

## **SPECIAL MEETING AGENDA**

- 1. Welcome**
- 2. Approval of Minutes for January 22, 2019**
- 3. Presentation Items**
  - A. External Auditor Communication/Measure M City Audits  
Jessica Anderson, Partner, Varinek, Trine, Day & Co., LLP
  - B. Board Actions related to the Cities of Santa Ana and Stanton  
Kurt Brotcke, Director, Strategic Planning and Janet Sutter, Executive Director, Internal Audit
- 4. Action Items**
  - A. Selection of Cities for Fiscal Year 2019 Agreed-Upon Procedures  
Janet Sutter, Executive Director, Internal Audit
  - B. Annual Adoption of Audit Charter  
Janet Sutter, Executive Director, Internal Audit
  - C. Receive and File: Quarterly Measure M2 Revenue and Expenditure Report  
Sean Murdock, Director, Finance and Accounting
- 5. Public Comments\***
- 6. Adjournment**

*The next meeting will be held on October 15, 2019*

\*Public Comments: At this time, members of the public may address the Taxpayer Oversight Committee (TOC) regarding any items within the subject matter jurisdiction of the TOC, provided that no action may be taken on off-agenda items unless authorized by law. Comments shall be limited to three (3) minutes per person, unless different time limits are set by the Chairman, subject to the approval of the TOC.

Any person with a disability who requires a modification or accommodation in order to participate in this meeting should contact the OCTA Clerk of the Board, telephone (714) 560-5676, no less than two business days prior to this meeting to enable OCTA to make reasonable arrangements to assure accessibility to this meeting.

**Measure M Taxpayer Oversight Committee  
Audit Subcommittee  
Orange County Transportation Authority  
550 S. Main Street, Orange CA, Room 08  
January 22 @ 4:00 p.m.**

**SPECIAL MEETING MINUTES**

**Committee Members Present:**

Richie Kerwin Lim, First District Representative  
Larry Tekler, Second District Representative  
Larry Lang, Fourth District Representative

**Committee Members Absent:**

Eric Woolery, Orange County Auditor-Controller, Chairman  
Mark Kizzar, Second District Representative  
~~Andrew Leske, Third District Representative (Resigned)~~

**Orange County Transportation Authority Staff Present:**

Vicki Austin, Department Manager, Accounting and Financial Reporting  
Christine Byrne, Department Manager, Public Outreach  
Jared Hill, Community Relations Specialist  
Changsu Lee, Principal Accountant  
Sean Murdock, Director, Finance and Administration  
Andrew Oftelie, Executive Director, Finance and Administration  
Alice Rogan, Director, External Affairs  
Janet Sutter, Executive Director, Internal Audit  
Benjamin Torres, Manager, General Accounting  
Tamara Warren, Measure M Program Manager

**Recorder:**

Teri Lepe, Executive Assistant, Internal Audit

**Guests:**

Roger Alfaro, Partner, Vavrinek, Trine, Day & Co., LLP  
Kinnaly Soukhaseum, Partner, Vavrinek, Trine, Day & Co., LLP

**1. Welcome**

Richie Kerwin Lim welcomed everyone to the Orange County Transportation Authority (OCTA) Taxpayer Oversight Committee (TOC) Audit Subcommittee (AS) Special Meeting at 4:07 p.m.

**2. Approval of the Minutes for June 12, 2018**

Richie Kerwin Lim asked if there are any corrections to the minutes for June 12, 2018. A motion was made by Larry Tekler, seconded by Larry Lang, and carried unanimously to approve the June 12, 2018 TOC AS minutes.

### **3. Action Item**

#### **A. External Auditor Communication/Annual Audit and Agreed-Upon Procedures Report**

Roger Alfaro and Kinnaly Soukhaseum, Partners with Vavrinek Trine, Day & Co., LLP, (VTD) presented the annual financial and compliance audit and agreed-upon procedures engagements. Roger explained that VTD's role and responsibility as the external auditor for the Orange County Local Transportation Authority (OCLTA) is to plan the audit to obtain reasonable assurance that the financial statements are free from material misstatement. Roger stated that based on the procedures performed and the audit evidence that was gathered throughout the audit process, VTD has issued an unmodified, or clean, opinion on OCLTA's financial statements which is the highest level of assurance that can be achieved on a financial statement audit.

Roger next conveyed that in connection with the audit, VTD also issues a report on internal control over financial reporting in accordance with Government Auditing Standards. Based on the evidence gathered and the procedures performed, VTD did not identify, or report out, any material weaknesses in the internal controls over financial reporting.

In addition to the financial statements, there are two other sets of deliverables referred to as agreed-upon procedures engagements. Roger said VTD identified no exceptions for the agreed-upon procedures over the GANN Limit, and identified no exceptions for the agreed-upon procedures over the Measure M2 Status Report. Additionally, as part of the audit process, VTD is pleased to report out they did not encounter any disagreements with management with respect to the accounting, auditing, or financial reporting matters, nor did VTD encounter any difficulties completing the audit process.

After discussion and questions of the auditor by TOC AS members, a motion was made by Larry Lang, seconded by Larry Tekler, and carried unanimously to find OCTA in compliance with the Measure M ordinance based on the external auditor communication and review of the annual audits and agreed-upon procedures reports.

### **4. Presentation Items**

#### **A. M2 Triennial Performance Assessment**

Tamara Warren informed the TOC AS that Sjoberg Evashenk Consulting, Inc., (Sjoberg) was selected to perform the M2 Triennial Performance Assessment. Tamara was very pleased to announce that the Orange County Transportation Authority (OCTA) has received draft results of the assessment, which includes a positive assessment of Measure M program goals, compliance, fiscal practices, and transparency. Sjoberg's full and final report of the performance assessment will be presented to OCTA's Finance and Administration Committee in April.

**B. M2 Debt Issuance (Plan of Finance)**

Andrew Oftelie told the TOC AS that OCTA's Finance Department will be presenting a plan of finance for the Interstate 405 (I-405) project to OCTA's Finance and Administration Committee on January 23, 2019, and to the Board of Directors (Board) on January 28, 2019, for approval. The plan consists of issuing \$400 million in debt against Measure M sales tax.

The Board approved a \$1.9 million plan of finance for the I-405 project in 2016 that consisted of \$135 million in federal and state grants, securing a \$629 million federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan to be paid back with toll road revenues, and the balance to be funded through Measure M funds. In order to meet the project timeline to advance the I-405 project, OCTA intends to obtain Board authorization to issue \$900 million in bonds; \$400 million to be issued now, pending Board-approval, and \$500 million to be issued in two years. This will enable OCTA to sustain the I-405 project through completion in 2023. The debt service will be paid back with sales taxes collected between 2023 and 2041.

