



Crowe LLP
Independent Member Crowe Global

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES
CITY OF ORANGE

Board of Directors
Orange County Local Transportation Authority and
the Taxpayers Oversight Committee of the
Orange County Local Transportation Authority
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Taxpayers Oversight Committee of the Orange County Local Transportation Authority (OCLTA) (the specified party), related to the City of Orange's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2023. The City's management is responsible for compliance with the Ordinance and for its cash, revenue, and expenditure records.

The Taxpayers Oversight Committee of the OCLTA has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating the City's compliance with certain provisions of the Ordinance as of and for the fiscal year ended June 30, 2023. We make no representation regarding the appropriateness of the procedures either for the purpose for which this report has been requested or for any other purpose. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. An agreed-upon procedures engagement involves performing specific procedures that the engaging party has agreed to and acknowledged to be appropriate for the intended purpose of the engagement and reporting on findings based on the procedures performed.

The procedures and associated findings were as follows:

1. Describe which funds the Eligible Jurisdiction used to track all street and road expenditures and inquire how the Eligible Jurisdiction identifies (Maintenance of Effort) MOE expenditures in its general ledger.

Findings: The MOE expenditures were tracked in the City's general ledger by fund, department, and object code. The City records its MOE expenditures in its General Fund (100), followed by various department codes and object codes. No exceptions were found as a result of this procedure. No exceptions were found as a result of this procedure.

2. Obtain the detail of MOE expenditures for the fiscal year ended June 30, 2023 and determine whether the Eligible Jurisdiction met the minimum MOE requirement as outlined in the Measure M2 Eligibility Guidelines Fiscal Year 2022/2023. Agree the total MOE expenditures to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 18). Explain any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2023, were \$3,852,679 (see Schedule A) which exceeded the MOE benchmark requirement of \$3,392,885. We agreed the total expenditures of \$3,852,679 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were noted as a result of this procedure.

(Continued)

3. Select a sample of MOE expenditures from the Eligible Jurisdiction's general ledger expenditure detail. Describe the percentage of total expenditures selected for inspection. For each item selected, perform the following:
 - a. Agree the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation; and
 - b. Determine whether the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: We selected 25 direct MOE expenditures totaling \$781,753, which represented approximately 25% of direct MOE expenditures of \$3,069,840 for fiscal year ended June 30, 2023. We agreed the dollar amount listed on the general ledger to supporting documentation provided by the City. Expenditures were properly classified as local street and road expenditures and were allowable per the Ordinance, except for nine charges, totaling \$61,537 which were found to be indirect cost allocations and should have been reported as indirect costs. Upon further inspection, we identified a total of \$793,608 in charges that should have been reported as indirect costs. See Procedure #4 for indirect cost testing. No other exceptions were found as a result of this procedures.

4. Identify whether indirect costs were charged as MOE expenditures. If applicable, compare indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1). Explain any differences. If applicable, obtain detail of indirect costs charged, and select a sample of charges for inspection. Inspect supporting documentation for reasonableness and appropriate methodology.

Findings: We agreed total indirect expenditures of \$782,835 per the general ledger to the amount reported on the City's Expenditure Report (Schedule 3, line 1) with no differences. We selected 25 indirect MOE charges for inspection totaling \$582,141, representing 74% of the total indirect MOE costs reported of \$782,835. During testing of direct costs at Procedure #3, we identified an additional \$793,608 in indirect costs that were reported as direct costs. These expenses included allocations of payroll and benefits, debt service payments, liability insurance costs, data processing allocations, contracted services, monthly print shop/mail/phone charges, monthly office rental and various other charges. For indirect costs, the methodology used to allocate actual costs should be documented and represent a fair and reasonable allocation of costs. The City was unable to provide a documented methodology representing a fair and reasonable allocation of costs. After removing unsupported indirect cost allocations, totaling \$1,576,443, the City no longer meets the MOE benchmark. The shortfall equals \$1,116,649.

5. Obtain a listing of Measure M2 Local Fair Share payments made from OCLTA to the Eligible Jurisdiction and calculate the amount the Eligible Jurisdiction received for the past three fiscal years. Obtain the fund balance of the Eligible Jurisdiction's Measure M2 Local Fair Share Fund as of June 30, 2023 and agree to the balance as listed on the Eligible Jurisdiction's Expenditure Report (Schedule 1, line 20) and determine whether funds were expended within three years of receipt or within five years, if an extension was granted. Explain any differences.

Findings: The City received \$10,549,834 for the past three fiscal years ended June 30, 2021, 2022, and 2023. We agreed the fund balance of \$5,285,100 from the general ledger detail to the City's Expenditure Report (Schedule 1, line 20), with no differences. We determined funds were expended within three years of receipt. No exceptions were found as a result of this procedure.

