



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
Maintenance of Effort, Agreed-Upon Procedures Report, City of
Cypress, Year Ended June 30, 2023

Overview

BCA Watson Rice LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 maintenance of effort expenditures by the City of Cypress for the fiscal year ended June 30, 2023. Based on the procedures performed, the City of Cypress spent sufficient funds to meet the required minimum expenditures as outlined in a settlement agreement between the City of Cypress and the Orange County Transportation Authority.

Recommendation

Direct staff to develop recommendation(s) for Board of Directors' action related to the status of the City of Cypress' Measure M2 eligibility.

Background

On May 22, 2023, the Orange County Transportation Authority (OCTA) Board of Directors (Board) found the City of Cypress (City) ineligible to receive or apply for Measure M2 revenues after agreed-upon procedures (AUP) performed for fiscal year (FY) 2021-22 found that the City had not met the minimum maintenance of effort (MOE) requirement of the Measure M2 Ordinance (Ordinance).

Due to the significance of the shortfall amount, the Board agreed to allow the City up to two years, through FY 2023-24, to make-up the shortfall amount. A written settlement agreement, dated August 14, 2023, was executed between OCTA and the City, that outlined requirements for the City to re-establish

eligibility. Among other items, the settlement agreement required the City to undergo, and pay for, AUPs of FY 2022-23 and FY 2023-24, to determine compliance with MOE requirements, including expenditures equaling the MOE minimum plus the shortfall amount identified during the FY 2021-22 AUP.

Discussion

BCA Watson Rice LLP, tested a sample of MOE expenditures for FY 2022-23, and found the City met the minimum MOE requirement and the shortfall amount identified in the FY 2021-22 AUP.

Per the settlement agreement, the City was required to spend \$4,988,926 in MOE, which included the minimum annual MOE plus the \$1,381,048 shortfall identified during the FY 2021-22 AUP. The City reported total MOE expenditures of \$5,108,162, and the auditors tested \$3,724,004, or 73 percent of those. No ineligible or questioned costs were identified.

The detailed AUP report can be found at Attachment A.

Summary

The auditors have completed agreed-upon procedures related to Measure M2 MOE expenditures by the City for FY 2022-23.

Attachment

- A. City of Cypress, Measure M2 Maintenance of Effort, Independent Accountant's Report on Applying Agreed-Upon Procedures, for the Year Ended June 30, 2023

Prepared by:



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

CITY OF CYPRESS

MEASURE M2 MAINTENANCE OF EFFORT

Independent Accountant's Report on Applying Agreed-Upon Procedures

For the Year Ended June 30, 2023



2355 Crenshaw Blvd. Suite 150 Torrance, CA 90501
t: (310) 792-4640 f: (310) 792-4140



2355 Crenshaw Blvd. Suite 150
Torrance, CA 90501

Telephone: 310.792.4640
Facsimile: 310.792.4331
www.bcawr.com

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Orange County Transportation Authority
Orange, California

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

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 Measure M2 Maintenance of Effort (MOE) requirements as of and for the fiscal year ended June 30, 2023. We make no representations 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 are as follows:

- 1) Obtain the Settlement Agreement between OCTA and the City and identify the required minimum amount to be spent on MOE expenditures.

Findings: Per the Settlement Agreement between OCTA and the City, the required minimum amount to be spent on MOE expenditures is \$4,988,926, which includes the minimum required MOE expenditures for FY 2022/2023 of \$3,607,878 and a shortfall from FY 2021/2022 of \$1,381,048.

- 2) Describe which funds the City used to track all street and road expenditures and inquire how the City identifies MOE expenditures in the general ledger.

Findings: MOE expenditures were tracked in the City's general ledger by fund (three digits), programs (five digits), and in some cases, a sub-program (four digits). There are two types of expenditures recorded in the City's general ledger applied against the MOE – right-of-way maintenance operating expenditures and capital project expenditures funded by the general fund.

Expenditures for personnel, supplies, and services in the following maintenance operating program (70212) are applied against the MOE and recorded in the City's General Fund (111).

