



**April 24, 2024**

**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, 2023

### **Overview**

Crowe LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Local Fair Share funds provided to seven cities, and Senior Mobility Program funds provided to six cities, for the fiscal year ended June 30, 2023. Local Fair Share program reports include observations of indirect charges lacking a reasonable methodology, indirect charges allocated based on an aged allocation plan, and reporting errors. Senior Mobility Program audits include observations relating to failure to meet the program match requirement, late submission of a monthly report, reporting errors, failure to allocate interest, and third-party contract language.

### **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 cities of Buena Park and Orange and develop recommendations for Board of Directors' consideration to address the exceptions related to Local Fair Share expenditures by the City of Buena Park and maintenance of effort expenditures by the City of Orange.
- C. Direct staff to withhold funds from a future payment to the City of Mission Viejo to address the shortfall in match funds in accordance with the Senior Mobility Program Guidelines.

### ***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, 2023, 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 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 street 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 Aliso Viejo, Anaheim, Buena Park, Costa Mesa, Orange, Santa Ana, and Stanton. No exceptions resulted from the AUPs applied to the cities of Costa Mesa and Stanton.

Auditors identified one or more reporting errors on the expenditure reports submitted by four cities and reported that the indirect cost allocation plan used by one city was aged, as it was developed based on analysis of activities that occurred over eight years prior.

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, auditors are unable to determine that the allocation of these costs is fair and equitable, as required. At the City of Buena Park (Buena Park), after removing unsupported indirect costs, the city continued to meet the minimum MOE requirement. However, after removal of unsupported indirect charges by the City of Orange (Orange), Orange no longer met its minimum MOE requirement of \$3,392,885. The amount of the shortfall is \$1,116,649. Orange responded that they would ensure indirect charges are supported, documented, and based on a reasonable allocation methodology going forward.

Insufficiently supported indirect charges to the LFS fund were identified at Buena Park. Auditors identified a total of \$387,576 in indirect labor allocation charges that were not supported by a documented, reasonable methodology. The allocation percentages used were based on managerial assumption of time spent by employees, rather than an analysis of historical or current data. As such, the auditors lacked the information necessary to confirm the allocation of labor charges as fair and reasonable. Buena Park responded that they acknowledge the result; however, they maintain that the methodology used is the same that was used and accepted by auditors during a prior AUP performed for the FY ended June 30, 2018. Buena Park management also stated that they have sample documentation to support that staff spent time working on street projects; however, the documentation was not accepted by the auditors due to challenges in quantifying the time spent. Buena Park feels that disallowing the entirety of the costs is unreasonable. Buena Park agreed to revise its indirect cost methodology to align with standards and recognizes the significance of ensuring fair and reasonable allocation of resources while fulfilling M2 objectives.

A summary of all 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 Anaheim, Fullerton, Laguna Beach, Mission Viejo, Newport Beach, and Yorba Linda. No exceptions resulted from the AUPs applied to the cities of Anaheim, Newport Beach, and Yorba Linda.

Auditors identified errors in reporting expenditures at two cities and an error in reporting of fund balance at one city. Two cities were also found to have submitted a monthly report beyond the required 30-day timeframe. Auditors also reported that the third-party vendor contract for one city lacked language requiring the vendor to have wheelchair accessible vehicles available for use, as necessary. The city confirmed that, despite the lack of contract language, the vendor does provide wheelchair accessible vehicles, as necessary, and that required language will be included in any new contracts.

Auditors reported that the City of Mission Viejo (Mission Viejo) provided match expenditures of 18 percent, falling short of the required 20 percent match. Mission Viejo responded that the shortfall resulted from an error in the worksheet used by the city to monitor total expenditures and match fund amounts. Mission Viejo has contacted Orange County Transportation Authority (OCTA) staff to notify of the error. To address the match shortfall, the OCTA Board of Directors (Board) is being asked to direct staff to withhold funds from a future payment to the city, in accordance with the Board-approved SMP Guidelines.

The auditors also reported that the City of Laguna Beach (Laguna Beach) had not allocated interest to the SMP as required. Laguna Beach responded that, currently, interest is allocated at the fund level, rather than the program level. As a result, interest due to the SMP was allocated to their transit fund, within which the SMP is located. Laguna Beach agreed to allocate to the SMP directly going forward.

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 SMP funds provided to 11 cities for the FY ended June 30, 2023.

***Attachments***

- A. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Local Fair Share for the Year Ended June 30, 2023
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2023
- C. Summary of Agreed-Upon Procedures Reports Orange County Local Transportation Authority Measure M2 Senior Mobility Program for the Year Ended June 30, 2023
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2023

**Approved by:**

A handwritten signature in dark ink, appearing to read 'Janet Sutter', with a long horizontal flourish extending to the right.

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