**C. Sales Tax Update**

Sean Murdock stated that at the time the Comprehensive Annual Financial Report was compiled, the California Department of Tax and Fee Administration was behind on both sales tax collections and allocations. Muni Services assisted OCTA to provide an estimate of \$321 million in projected sales tax revenue for the year. Upon the final disbursement for 2018 in December, Sean is happy to convey that OCTA collected \$323 million in sales tax revenues, which amounts to a 4.6% growth rate over the budgeted amount of \$317 million.

**D. Other Matters**

Janet Sutter indicated the TOC AS meeting in February will likely be cancelled; however, a Special Meeting of the TOC AS will be scheduled in March to review the results of the Measure M2 city audits ahead of the compliance finding in April.

**5. Public Comments**

There were no public comments.

**6. Adjournment**

The Measure M TOC AS Special Meeting adjourned at 5:15 p.m. The next meeting will be a Special Meeting, scheduled on a date to be determined.





**March 27, 2018**

**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, 2018

### **Overview**

Vavrinek, Trine, Day & Company, LLP, an independent accounting firm, has applied agreed-upon procedures related to Measure M2 Local Fair Share funds provided to eleven cities, and Senior Mobility Program funds provided to four cities, for the fiscal year ended June 30, 2018. Local Fair Share program reports include observations of ineligible Maintenance of Effort expenditures, allocation of unsupported indirect charges, reporting errors, insufficient interest allocation, and funded projects not reflected in Seven-Year Capital Improvement Program plans. Senior Mobility Program audits include observations relating to late submission of monthly reports, reporting errors, lack of evidence of competitive procurement of third-party vendors, missing contract provisions, and participant and trip eligibility.

### **Recommendations**

- A. Direct staff to monitor implementation of recommendations by cities.
- B. Direct Measure M2 local programs staff to review observations with legal counsel and develop recommendations for Board of Directors' consideration related to reviewed cities' compliance with the Measure M2 Ordinance and Eligibility Guidelines.

### **Background**

Annually, the Audit Subcommittee (Subcommittee) of the Taxpayers Oversight Committee selects a sample of local jurisdictions receiving Measure M2 (M2) funding for audit to determine the local jurisdictions' level of compliance with provisions of the M2 Ordinance. For the fiscal year (FY) ended June 30, 2018,

the Subcommittee selected the eleven cities for review of Local Fair Share (LFS) program funding, and four cities for review of Senior Mobility Program (SMP) funding. The agreed-upon procedures (AUP's) applied for these reviews were 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 expenditures, 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. Cities are required to submit copies of their Seven-Year Capital Improvement Plan (CIP), reflecting projects that will be funded with LFS.

The SMP funds local community transportation services for seniors. This program provides 80 percent of the funding allocation, 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***

Vavrinek, Trine, Day & Company, LLP, (auditors) made site visits to each of the selected cities, conducted interviews of city finance and program-related staff, and applied the AUP's, 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, Buena Park, Costa Mesa, Dana Point, La Habra, Orange, San Clemente, Santa Ana, Seal Beach, Stanton, and Westminster. At nine cities, the auditors identified expenditures that were not properly classified as MOE expenditures or were not supported by a

documented allocation methodology, as required. Seven of the cities continued to meet the minimum MOE requirement after removal of these amounts. However, after removal of ineligible amounts, the City of Stanton no longer met the minimum MOE requirement. Removal of unsupported indirect charges by the City of Santa Ana also results in a failure to meet the minimum MOE requirement.

In total, four cities lacked adequate documentation to support indirect costs allocated to MOE and/or LFS, including the City of San Clemente (San Clemente), which was audited for the FY ended 2017, and advised of the same issue. San Clemente had responded that their cost allocation plan, which was outdated, would be updated.

Auditors identified reporting errors on Expenditure Reports submitted by seven of the cities and identified projects not listed in Seven-Year CIPs provided by five cities. Also, one city did not allocate all interest due to the LFS fund.

A summary of all findings and city management responses can be found at Attachment A, and the detailed reports, along with written management letters, can be found at Attachment B.

#### Agreed-Upon Procedures: SMP Funds

The auditors examined the cities of Dana Point, La Habra, Lake Forest, and San Clemente. No observations resulted from the audit of the City of Lake Forest.

Reporting errors and late submission of required reports were identified at three cities, as well as a lack of documentation to evidence that the transportation service provider was competitively procured. Service provider contracts at two cities also lacked a required provision to ensure wheelchair accessibility. Auditors observed that the City of Dana Point did not have contract provisions or monitoring controls in place to ensure verification of participant eligibility. Auditors also identified one trip provided by San Clemente which was not eligible according to their Service Plan.

A summary of all findings and city management responses can be found at Attachment C, and the detailed reports, along with written management letters, can be found at Attachment D.

#### ***Summary***

The auditors have completed agreed-upon procedures related to M2 LFS and SMP funds provided to twelve cities for the FY ended June 30, 2018.

***Attachments***

- A. Summary of Results of Agreed-Upon Procedures Audits Orange County Local Transportation Authority Measure M2 Local Fair Share for the Year Ended June 30, 2018
- B. Orange County Local Transportation Authority Measure M2 Local Fair Share Agreed-Upon Procedures Reports Year Ended June 30, 2018
- C. Summary of Results of Agreed-Upon Procedures Audits Orange County Local Transportation Authority Measure M2 Senior Mobility Program for the Year Ended June 30, 2018
- D. Orange County Local Transportation Authority Measure M2 Senior Mobility Program Agreed-Upon Procedures Reports Year Ended June 30, 2018

**Prepared by:**



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

**SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS**  
**Orange County Local Transportation Authority**  
**Measure M2 Local Fair Share for the Year Ended June 30, 2018**

