to the SMP exceeded the ten percent threshold, and, if applicable, recover the overage.

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

Summary

The auditors have issued results of agreed-upon procedures applied to M2 LFS and/or SMP funds provided to 12 cities and the County of Orange for the FY ended June 30, 2024.

Attachments

- A. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Local Fair Share for the Year Ended June 30, 2024
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2024
- C. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Senior Mobility Program for the Year Ended June 30, 2024
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2024

Approved by:



Janet Sutter
Executive Director, Internal Audit
714-560-5591