6. Describe which fund the Eligible Jurisdiction used to track expenditures relating to Measure M2 Local Fair Share monies in its general ledger and the amount spent during the fiscal year ended June 30, 2023. Agree the total Local Fair Share expenditures per the general ledger to the amounts reflected on the Eligible Jurisdiction's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4). Explain any differences.

(Continued)

Findings: The City tracks its LFS expenditures in its Traffic Improvement Measure M2 Fund (263). Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2023, was \$2,880,026 (see Schedule A), which agreed to the City's Expenditure Report. (Schedule 2, line 17, and detail listed at Schedule 4). No exceptions were found as a result of this procedure.

7. Obtain the Eligible Jurisdiction's Seven-Year Capital Improvement Program (CIP). Compare the projects listed on the Eligible Jurisdiction's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. Select a sample of Measure M2 Local Fair Share expenditures from the Eligible Jurisdiction's general ledger expenditure detail. Describe the percentage of total expenditures selected for inspection. For each item selected perform the following:
 - a. Agree the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal vouchers or other appropriate supporting documentation; and
 - b. Determine that the expenditures selected in (a) above were related to projects included in the Eligible Jurisdiction's Seven-Year CIP and are properly classified as Measure M2 Local Fair Share projects.

Findings: We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven Year CIP, without any exception. We selected 20 Measure M2 Local Fair Share direct expenditures for inspection totaling \$1,928,551 representing approximately 78% of total Measure M2 direct Local Fair Share expenditures of \$2,479,629 for the fiscal year ended June 30, 2023. We agreed the dollar amount to supporting documentation and determined that the expenditures selected were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects. No exceptions were found as a result of this procedure.

8. Identify whether indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, compare indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1). Explain any differences. If applicable, select a sample of charges. Describe the dollar amount inspected. Identify the amounts charged and inspect supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$400,397 in indirect costs for LFS for the fiscal year ended June 30, 2023. We selected 25 indirect costs for inspection with a total amount of \$300,014 representing 75% of the total LFS indirect costs. Upon inspection, we determined these charges were labor costs and materials directly identifiable as street and road project labor costs. As such, these costs should have been reported as direct costs. No other exceptions were found as a result of this procedure.

9. Obtain and inspect the Eligible Jurisdiction's interest allocation methodology and amount of interest allocated to the Measure M2 Local Fair Share Fund to ensure the proper amount of interest was credited. Agree the amount reflected to the amount of interest listed on the Eligible Jurisdiction's Expenditure Report (Schedule 2, line 4). Explain any differences.

Findings: We inspected the amount of interest allocated to the Measure M2 Local Fair Share Fund and agreed the amount reflected to the amount of interest totaling \$64,383 listed on the City's Expenditure Report (Schedule 2, line 4). We inspected the interest allocation methodology and recomputed the amount based on the interest allocation methodology. No exceptions were found as a result of this procedure.

10. Determine whether the Jurisdiction was found eligible by the Board of Directors for the applicable year (FY23) by inspecting the OCLTA Board agenda and action items.

Findings: No exceptions were noted as a result of this procedure.

We were engaged by OCLTA to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records, any indirect cost allocation plans and compliance with the provisions of the Measure M2 Local Transportation Ordinance. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City's management and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purpose of additional information and were not subjected to the procedures described above. Accordingly, we did not perform any procedures on the City's responses and express no assurance or opinion on them.

This report is intended solely for the information and use of and is not intended to be, and should not be, used by anyone other than the specified party.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Costa Mesa, California
March 28, 2024

CITY OF ORANGE, CALIFORNIA
SCHEDULE OF MEASURE M2 LOCAL FAIR SHARE EXPENDITURES
Year ended June 30, 2023
(Unaudited)

SCHEDULE A

Maintenance of Effort (MOE) Expenditures:

Indirect and/ or Overhead - Schedule 3, line 1 \$ 782,835

Construction & Right-of-Way

Street Reconstruction \$ 326,104

Signals, Safety Devices, & Street Lights 734,808

Pedestrian Ways & Bikepaths 46,803

Storm Drains 23,401

Total Construction \$ 1,131,116

Maintenance

Patching \$ 572,449

Overlay & Sealing 31,446

Street Lights & Traffic Signals 1,240,495

Storm Damage 31,446

Other Street Purpose Maintenance 62,892

Total Maintenance \$ 1,938,728

Total MOE Expenditures \$ 3,852,679

Measure M2 Local Fair Share Expenditures (Schedule 4):