City	Result	City Management Response
Aliso Viejo	Aliso Viejo allocated interest based on the net cash balance of three different Measure M funds. Since one fund was overdrawn, the Local Fair Share (LFS) fund was not allocated its appropriate share of interest earnings.	Aliso Viejo will begin allocating interest to each of the Measure M funds separately; in addition, Aliso Viejo will recalculate the interest previously allocated and add it to the current year's interest earnings.
Buena Park	Testing of Maintenance of Effort (MOE) expenditures identified two expenditures totalling \$13,732 that were not properly classified as street and road expenditures. However after removing the amounts from total MOE expenditures, Buena Park continued to meet the MOE requirement.	Buena Park will instruct staff to no longer include Metrolink maintenance costs in the reporting of MOE expenditures.
	Buena Park included "Administration" on the list of projects funded by LFS on Schedule 4 of the Expenditure Report. Administration is not a project listed in Buena Park's Seven-Year Capital Improvement Project (CIP) plan.	Buena Park will evaluate methods to allocate indirect administrative expenditures to specific M2 projects going forward.
Costa Mesa	Testing of MOE expenditures identified one expenditure for \$9,700 that was not properly classified as a street and road expenditure. However after removing the amount from total MOE expenditures, Costa Mesa continued to meet the MOE requirement.	Costa Mesa will exclude this type of expenditure when calculating MOE going forward.
	Costa Mesa recorded expenditures to Traffic Data Counts as indirect charges rather than direct charges. Traffic Data Counts is not a project listed on Costa Mesa's CIP plan.	Going forward, Costa Mesa will account for this type of expenditure under the appropriate projects from the CIP plan.
Dana Point	Dana Point reported MOE expenditures of \$2,546,144 on its Expenditure Report; actual MOE expenditures totalled \$2,553,004, a difference of \$6,860.	Dana Point has amended its reconciliation and review procedures for the Expenditure Report.
	Dana Point reported a LFS fund balance of \$4,942 on its Expenditure Report; the actual fund balance was \$93,534, a difference of \$88,592.	Dana Point will submit a revised Expenditure Report.
	Dana Point reported LFS expenditures of \$579,268 on its Expenditure Report; actual LFS expenditures totalled \$541,600, a difference of \$37,668.	Dana Point will submit a revised Expenditure Report.
La Habra	La Habra reported MOE expenditures of \$2,501,291 on its Expenditure Report; actual MOE expenditures totalled \$2,583,608, a difference of \$82,317.	La Habra will ensure that future reports reflect actual MOE expenditures, rather than budgeted amounts. A revised Expenditure Report will be prepared and submitted.
	Testing of MOE expenditures identified two expenditures totalling \$2,812 that were not properly classified as street and road expenditures. In addition, La Habra allocated 19.95% of total park maintenance costs, totalling \$78,328, but could not demonstrate the basis for the allocation. However, after removing the amounts from total MOE expenditures, La Habra continued to meet the MOE requirement.	In the future, La Habra will exclude Parks and Landscaping expenditures from MOE, except for expenditures that are specifically related to parkway and median maintenance.
	La Habra reported \$357,494 in indirect costs on its Expenditure Report; actual indirect costs totalled \$602,072, a difference of \$244,578.	In the future, La Habra will identify and report indirect costs properly. A revised Expenditure Report will be prepared and submitted.

**SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS**  
**Orange County Local Transportation Authority**  
**Measure M2 Local Fair Share for the Year Ended June 30, 2018**

City	Result	City Management Response
	La Habra listed two LFS-funded projects on its Expenditure Report which were not listed in its CIP plan.	La Habra will ensure the accuracy of future reporting by cross-referencing the LFS projects.
Orange	Testing of MOE expenditures identified five transactions totalling \$17,476, that resulted from a cost allocation methodology that Orange was unable to provide support for. However, after removing the amounts from total MOE expenditures, Orange continued to meet the MOE requirement.	Orange has implemented a new method for cost allocation beginning with fiscal year 2019, and will maintain documentation to support future allocations.
	Orange reported indirect costs of \$278,879 on its Expenditure Report; however, inspection of the general ledger identified additional indirect charges totalling \$110,618.	Orange has implemented a new method for cost allocation beginning with fiscal year 2019, and will maintain documentation to support future allocations.
San Clemente	Testing of MOE expenditures, identified one expenditure for \$3,885 that was not properly classified as a street and road expenditure. However, after removing the amount from total MOE expenditures, San Clemente continued to meet the MOE requirement.	San Clemente erroneously charged cleaning and removal of debris from a canyon to the MOE.
	Testing of LFS expenditures identified three expenditures totalling \$5,396 related to payroll overhead costs. The allocation is based on an analysis performed in 2008. During the audit of LFS for Fiscal Year 2017, San Clemente was advised that an updated cost study was required to support these allocations, and San Clemente responded that its cost allocation percentages would be updated; however, charges for Fiscal Year 2018 were based on the same, outdated cost study.	San Clemente is in the process of submitting a Request for Proposal (RFP) for an external review on overhead costs. The RFP will be issued and the study completed by December 2019. A prior period entry was posted to transfer the \$20,500 out of this fund.
	San Clemente reported indirect charges of \$0 on its Expenditure Report; actual indirect charges totalled \$20,500.	A prior period entry was posted to transfer the \$20,500 out of this fund.
Santa Ana	Testing of MOE expenditures identified \$715,626 in indirect costs which were not supported by a documented methodology. If these charges were removed, Santa Ana would not meet the minimum MOE requirement.	These expenditures represent Internal Service Fund charges. The methodology was initially developed based on a review of services and associated costs; however, due to staff changes and records retention, Santa Ana is unable to locate supporting documentation. Santa Ana will engage a third party to develop and implement an updated allocation for internal service charges. In addition, subsequent to filing year end reports, Santa Ana became aware of \$1,161,335 in Graffiti Abatement expenditures that Santa Ana believes to be eligible MOE expenditures but were not included in MOE. The addition of these expenditures would reflect Santa Ana's continued compliance in meeting MOE requirements.
	Santa Ana reported indirect charges of \$0 on its Expenditure Report; actual indirect charges totalled \$1,456,821.	Santa Ana will properly report indirect charges effective with the Fiscal Year 2018-19.
	Santa Ana reported a LFS fund balance of \$9,747,041 on its Expenditure Report; however, the actual fund balance was \$9,615,851, a difference of \$131,190.	The fund balance of \$9,615,851 did not include \$220,775 in interest; therefore, the fund balance should be \$9,836,626, which results in a difference of \$89,585. This difference is an unidentified variance carried over from prior fiscal years. Due to staff turnover and records retention, Santa Ana is unable to find supporting documentation for the variance. Santa Ana will continue to review and improve controls to ensure accurate financial reporting.

**SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS**  
**Orange County Local Transportation Authority**  
**Measure M2 Local Fair Share for the Year Ended June 30, 2018**

City	Result	City Management Response
Seal Beach	Testing of MOE expenditures identified six expenditures totalling \$31,499 that were not properly classified as street and road expenditures. In addition, review of the general ledger detail report identified nine additional expenditures for \$730 that were not properly classified as street and road expenditures. However, after removing the amounts from total MOE expenditures, Seal Beach continued to meet the MOE requirement.	Seal Beach will develop procedures to ensure that only allowable MOE expenditures are included. The procedures will include a mid-year review and status report to ensure Seal Beach is on target regarding projected MOE and that invoices have been properly coded.
	Seal Beach reported a LFS fund balance of \$1,270,756 on its Expenditure Report; however, the actual fund balance was \$1,192,815, a difference of \$77,941. The difference was due to Seal Beach not properly calculating the ending fund balance and subsequently identifying LFS expenditures not included in previously submitted Expenditure Reports.	Seal Beach now has a better understanding of the reporting dynamics and have already begun procedural changes that will ensure correct fund balance reporting going forward.
	Seal Beach reported LFS expenditures of \$370,191 on Schedule 2 of its Expenditure Report; however, actual LFS expenditures totalled \$369,283, a difference of \$908. Schedule 4 of the Expenditure Report reflected the correct figure.	Seal Beach has submitted a revised Expenditure Report. Additional review will be performed prior to report submission to help ensure accuracy going forward.
	Testing identified five expenditures, totalling \$24,125, that were not tied directly to a CIP project. In addition, Seal Beach included "Street Maintenance Overhead and Administration" and "Battery Back-up Project" on the list of projects funded by LFS on Schedule 4 of the Expenditure Report; however, these are not projects included in their Seven-Year CIP plan.	Seal Beach will thoroughly review the CIP plan during the budget process each year to ensure that each project listed conforms to the Expenditure Report.
	Testing identified \$5,540 of indirect charges relating to payroll costs that were not directly related to an approved project and for which there was no basis for the percentage allocated.	Seal Beach will develop procedures to ensure that indirect costs are only charged to eligible capital projects listed in the CIP plan.
Stanton	Testing of MOE expenditures identified five expenditures totalling \$8,593, that were not properly classified as street and road expenditures. After removing the amounts from total MOE expenditures, Stanton did not meet the minimum MOE requirement.	Stanton has identified other local street and road expenditures in the amount of \$13,482.89 that were not recorded as MOE expenditures that we believe will qualify as local street and road expenditures. This amount exceeds the disallowed costs. Stanton also has over \$25,000 in street and road expenditures charged to a Lighting and Landscaping District fund that could be transferred, if necessary. Alternatively, Stanton would be willing to transfer from the General Fund or overspend MOE in the next year. Stanton has already revised internal controls to ensure this situation will not reoccur.
Westminster	Testing of MOE expenditures identified six expenditures totalling \$160,378, that were not properly classified as street and road expenditures. After removing the amount from total MOE expenditures, Westminster continued to meet the minimum MOE requirement.	In the future, Westminster will review expenditures to ensure they are MOE eligible.
	Westminster reported \$0 in indirect costs on its Expenditure Report; however indirect costs totalling \$913,575 were identified.	Indirect charges will be reflected on the indirect/overhead field in the future.

**SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS**  
**Orange County Local Transportation Authority**  
**Measure M2 Local Fair Share for the Year Ended June 30, 2018**

<b>City</b>	<b>Result</b>	<b>City Management Response</b>
	Four projects listed on Schedule 4 of Westminster's Expenditure Report were not listed in Westminster's CIP plan.	Westminster will ensure that projects listed on Schedule 4 are included in the CIP plan.



**ORANGE COUNTY LOCAL  
TRANSPORTATION AUTHORITY  
MEASURE M2 LOCAL FAIR SHARE  
AGREED-UPON PROCEDURES REPORTS  
Year Ended June 30, 2018**

**ORANGE COUNTY LOCAL  
TRANSPORTATION AUTHORITY**

**MEASURE M2 LOCAL FAIR SHARE**

**AGREED-UPON PROCEDURES REPORTS**

**Year Ended June 30, 2018**

The cities listed below were selected by the Audit Subcommittee of the Taxpayers Oversight Committee to perform agreed-upon procedures for the fiscal year ended June 30, 2018. Please refer to the individual divider tab for our report on each Agency.

City of Aliso Viejo

City of Buena Park

City of Costa Mesa

City of Dana Point

City of La Habra

City of Orange

City of San Clemente

City of Santa Ana

City of Seal Beach

City of Stanton

City of Westminster



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF ALISO VIEJO**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Aliso Viejo's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$462,004 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (101), under the Traffic Engineering (4502) and Street Maintenance (4503) Department codes. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$475,651 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$475,651 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$335,029, representing approximately 70% of total MOE expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$111,818 as indirect costs. Indirect MOE expenditures tested totaled \$94,544. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$1,952,101 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 673,758
2016/2017	Local Fair Share (M2)	\$ 227,348

We agreed the fund balance of \$901,106 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 204, Measure M Fund as a transfer out to Fund 311, Street Improvements Fund, and Fund 332, Storm Water Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$436,421 (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.

8. We obtained the City’s Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City’s Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City’s Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$354,001 representing approximately 81% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City’s accounting personnel, no indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City’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. We agreed the amount reflected to the amount of interest listed on the City’s Expenditure Report (Schedule 2, line 4), explaining any differences.

Findings: The City allocated interest earnings on a quarterly basis using the ending cash balance of each fund. Per inspection of the City’s general ledger, we identified that Fund 204, Measure M Fund included cash balances for various Measure M programs such as Measure M2 (Local Fair Share), Senior Mobility Program, and the Environmental Cleanup Program (Water Quality). The Water Quality program had a negative cash balance that was offset by the Local Fair Share cash balance within the fund. As such, interest earned for Local Fair Share as reported on the M2 Expenditure Report (Schedule 2, Line 4) was understated due to the offsetting negative cash balance. We identified the following cash balances and interest earnings by Measure M Program as of June 30, 2018:

<u>Program</u>	<u>Cash Balance</u>	<u>Interest Earnings</u>
Measure M2 – Local Fair Share	\$ 901,106	\$ 6,943
Senior Mobility Program	\$ 11,633	\$ 169
Water Quality	(\$423,395)	\$ -

No other exceptions were found as a result of this procedure.

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.



Laguna Hills, California  
March 12, 2019

**CITY OF ALISO VIEJO, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Street Lights & Traffic Signals - Schedule 3, line 13	\$ 316,303
Other Street Purpose Maintenance - Schedule 3, line 15	29

Construction:

Storm Drains - Schedule 3, line 6	47,501
Indirect and/or Overhead - Schedule 3, Line 1	<u>111,818</u>

Total MOE Expenditures	<u>475,651</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

AV Parkway Rehabilitation (#112) Project	384,827
Aliso Creek Rehabilitation (#114) Project	47,362
M2 Tier 1 Environmental Cleanup Phase 5 (#119) Project	<u>4,232</u>

Total Measure M2 Local Fair Share Expenditures	<u>436,421</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 912,072</u>
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Note:

The above amounts were taken directly from the financial records of the City of Aliso Viejo and were not audited.

