

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

Single Audit Report on
Federal Awards

Year Ended June 30, 2013

ORANGE COUNTY TRANSPORTATION AUTHORITY

Single Audit Report on Federal Awards

Year Ended June 30, 2013

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS, THE TRANSPORTATION DEVELOPMENT ACT, CALIFORNIA
GOVERNMENT CODE §8879.50, AND STATE SENATE BILL 88 (2007)**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated October 31, 2013. Our report included an emphasis-of-matter regarding OCTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* as of July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCTA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq., noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, Section 6667 of Title 21 of the California Code of Regulations, California Government Code §8879.50 and California State Senate Bill 88 (2007), et seq.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Laguna Hills, California

October 31, 2013



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Orange County Transportation Authority
Orange, California

Report on Compliance for Each Major Federal Program

We have audited the Orange County Transportation Authority's (OCTA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of OCTA's major federal programs for the year ended June 30, 2013. OCTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of OCTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OCTA's compliance.

Opinion on Each Major Federal Program

In our opinion, OCTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-01. Our opinion on each major federal program is not modified with respect to these matters.

OCTA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. OCTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of OCTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OCTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-01 that we consider to be significant deficiencies.

OCTA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. OCTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OCTA as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated October 31, 2013, which contained unmodified opinions on those financial statements. Our report included an emphasis-of-matter regarding OCTA's adoption of Governmental Accounting Standards Board (GASB) Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* as of July 1, 2012. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Laguna Hills, California
December 20, 2013

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Transportation</u>				
Direct grants				
Federal Transit Cluster:				
Federal Transit Capital Investments Grants	20.500	CA-03-0709	\$ 76,057	\$ -
Federal Transit Capital Investments Grants	20.500	CA-03-0754	45,116	-
Federal Transit Capital Investments Grants	20.500	CA-04-0078	145,945	145,945
Federal Transit Capital Investments Grants	20.500	CA-04-0180	1,866,265	1,866,265
Federal Transit Capital Investments Grants	20.500	CA-04-0181	118,089	-
Federal Transit Capital Investments Grants	20.500	CA-04-0122	67,586	38,397
Federal Transit Capital Investments Grants	20.500	CA-04-0224	101,240	-
Federal Transit Capital Investments Grants	20.500	CA-04-0251	227,681	-
Federal Transit Capital Investments Grants	20.500	CA-04-0178	1,158,950	1,158,950
Total Federal Transit Capital Investments Grants			<u>3,806,929</u>	<u>3,209,557</u>
Federal Transit Capital Formula Grants	20.507	CA-90-Y048	947,130	-
Federal Transit Capital Formula Grants	20.507	CA-95-X142	2,141,947	-
Federal Transit Capital Formula Grants	20.507	CA-95-X082	545,451	-
Federal Transit Capital Formula Grants	20.507	CA-90-Y697	14,284,624	-
Federal Transit Capital Formula Grants	20.507	CA-90-Y782	18,721,430	89,021
Federal Transit Capital Formula Grants	20.507	CA-90-Y860	15,729,573	-
Federal Transit Capital Formula Grants	20.507	CA-95-X180	1,221,785	1,018,453
Federal Transit Capital Formula Grants	20.507	CA-95-X186	50,000	50,000
Federal Transit Capital Formula Grants	20.507	CA-90-Y942	566,571	-
Federal Transit Capital Formula Grants	20.507	CA-95-X195	662,193	-
Federal Transit Capital Formula Grants	20.507	CA-90-Z207	5,843,635	-
Total Federal Transit Capital Formula Grants			<u>60,714,339</u>	<u>1,157,474</u>
Total Federal Transit Cluster			<u>64,521,268</u>	<u>4,367,031</u>
Transit Services Program Cluster:				
Job Access Reverse Commute	20.516	CA-37-X113	2,980,349	2,768,188
New Freedom Program	20.521	CA-57-X038	1,355,402	1,065,265
Total Transit Services Program Cluster			<u>4,335,751</u>	<u>3,833,453</u>
State Planning and Research	20.515	N/A	79,200	-
Clean Fuels	20.519	CA-58-0008	1,700,500	1,700,500
Bus and Bus Facilities Formula Program	20.526	N/A	71,291	-

Continued on the next page

See Note to Schedule of Expenditures of Federal Awards.

