

**ORANGE COUNTY  
TRANSPORTATION AUTHORITY**

**SINGLE AUDIT**  
Year ended June 30, 2023

ORANGE COUNTY TRANSPORTATION AUTHORITY  
Orange, California

SINGLE AUDIT  
Year ended June 30, 2023

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INDEPENDENT AUDITOR'S 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*

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 Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated November 2, 2023.

### Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency as item 2023-001.

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(Continued)

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of the State of California Transportation Development Act (TDA), Title 21 of the California Code of Regulations, Public Utilities Code Section 99245, and California Government Code §8879.50 (collectively "Transportation Development Act"), noncompliance with which could have a direct and material effect on the financial statements. 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*, including the Transportation Development Act.

### OCTA's Response to Finding

*Government Auditing Standards* requires the auditor to perform limited procedures on the OCTA's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. OCTA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### 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.



Crowe LLP

Costa Mesa, California  
November 2, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Orange County Transportation Authority  
Orange, California

**Report on Compliance for Major Federal Program**

***Opinion on Major Federal Program***

We have audited Orange County Transportation Authority's (OCTA) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on OCTA's major federal program for the year ended June 30, 2023. OCTA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, OCTA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2023.

***Basis for Opinion on Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OCTA and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of OCTA's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to OCTA's federal programs.

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## ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OCTA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about OCTA's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding OCTA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of OCTA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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(Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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, 2023, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated November 2, 2023, which contained unmodified opinions on those financial statements. 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 the Uniform Guidance 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.



Crowe LLP

Costa Mesa, California  
November 2, 2023

ORANGE COUNTY TRANSPORTATION AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2023

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Grant/Pass-Through Identification Number	Federal Expenditures	Passed Through to Subrecipients
<b><u>U.S. Department of Transportation</u></b>				
Direct Programs:				
Federal Transit Cluster:				
Federal Transit - Capital Improvement Grants	20.500	Multiple	\$ 23,653,178	\$ -
Federal Transit - Formula Grants	20.507	Multiple	108,858,453	-
COVID-19 - Federal Transit - Formula Grants	20.507	CA-2021-153	57,650,256	-
State of Good Repair Program	20.525	Multiple	427,546	-
Bus and Bus Facilities Formula Program	20.526	Multiple	2,128,475	-
Total Federal Transit Cluster			<u>192,717,908</u>	-
Transit Services Programs Cluster:				
Job Access and Reverse Commute Program	20.516	CA-37-X113	21,826	21,826
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program				
Passed Through California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	Multiple	13,323,673	-
Direct Grants:				
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	20.223	TIFIA-20211005A	<u>628,930,000</u>	-
Total U.S. Department of Transportation			834,993,407	21,826
<b><u>U.S. Department of Homeland Security</u></b>				
Direct Programs:				
Hazard Mitigation Grant Program	97.039	059-91032	17,892	-
Office of Security Operations:				
National Explosives Detection Canine Team Program	97.072	OCTA2020OTA-NCP459	119,797	-
Rail and Transit Security Grant Program	97.075	EMW-2022-RA00050	<u>36,635</u>	-
Total U.S. Department of Homeland Security			<u>174,324</u>	-
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 835,167,731</u></b>	<b><u>\$ 21,826</u></b>

See accompanying notes to the schedule of expenditures of federal awards.



ORANGE COUNTY TRANSPORTATION AUTHORITY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended June 30, 2023

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents only the expenditures incurred by OCTA that are reimbursable under federal programs of federal financial assistance for the year ended June 30, 2023. 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. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. OCTA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 2 – TRANSPORTATION INFRASTRUCTURE FINANCE AND INNOVATION ACT (TIFIA) PROGRAM LOAN**

On July 26, 2017, OCTA executed a TIFIA loan for \$628,930,000 (2017 TIFIA Loan) with the United States Department of Transportation (DOT) to finance a portion of OCTA's I-405 improvement project. On September 9, 2021, OCTA executed a TIFIA loan for the same amount of \$628,930,000 (2021 TIFIA Loan) with the DOT, replacing the 2017 TIFIA Loan and resetting the interest rate to a lower rate. In fiscal year 2022-23, OCTA drew down the entire TIFIA loan amount of \$628,930,000. Additionally, within the same fiscal year, OCTA made a prepayment of \$15,218,705 towards the principal amount of the TIFIA loan. As of June 30, 2023, the amount outstanding under the 2021 TIFIA loan agreement is \$620,188,702.