# EXHIBIT 1



MAYOR  
Ross Chun

MAYOR PRO TEM  
Mike Munzing

COUNCIL MEMBER  
Tiffany Ackley

COUNCIL MEMBER  
Dave Harrington

COUNCIL MEMBER  
William A. Phillips

CITY MANAGER  
David A. Doyle

CITY ATTORNEY  
Scott C. Smith

CITY CLERK  
Mitzi Ortiz, MMC

March 12, 2019

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Aliso Viejo as of and for the fiscal year ended June 30, 2018.

## Procedure #10

We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

Findings: The City allocates interest earnings on a quarterly basis using the ending cash balance of each fund. Per inspection of the City's general ledger, we identified that Fund 204, Measure M Fund included cash balances for various Measure M programs such as Measure M2 (Local Fair Share), Senior Mobility Program, and the Environmental Cleanup Program (Water Quality). The Water Quality program had a negative cash balance that was offset by the Local Fair Share cash balance within the fund. As such, interest earned for Local Fair Share as reported on the M2 Expenditure Report (Schedule 2, Line 4) is understated due to the offsetting negative cash balance. We identified the following cash balances and interest earnings by Measure M Program as of June 30, 2018:

<u>Program</u>	<u>Cash Balance</u>	<u>Interest Earnings</u>
Measure M2 – Local Fair Share	\$ 901,106	\$ 6,943
Senior Mobility Program	\$ 11,633	\$ 169
Water Quality	(\$423,395)	\$ -

No other exceptions were found as a result of this procedure.



**City's Response:**

The City of Aliso Viejo believes that M2 funds due to the City should be included in the interest calculation. Although the M2 Water Quality funds have not been received by the City, the funds have been expended and are due from OCTA. However, as recommended by the auditors, we will begin allocating interest based on the ending cash balance available for the Measure M2 – Local Fair Share, Senior Mobility Programs, and other Measure M programs. In addition, the City will recalculate the interest previously allocated in FY 2016-17 and 2017-18. The additional interest will be added to the current year's interest earnings allocated to Measure M2 – Local Fair Share.

Sincerely,



Dave Doyle  
City Manager



Gina Tharani  
Director of Finance



Shaun Pelletier  
Director of Public Works



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF BUENA PARK**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Buena Park's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$3,743,072 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (11) under the Public Works Department. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$4,797,198 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$4,797,198 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$1,141,990, representing approximately 24% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified two expenditures, totaling \$13,732 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$1,179,024 as indirect costs. Indirect MOE expenditures tested totaled \$619,512. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$4,291,669 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 1,430,926
2016/2017	Local Fair Share (M2)	\$ 204,326

We agreed the fund balance of \$1,635,252 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 25, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$2,284,862 (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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$1,685,643 representing approximately 74% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. The City listed "Administration" on Schedule 4 of the Expenditure Report of \$467,750, which was not part of an approved project on the City's Seven Year CIP. No other exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, the City reported \$467,750 as indirect costs for the fiscal year ended June 30, 2018. Indirect Measure M2 Local Fair Share expenditures tested totaled \$7,645. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavinich Train, DMS Co, LLP*

Laguna Hills, California

March 12, 2019

**CITY OF BUENA PARK, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Street Lights & Traffic Signals - Schedule 3, line 13	\$ 1,406,374
Other Street Purpose Maintenance - Schedule 3, line 15	2,102,831

Construction:

Street Reconstruction - Schedule 3, line 3	108,969
Indirect and/or Overhead - Schedule 3, line 1	<u>1,179,024</u>

Total MOE Expenditures	<u>4,797,198</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

Annual Pavement Rehabilitation	560,000
Slurry Seal Program	126,986
SR91 - Beach West Exit Ramp	430,188
Orangethorpe Ave. Rehabilitation	691,123
Descanso Ave. Rehabilitation between Caballero and Alturo Blvd.	8,815
Administration *	<u>467,750</u>

Total Measure M2 Local Fair Share Expenditures	<u>2,284,862</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 7,082,060</u>
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\* Project was not listed on the City's approved Seven-Year CIP (See Procedure 8).

Note:

The above amounts were taken directly from the financial records of the City of Buena Park and were not audited.



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**FINANCE DEPARTMENT**

March 12, 2019

**Board of Directors**

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Buena Park as of and for the fiscal year ended June 30, 2018.

**Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

**Findings:**

MOE expenditures tested totaled \$1,143,357, representing approximately 24% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified two expenditures, totaling \$13,732 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City met the minimum MOE requirement. No other exceptions were found as a result of this procedure.

**City's Response:**

The City will implement procedures instructing staff to no longer include Metrolink maintenance costs in the reporting of MOE expenditures.

**Procedure #8**

We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.



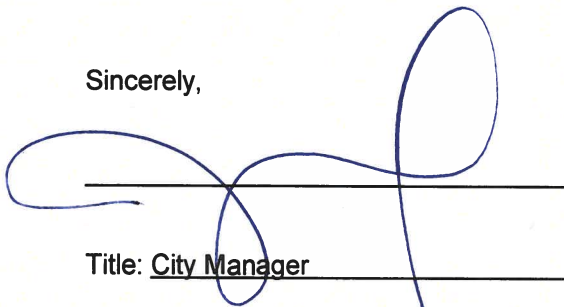
**Findings:**

Measure M2 Local Fair Share expenditures tested totaled \$1,685,643 representing approximately 74% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. The City listed "Administration" on Schedule 4 of the Expenditure Report of \$467,750, which is not part an approved project on the City's Seven Year CIP. No other exceptions were found as a result of this procedure.

**City's Response:**

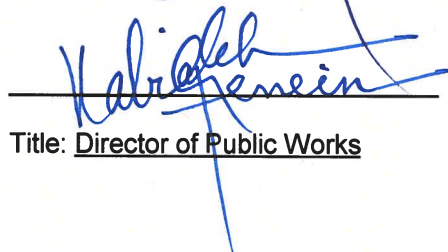
The City could not find specific guidance to indicate that indirect administration costs were required to be allocated to specific projects. The Measure M2 Expenditure report template instructions for Schedule 3 indicate that indirect administrative costs could be reported in Line 1 for agency costs that could not be readily identified to a specific project. Furthermore, the City annually submits a draft copy of the M2 expenditure report to OCTA for review prior to finalizing the City's staff report and received no indication that there were any errors in the report. However, the City will evaluate methods to allocate indirect administrative expenditures to specific M2 projects in the M2 expenditure report going forward.