- Street Maintenance (111-70212-7212)
- Street Cleaning (111-70212-7213)
- Traffic Safety (111-70212-7214)
- Tree Maintenance (111-70212-7216)
- Parkway Maintenance (111-70212-7217)
- Sidewalk Repair (111-70212-7238)

Expenditures for street right-of-way Capital Improvement Program projects paid using the City's General Funds are applied against the MOE and recorded in the City's Capital Projects Fund (415). For FY 2022/2023, the following street projects (80100) and parkway projects (80500) were fully or partially funded with General Fund monies.

- Residential Street Resurfacing (415-80100-8011)
- Arterial Street Rehabilitation (415-80100-8012)
- Sidewalk/Concrete Repair (415-80500-8051)
- Tree Planting (415-80500-8055)

Additionally, a portion of personnel costs charged to storm drain maintenance (261-70281) is applied to the MOE for annual catch basin cleaning and recorded in the Storm Drainage Fund (261).

Furthermore, indirect costs are computed separately, utilizing the indirect cost rates derived from the City's FY 2021/2022 Cost Allocation Plan finalized in October 2023. These rates are applied to the actual FY 2022/2023 direct labor and fringe charges associated with the Right-of-Way Maintenance Operating expenditures and the Storm Drain Maintenance expenditures related to annual catch basin cleaning are included in the MOE for FY 2022/2023.

- 3) Obtain the details of MOE expenditures for the Fiscal Year ended June 30, 2023, and agree the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, Line 18). Explain any differences.

Findings: The City's Expenditure Report (Schedule 3, Line 18) recorded total MOE expenditures of \$5,108,162. The details of MOE expenditures for the Fiscal Year ended June 30, 2023, also totaled \$5,108,162. No discrepancies were identified between the City's Expenditure Report and the detailed MOE expenditures breakdown.

- 4) Select a sample of MOE expenditures from the City's general ledger expenditure detail, ensuring adequate coverage. Describe the number and percentage of total expenditures selected for testing. 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, timecards, journal vouchers, or other appropriate supporting documentation.
 - b. Verify that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: We selected 50 direct MOE expenditures totaling \$2,552,782, which represents approximately 64.8% of direct MOE expenditures of \$3,936,940 for the fiscal year ended June 30, 2023. No exceptions were found as a result of this procedure.

- 5) Identify whether or not indirect costs were charged as MOE expenditures. If applicable, compare indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, Line 1). Explain any differences. If applicable, obtain details of the indirect costs charged and select a sample of charges for inspection, ensuring adequate coverage. Inspect supporting documentation for reasonableness and appropriate methodology.

Findings: For FY 2022/2023, indirect costs of \$1,171,222 were included within the overall MOE expenditures of \$5,108,162. These indirect costs agreed with the amount reported in the City's Expenditure Report (Schedule 3, line 1).

In FY 2022/2023, the calculation of indirect costs was conducted separately, utilizing the indirect cost rates/percentages determined in the City's FY 2021/2022 Cost Allocation Plan, and the indirect cost rates/percentages were applied to the actual direct labor and fringe costs associated with the Right-of-Way Maintenance Operating expenditures and the Storm Drain Maintenance expenditures related to annual catch basin cleaning.

The City engaged an external contractor, Revenue and Cost Specialist, LLC to develop a cost allocation plan utilizing actual audited amounts from FY 2021/2022. The indirect cost rates/percentages derived from this plan were applied to calculate the indirect costs for FY 2022/2023. This cost allocation process adhered to Office of Management and Budget guidelines and underwent thorough review and certification by the City.

The methodology used to calculate and allocate the \$1,171,222 in indirect cost to MOE expenditures appears to be reasonable, appropriate, and adequately supported.

- 6) The auditor report should include details of any ineligible and/or questioned costs and report the remaining total MOE expenditures after the removal of such items. This should be compared to the amount required to be spent per procedure 1) above.

Findings: Based on our procedures performed, no ineligible and/or questioned costs were detected.

We were engaged by OCTA to perform this agreed-upon procedure engagement and conducted our engagement in accordance with attestation standards established by the AICPA. 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 City's compliance with Measure M2 MOE requirements. 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.

This report is intended solely for the information and use of the management and the board of directors of OCTA and the City and is not intended to be and should not be used by anyone other than those specified parties.

BCA Watson Rice, LLP

Torrance, California
March 18, 2024