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013 (continued)**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. Department of Transportation (continued)</u>				
Passed Through California Department of Transportation:				
Highway Planning and Construction:	20.205			
Tustin Rose RSTP		STPL-6071-(061)	\$ 6,455,093	\$ -
SR 55 PSP/PDS RSTP		STPL-6071-(053)	373,455	-
Sand Canyon Grade Separation RSTP		STPL-6071-(059)	2,678,716	-
I-5 Avery Parkway to Alicia		STPL-6071-(077)	2,908,986	-
SR 22 from I-405 to SR 55		CMLN-6071(035)	82,869	-
Beach at I-405 Interchange, I-405 from LA to SR 73		CMLN-6071(041/43)	67,610	-
Kraemer Grade Separation		CMLN-6071(051)	9,354,356	-
Orangethorpe Grade Separation		CMLN-6071(060)	7,287,624	-
Lakeview Grade Separation		CMLN-6071(066)	12,888,945	-
I-5 from Ave Pico to South of Vista Hermosa		CMLN-6071(071)	1,460,453	-
I-5 from Vista Hermosa to PCH		CMLN-6071(072)	1,004,942	-
I-5 from PCH to San Juan Creek Road		CMLN-6071(073)	854,457	-
Total Highway Planning and Construction			<u>45,417,506</u>	<u>-</u>
Total U.S. Department of Transportation			<u>116,125,516</u>	<u>9,900,984</u>
<u>U.S. Department of Homeland Security</u>				
Direct grants				
Office of Security Operations				
National Explosives Detection Canine Team Program	97.072	N/A	<u>120,400</u>	<u>-</u>
Passed Through State of California				
Office of Emergency Services:				
Rail and Transit Security Grant Program (TSGP):	97.075			
Transit Training for Frontline Personnel (2008 TSGP)		2008-RL-T8-K018	12,027	-
Holiday Surge (VIPER) (2009 TSGP)		2009-RA-T9-K014	868,087	-
Continuity of Operations & Training (2010 TSGP)		2010-RA-T0-K050	161,255	-
VIPER (2011 TSGP)		2011-RA-K00069-S01	110,812	-
Total Rail And Transit Security Grant Program			<u>1,152,181</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>1,272,581</u>	<u>-</u>
<u>U.S. Department of Interior</u>				
Direct grants				
Office of Fish and Wildlife Service				
Cooperative Endangered Species Conservation Fund	15.615	N/A	<u>735,493</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 118,133,590</u>	<u>\$ 9,900,984</u>

See Note to Schedule of Expenditures of Federal Awards.

ORANGE COUNTY TRANSPORTATION AUTHORITY

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS***

A. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by OCTA that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by OCTA from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

B. Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund, special revenue, capital projects and enterprise funds of OCTA. OCTA utilizes the modified accrual method of accounting for governmental funds. The accrual basis of accounting is used for the enterprise funds. The accompanying Schedule of Expenditures of Federal Awards has been prepared accordingly.

C. Subrecipients

OCTA made payments to subrecipients totaling \$9,900,984 during the fiscal year ended June 30, 2013.

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>Yes</u>

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>20.500 and 20.507</u>	<u>Federal Transit Cluster</u>
<u>20.516 and 20.521</u>	<u>Transit Service Program Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 3,000,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

II. FINANCIAL STATEMENT FINDINGS

None reported.

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding: 2013-01

Program: Federal Transit Cluster

CFDA No.: 20.500 and 20.507

Federal Grantor: U.S. Department of Transportation

Passed-through: Not Applicable, Direct Grant

Award No.: Various

Award Fiscal Year: 2013

Compliance Requirement: Reporting

Criteria:

The Federal Funding Accountability and Transparency Act (the Transparency Act) requires direct grant recipients to report on subawards to subrecipients if the awards were granted on or after October 1, 2010. The direct grant recipient is required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Condition:

During our testing of compliance with the federal reporting requirements, it was noted that OCTA did not report subaward information in accordance with the requirements of the Transparency Act.

Questioned Costs:

None

Context:

The condition noted above was identified during our examination of OCTA's compliance with the Transparency Act reporting requirement.

Effect:

Required subaward data was not entered into FSRS consistent with the requirements of the Transparency Act.

Recommendation:

We recommend OCTA to develop procedures to ensure the reporting of subaward information as required by the Transparency Act.

Views of Responsible Official:

Upon learning of this reporting requirement, OCTA staff took immediate steps to register with the USAspending.gov website, and to meet all necessary reporting requirement for all grants awarded on or subsequent to October 1, 2010 in the FFATA Sub-Award Reporting System (FSRS). OCTA staff has incorporated this new reporting requirement into existing desktop procedures to ensure all future awards are included in the FSRS. Furthermore, OCTA staff has incorporated into its procedures a bi-annual review of the OMB website for updates to existing or new compliance requirements.

ORANGE COUNTY TRANSPORTATION AUTHORITY

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.