Sincerely,



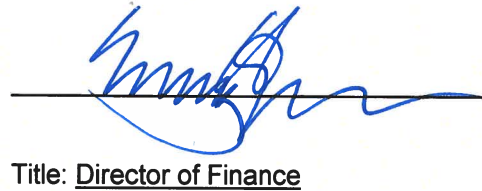
\_\_\_\_\_

Title: City Manager



\_\_\_\_\_

Title: Director of Public Works



\_\_\_\_\_

Title: Director of Finance





**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF COSTA MESA**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Costa Mesa's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$7,383,205 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (101) and Equipment Fund (601) under the Public Services Department. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$7,821,205 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$7,821,205 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$1,686,388, representing approximately 22% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified one expenditure, totaling \$9,700 that was not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$1,395,600 as indirect costs. Indirect MOE expenditures tested totaled \$507,843. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$7,238,669 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 2,477,262
2016/2017	Local Fair Share (M2)	\$ 2,461,470
2015/2016	Local Fair Share (M2)	\$ 1,826,066

We agreed the fund balance of \$6,764,798 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 416, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$1,509,113 (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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$1,180,409 representing approximately 78% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found in our sample, however, as shown at Schedule A, one project (Traffic Data Counts totaling \$4,805 of expenditures) was not an approved project on the City's Seven-Year CIP. No other exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), the City reported \$4,805 as indirect costs related to the Traffic Data Counts line item on the Expenditure Report (see Schedule A) for the fiscal year ended June 30, 2018. However, per discussion with the City's accounting personnel and inspection of the general ledger expenditure detail, we determined that the reported administration costs were direct costs. Further, as described under procedure 8, this was not part of an approved project on the City's Seven-Year CIP. No other exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavrinch Train, Douglas Co., LLC*  
Laguna Hills, California  
March 12, 2019

**CITY OF COSTA MESA, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Overlay & Sealing - Schedule 3, line 12	\$ 21,546
Street Lights & Traffic Signals - Schedule 3, line 13	1,999,405
Other Street Purpose Maintenance - Schedule 3, line 15	2,807,995

Construction:

Street Reconstruction - Schedule 3, line 3	815,381
Signals, Safety Devices & Street Lights - Schedule 3, line 4	231,865
Pedestrian Ways & Bikepaths - Schedule 3, line 5	353,186
Storm Drains - Schedule 3, line 6	196,227
Indirect and/or Overhead - Schedule 3, line 1	<u>1,395,600</u>

Total MOE Expenditures	<u>7,821,205</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

Traffic Data Counts *	4,805
East 19th Street Safe Route to School	371,668
Bristol Street and Bear Street Rehabilitation	198,187
Street Maintenance Citywide	809,156
Project V Common Circulator	<u>125,297</u>

Total Measure M2 Local Fair Share Expenditures	<u>1,509,113</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u><u>\$ 9,330,318</u></u>
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\* Project was not listed on the City's approved Seven-Year CIP (See Procedure 8).

Note:

The above amounts were taken directly from the financial records of the City of Costa Mesa and were not audited.



# CITY OF COSTA MESA

77 FAIR DRIVE, P.O. BOX 1200, COSTA MESA, CA 92628-1200

EXHIBIT 1

FROM THE OFFICE OF THE FINANCE DIRECTOR/CITY TREASURER

March 12, 2019

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Costa Mesa as of and for the fiscal year ended June 30, 2018.

## **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

## **Findings:**

MOE expenditures tested totaled \$1,686,388, representing approximately 22% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified one expenditure, totaling \$9,700 that was not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. However, after removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

## **City's Response:**

The City concurs with the findings and will exclude this type of expenditure when calculating the Maintenance of Effort going forward.

## **Procedure #8**

We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.



- b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

**Findings:**

Measure M2 Local Fair Share expenditures tested totaled \$1,180,409 representing approximately 78% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found in our sample, however, as shown at Schedule A, one project (Traffic Data Counts totaling \$4,805 of expenditures) was not an approved project on the City's Seven-Year CIP. No other exceptions were found as a result of this procedure.

**City's Response:**

The City concurs with the finding that traffic data count expenditures were not classified as an approved Fair Share project in the City's Seven-Year CIP. The City uses data collected from the counts to design traffic improvements, address traffic needs, and review traffic signal timing even though the expenses were not coded to a particular project from the City's Seven-Year CIP. Going forward, the City will account for this type of traffic data count expenditures under the appropriate projects from the City's Seven-Year CIP.

**Procedure #9**

We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

**Findings:**

Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), the City reported \$4,805 as indirect costs related to the Traffic Data Counts line item on the Expenditure Report (see Schedule A) for the fiscal year ended June 30, 2018. However, per discussion with the City's accounting personnel and inspection of the general ledger expenditure detail, we determined that the reported administration costs were direct costs. Further, as described under procedure 8, this was not part of an approved project on the City's Seven-Year CIP. No other exceptions were found as a result of this procedure.

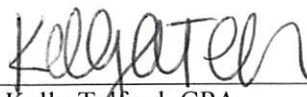
**City's Response:**

The City concurs with the finding that the traffic data count expenditure should be a direct project cost at this time. As stated in our response to procedure #8, the City will account for this type of expenditure under the appropriate projects from the Seven-Year CIP going forward.

Sincerely,



Tamara Letourneau  
Acting City Manager



Kelly Telford, CPA  
Director of Finance



Raja Sethuraman  
Director of Public Services



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF DANA POINT**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Dana Point's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$1,313,011 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (01), under the Street Maintenance (2350), Street Sweeping (2490), Storm Drains (2510), and Safety Light (2530) object codes. Additional expenditures were recorded in the City's Capital Improvement Fund (11) under CIP Project codes (1293 and 1297) and in the City's CFD Maintenance Fund (27) under the County Facilities object code (2650). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$2,553,004 (see Schedule A), which exceeded the requirement. We agreed the total expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18) of \$2,546,144, identifying a difference of \$6,860. No other exceptions were found as a result of this procedure.



4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$2,226,251, representing approximately 87% of total MOE expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. Per discussions with the City’s accounting personnel and inspection of the general ledger expenditure detail, no indirect costs were identified as MOE expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$1,624,362 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 93,534

We compared the fund balance of \$93,534 from the general ledger to the fund balance reported in the City’s Expenditure Report (Schedule 1, line 20) of \$4,942, identifying a difference of \$88,592. No other exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 04, Measure M Fund as a transfer out to Fund 11, Capital Improvement Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$541,600 (see Schedule A), a difference of \$37,668 compared to the City’s Expenditure Report (Schedule 2 line 17, and detail listed at Schedule 4) of \$579,268. No other exceptions were found as a result of this procedure.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$541,600 representing approximately 100% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, no indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavinich Train Dry Co, LLC*  
Laguna Hills, California  
March 12, 2019

**CITY OF DANA POINT, CALIFORNIA**  
**Schedule of MOE and Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Overlay & Sealing - Schedule 3, line 12	\$ 898,511
Street Lights & Traffic Signals - Schedule 3, line 13	80,370
Other Street Purpose Maintenance - Schedule 3, line 15	<u>1,574,123</u>

Total MOE Expenditures	<u>2,553,004</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

CIP# 1310: Crown Valley Parkway Resurfacing	<u>541,600</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 3,094,604</u>
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Note:

The above amounts were taken directly from the financial records of the City of Dana Point and were not audited.