ORANGE COUNTY TRANSPORTATION AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended June 30, 2023

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiency(ies) identified?

  X   Yes    \_\_\_\_\_ None reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ Yes      X   No

*Federal Awards*

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ Yes      X   No

Significant deficiencies identified not considered to be material weaknesses?

\_\_\_\_\_ Yes      X   None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ Yes      X   No

Identification of major federal programs:

Federal Assistance Listing Number

Name of Federal Program or Cluster

20.223

Transportation Infrastructure Finance and Innovation Act (TIFIA) Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 3,000,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes      X   No

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ORANGE COUNTY TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2023

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2023-001 – Deferred Compensation Contribution Calculation (Significant Deficiency)**

Criteria

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud.

Condition

Management noted that contributions for the OCTA 401(a) and 457(b) deferred compensation plans were being incorrectly calculated due to an issue when setting up the Lawson HR/Payroll system in 2004. Most errors related to proper identification of eligible or included earnings in the calculation of employees' 457(b) plan contributions and/or with the employer match contributions in the 401(a) plans. Other errors identified were related to the occasional resetting of plan dates and miscalculated contributions on final paychecks. Management made a payment in FY24 to correct the approximate \$7.4m in missed contributions and related interest.

Cause

Management did not have effective controls in place over deferred compensation plan contribution calculation inputs or outputs.

Effect

Prior year deferred compensation expense and accounts payable was understated by approximately \$1.9m and \$5.5m in the General fund and Orange County Transit District fund, respectively. Current year deferred compensation expense and accounts payable was understated by approximately \$104k and \$130k in the General fund and Orange County Transit District fund, respectively. The misstatement was corrected by management in the current fiscal year.

Recommendation

We recommend management formalize a periodic review of contribution calculations and plan documents to ensure plan changes (if any) are appropriately reflected within the calculation.

Management's Response

As a result of identifying and correcting systemic issues for contributions made to the OCTA 457(b) and 401(a) plans in the current year, Human Resources has implemented several management controls to identify errors in a timely manner. The first is to implement an annual review of Deferred Compensation Plan documents to determine if administrative practices are compliant with terms defined in the plan.

Secondly, Human Resources will, in collaboration with Payroll, review plan compensation twice a year to determine if earnings codes are compliant with plan documents.

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ORANGE COUNTY TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2023

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Thirdly, Human Resources will conduct an annual review of a represented sample of all employee groups for calculation of OCTA and employee contributions in a given payroll check. Examples of employee groups to review for correct deferred contribution plan contributions are:

- Coach Operator at 5 years of service, review 457(b) and Union 401(a) plans
- Coach Operator at 15 years of service, review 457(b) and Union 401(a) plans
- Parts Clerk / Facility Worker at 10 years of service, review 457(b) and Union 401(a) plans
- Administrative employee, salary grade V and above, review 457(b) and Administrative 401(a) plans
- Administrative employee, flat dollar 457(b) election, review 457(b) and Administrative 401(a) plans
- Administrative employee, percent 457(b) election, review 457(b) and Administrative 401(a) plans
- Board member, review OBRA 457(b) and employee contribution to 457(b) Deferred Compensation Plan
- Extra Help employee, review OBRA 457(b) plan
- Maintenance employee, review 457(b) plan

Fourthly, Human Resources will annually review plan entry dates for that particular year's new hires or rehires to determine that the date for plan participation and calculation of years of service is accurate.

Finally, Human Resources will collaborate with payroll as needed on resolution for adjustments or errors that occur to individual employee payroll checks to ensure that OCTA remains compliant with the deferred compensation plan documents.

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ORANGE COUNTY TRANSPORTATION AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended June 30, 2023

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.