00000 - Contractual Services (Part of Maintenance) \$ 400,397

13115 - Reg Salaries - Misc-Pvmnt Mgt 550

13120 Pavement Management Program 1,611,554

16302 - Minor Traffic Control Devices - Various 51,963

16304 Biennial Traffic Signal Coordination 5,870

16469 - Traffic Signal Equip Painting 9,800

30150 - Local Roadway Safety Plan (LRSP) 7,809

30162 Citywide Bus Stop Enhancements 1,864

30167 - Katella Ave Street Rehabilitation 785,928

30168 - Walnut Ave Infrastructure Improvement 4,291

Total Measure M2 Local Fair Share Expenditures \$ 2,880,026

Total MOE and Measure M2 Local Fair Share Expenditures \$ 6,732,705



March 28, 2024

Board of Directors,
Orange County Local Transportation Authority,
Taxpayers Oversight Committee of the Orange County Local Transportation Authority
Orange, California

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Fair Share program for the City of Orange as of and for the fiscal year ended June 30, 2023.

Procedure #3

Select a sample of MOE expenditures from the Eligible Jurisdiction's general ledger expenditure detail. Describe the percentage of total expenditures selected for inspection. For each item selected, perform the following:

- a. Agree the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll registers and timecards, journal voucher or other appropriate supporting documentation; and
- b. Determine whether the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: We selected 25 direct MOE expenditures totaling \$781,753, which represented approximately 25% of direct MOE expenditures of \$3,069,840 for fiscal year ended June 30, 2023. Crowe agreed the dollar amount listed on the general ledger to supporting documentation provided by the City. Upon inspection of our samples, we determined that there were nine charges totaling \$61,537 that were allocated based on budgeted percentages. Upon further inspection, we noted that there were a total \$793,608 of direct costs that were based on these allocated budgeted percentages. As such, the entirety of these costs allocation reported as direct charges should have been reported as indirect costs. Refer to Procedure#4 for MOE indirect costs removed. No other exceptions were found as a result of this procedure.

City's Response:

City management acknowledges the findings and will implement procedures to ensure the reporting of M.O.E. expenditures and allocations are based on actuals and not budgeted percentages. City management will also implement procedures to ensure proper reporting of direct and indirect expenditures.





Procedure #4

Identify whether indirect costs were charged as MOE expenditures. If applicable, compare indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1). Explain any differences. If applicable, obtain detail of indirect costs charged, and select a sample of charges for inspection. Inspect supporting documentation for reasonableness and appropriate methodology.

Findings: We agreed total indirect expenditures of \$782,835 per the general ledger to the amount reported on the City's Expenditure Report (Schedule 3, line 1) with no differences. We selected 25 indirect MOE charges for inspection totaling \$582,141, representing 74% of the total indirect MOE costs reported of \$782,835. During testing of direct costs at Procedure #3, we identified an additional \$793,608 in indirect costs that were reported as direct costs. These expenses included allocations of payroll and benefits, debt service payments, liability insurance costs, data processing allocations, contracted services, monthly print shop/mail/phone charges, monthly office rental and various other charges. For indirect costs, the methodology used to allocate actual costs should be documented and represent a fair and reasonable allocation of costs. The City was unable to provide a documented methodology representing a fair and reasonable allocation of costs. After removing unsupported indirect cost allocations, totaling \$1,576,443, the City no longer meets the MOE benchmark. The shortfall equals \$1,116,649.

City's Response:

City management acknowledges the findings. The City has eligible expenditures of approximately \$1.5 million in the Capital Project Fund that were supported by the General Fund but were not reported as M.O.E. eligible expenditures, therefore the exclusion of the unsupported indirect cost allocations caused the City to not meet the M.O.E benchmark. Going forward, City management will ensure indirect costs are supported, documented, and used reasonable allocation methodology. City management will also implement procedures to ensure proper reporting of all eligible expenditures in the future.

Procedure #8

Identify whether indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, compare indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1). Explain any differences. If applicable, select a sample of charges. Describe the dollar amount inspected. Identify the amounts charged and inspect supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$400,397 in indirect costs for LFS for the fiscal year ended June 30, 2023. We selected 25 indirect costs for inspection with a total amount of \$300,014 representing 75% of the total LFS indirect costs. Upon inspection, we determined these charges were labor costs and materials directly identifiable as street and road project labor costs. As such, these costs should have been reported as direct costs. No other exceptions were found as a result of this procedure.





City of Orange

Finance Department
300 E. Chapman Ave.
Orange, CA 92866

City's Response:

City management acknowledges the findings and will implement procedures to ensure proper reporting of direct and indirect expenditures.

Tom Kisela, City Manager

for

Christopher Cash, Public Works Director

Trang Nguyen, Finance Director



(714) 744-2230



www.cityoforange.org