March 12, 2019

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Dana Point as of and for the fiscal year ended June 30, 2018.

**Procedure #3**

We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City’s Expenditure Report (Schedule 3, line 18), explaining any differences.

**Findings:**

The City’s MOE expenditures for the fiscal year ended June 30, 2018 were \$2,553,004 (see Schedule A), which exceeded the requirement. We agreed the total expenditures to the amount reported on the City’s Expenditure Report (Schedule 3, line 18) of \$2,546,144, identifying a difference of \$6,860. No other exceptions were found as a result of this procedure.

**City’s Response:**

The City agrees and has amended its reconciliation and review procedures for the M2 Expenditure report.

**Procedure #6**

We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

**Findings:**

The City received \$1,624,362 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 93,534

*Harboring the Good Life*

We compared the fund balance of \$93,534 from the general ledger to the fund balance reported in the City's Expenditure Report (Schedule 1, line 20) of \$4,942, identifying a difference of \$88,592. No other exceptions were found as a result of this procedure.

**City's Response:**

Though the City's accounting system reflects the correct amounts, the totals shown on the manual M2 report were incorrect. The City agrees with the finding and will be submitting a revised FY 2017/2018 M2 Expenditure Report to OCTA.

**Procedure #7**

We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

**Findings:**

The City's Measure M2 Local Fair Share expenditures are recorded in Fund 04, Measure M Fund as a transfer out to Fund 11, Capital Improvement Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$541,600 (see Schedule A), a difference of \$37,668 to the City's Expenditure Report (Schedule 2 line 17, and detail listed at Schedule 4). No other exceptions were found as a result of this procedure.

**City's Response:**

Though the City's accounting system reflects the correct amounts, the totals shown on the manual M2 report were incorrect. The City agrees with the finding and will be submitting a revised FY 2017/2018 M2 Expenditure Report to OCTA.

Sincerely,



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Title: City Manager



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Title: Director of Finance



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Title: Director of Public Works & Engineering



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF LA HABRA**

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

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), on the City of La Habra's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$1,529,313 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (113) under the Public Works Department. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$2,583,608 (see Schedule A), which exceeded the requirement. Total MOE expenditures per the City's Expenditure Report (Schedule 3, line 18) during the fiscal year ended June 30, 2018 were \$2,501,291, a difference of \$82,317 due to the City reporting budgeted MOE expenditures instead of actual expenditures on the Expenditure Report. No other exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$555,525, representing approximately 22% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified two expenditures, totaling \$2,812 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. Further the City allocated a percentage of park maintenance costs for landscaping of parkways and medians (19.95%), but the City was unable to substantiate the basis of this allocation. Items included in the sample above totaled \$78,328. After removing the expenditures, the City continued to meet the required MOE. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$357,494 as indirect costs. However, per discussion with the City’s accounting personnel and inspection of the general ledger expenditure detail, we identified total indirect costs of \$602,072, a difference of \$244,578 due to the City reporting budgeted MOE expenditures instead of actual expenditures on the Expenditure Report for the year ended June 30, 2018. Indirect MOE expenditures tested totaled \$146,052. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$2,565,713 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 868,420
2016/2017	Local Fair Share (M2)	\$ 857,468
2015/2016	Local Fair Share (M2)	\$ 93,514

We agreed the fund balance of \$1,819,402 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.



7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City's Measure M2 Local Fair Share expenditures are recorded in Fund 138, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$644,290 (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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$506,108 representing approximately 79% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We noted two projects listed on the City's Expenditure Report were not included in the Seven-Year CIP, as identified in Schedule A. Our sample included one expenditure from these projects totaling \$3,296. No other exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested and percentage of dollar. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, no indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

  
Laguna Hills, California  
March 12, 2019

**CITY OF LA HABRA, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Construction:

Street Reconstruction - Schedule 3, line 3	\$ 603,353
Signals, Safety Devices & Street Lights - Schedule 3, line 4	844,875
Pedestrian Ways & Bikepaths - Schedule 3, line 5	478,619
Storm Damage - Schedule 3, line 7	54,689
Indirect and/or Overhead - Schedule 3, line 1	<u>602,072</u>
Total MOE Expenditures	<u>2,583,608</u>

Measure M2 Local Fair Share Expenditures (Schedule 4):

Residential Street Rehabilitation 2015-16	61,203
Residential Street Rehabilitation 2016-18	5,736
Euclid Street Rehab from Imperial Hwy to South City Limit	11,406
Lambert Road Rehabilitation 2017-18	174,072
Alley #84 Improvements FY 2016-17	283,256
Alley Improvements FY 2017-18	12,275
System Safety Analysis Rep Program *	277
Measure M2-Fairshare Administration 2017-18 *	<u>96,065</u>
Total Measure M2 Local Fair Share Expenditures	<u>644,290</u>
Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 3,227,898</u>

\*Project was not listed on the City's approved Seven-Year CIP (See Procedure 8).

Note:

The above amounts were taken directly from the financial records of the City of La Habra and were not audited.



## City of La Habra

*"A Caring Community"*

### ADMINISTRATION BUILDING

110 E. La Habra Boulevard  
 Post Office Box 337  
 La Habra, CA 90633-0785  
 Office: (562) 383-4010  
 Fax: (562) 383-4474

March 12, 2019

Board of Directors

Orange County Local Transportation Authority  
 and the Taxpayers Oversight Committee of the  
 Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of La Habra as of and for the fiscal year ended June 30, 2018.

#### **Procedure #3**

We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

#### **Findings:**

The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$2,583,608 (see Schedule A), which exceeded the requirement. Total MOE expenditures per the City's Expenditure Report (Schedule 3, line 18) during the fiscal year ended June 30, 2018 were \$2,501,291, a difference of \$82,317 due to the City reporting budgeted MOE expenditures instead of actual expenditures on the Expenditure Report. No other exceptions were found as a result of this procedure.

#### **City's Response:**

The City will ensure that future reports only use actual MOE expenditures on Schedule #3 instead of the budgeted amounts that were used to arrive at the annual MOE expenditure requirement to complete the Appendix I MOE Reporting Form. The revised report will be prepared and submitted to OCTA.

#### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.

- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

**Findings:**

MOE expenditures tested totaled \$555,525, representing approximately 22% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified two expenditures, totaling \$2,812 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. Further the City allocated a percentage of park maintenance costs for landscaping of parkways and medians (19.95%), but the City was unable to substantiate the basis of this allocation. Items included in the sample above totaled \$78,328. After removing the expenditures, the City continued to meet the required MOE. No other exceptions were found as a result of this procedure.

**City's Response:**

In the past, the City determined that approximately 19.95% of the expenditures in the Parks and Landscaping division pertained to parkway and median maintenance based on resources spent in these areas. Therefore, the City allocated 19.95% to the entire Parks and Landscaping expenditures for the MOE expenditures. In the future, the City will ensure to exclude Parks and Landscaping expenditures from the MOE expenditures except for expenditures that are specifically related to parkway and median maintenance.

**Procedure #5**

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

**Findings:**

Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$357,494 as indirect costs. However, per discussion with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified total indirect costs of \$602,072, a difference of \$244,578 due to the City reporting budgeted MOE expenditures instead of actual expenditures on the Expenditure Report for the year ended June 30, 2018. Indirect MOE expenditures tested totaled \$146,052. No other exceptions were found as a result of this procedure.

**City's Response:**

The City will ensure that future reports only use actual MOE expenditures on Schedule #3 instead of the budgeted amounts. Furthermore, the City will ensure to identify and report all indirect costs in the MOE expenditures properly. The revised report will be prepared and submitted to OCTA.

**Procedure #8**

We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure

detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

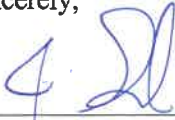
**Findings:**

Measure M2 Local Fair Share expenditures tested totaled \$506,108 representing approximately 79% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We noted two projects listed on the City's Expenditure Report were not included in the Seven-Year CIP, as identified in Schedule A. Our sample included one expenditure from these projects totaling \$3,296. No other exceptions were found as a result of this procedure.

**City's Response:**

The City will ensure the accuracy of the future reporting by cross-referencing the Measure M2 Local Fair Share expenditure report to the Seven-Year CIP report prepared by the Public Works Engineering division.

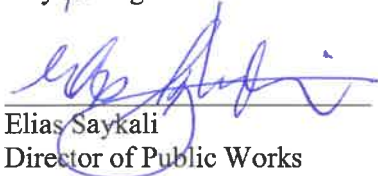
Sincerely,



James D. Sadro  
City Manager



Melvin L. Shannon  
Director of Finance



Elias Saykali  
Director of Public Works



**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

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), on 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, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$2,917,858 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (100) under the General Administration and Support (5001), Engineering (5011), Development Services (5012), Street Maintenance Services (5021), Transportation Planning (5031), Traffic Operations (5032), Roadway Maintenance (5073) and Transportation Services (5074) activity codes. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$3,320,510 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$3,320,510 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$609,822, representing approximately 18% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for five transactions totaling \$17,476. The City asserted the allocations were based on an evaluation performed in FY 2013-14, and had not been updated for fiscal year June 30, 2018. However, the City was unable to provide supporting documentation for the cost allocation methodology. After removing the expenditures, the City continued to meet the required MOE. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$278,879 as indirect costs. However, per discussion with the City’s accounting personnel and inspection of the general ledger expenditure detail, we identified additional indirect costs charged as MOE expenditures on other lines of the City’s Expenditure Report totaling \$110,618 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$134,617. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for five transactions totaling \$17,476. The City asserted the allocations were based on an evaluation performed in FY 2013-14, and had not been updated for fiscal year June 30, 2018. The City was unable to provide supporting documentation for the cost allocation methodology. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$8,170,026 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 2,779,864
2016/2017	Local Fair Share (M2)	\$ 220,771

We agreed the fund balance of \$3,000,635 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.



7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City's Measure M2 Local Fair Share expenditures are recorded in Fund 263, Traffic Improvement Measure M2 Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$5,037,236 (see Schedule A), which agrees 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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$3,874,806 representing approximately 77% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, \$397,624 of indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. M2 expenditures under Schedule 3, Line 1 tested totaled \$106,951. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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


11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

  
Laguna Hills, California  
March 13, 2019

**CITY OF ORANGE, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**

(Unaudited)

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Patching - Schedule 3, line 11	\$ 456,849
Overlay & Sealing - Schedule 3, line 12	24,034
Street Lights & Traffic Signals - Schedule 3, line 13	1,230,333
Storm Damage - Schedule 3, line 14	24,034
Other Street Purpose Maintenance - Schedule 3, line 15	48,069

Construction:

Street Reconstruction - Schedule 3, line 3	300,575
Signals, Safety Devices & Street Lights - Schedule 3, line 4	782,370
Pedestrian Ways & Bikepaths - Schedule 3, line 5	43,166
Storm Drains - Schedule 3, line 6	21,583
Indirect and/or Overhead - Schedule 3, line 1	<u>389,497</u>

Total MOE Expenditures	<u>3,320,510</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

Pavement Management Program (13120/13115) & Contractual Services (00000)	4,868,646
Minor Traffic Control Devices (16302)	36,647
Biennial Traffic Signal Coordination (16304)	23,655
Traffic Signal Equip Painting (16469)	10,000
Tustin St Rehabilitation from Meats Ave. to Heim Ave (20187)	73,279
Safety Upgrade at 14 Uncontrolled Intersection (20194)	22,400
Street Overlay (20265)	2,546
Left Turn Signal Modification (30029)	<u>63</u>

Total Measure M2 Local Fair Share Expenditures	<u>5,037,236</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 8,357,746</u>
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Note:

The above amounts were taken directly from the financial records of the City of Orange and were not audited.



# CITY OF ORANGE

EXHIBIT 1

CITY MANAGER'S OFFICE

www.cityoforange.org

PHONE: (714) 744-2222 • FAX: (714) 744-5523

March 13, 2019

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address requests from the agreed upon procedure performed for the Measure M2 Local Transportation Ordinance for the City of Orange and for the fiscal year ended June 30, 2018.

## **Procedure #4**

We selected a sample of MOE expenditure from the City's general ledger expenditure detail and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed the dollar amount listed on the general ledger to supporting documentation, which may include a check copy or wire transfer, vendor invoice, payroll register and timecard, journal voucher or other appropriate supporting documentation.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

## **Findings:**

MOE expenditures tested totaled \$609,822, representing approximately 18% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for five transactions totaling \$17,476. The City asserted the allocations were based on an evaluation performed in FY 2013-14, and had not been updated for fiscal year June 30, 2018. However, the City was unable to provide supporting documentation for the cost allocation methodology. After removing the expenditures, the City continued to meet the required MOE. No other exceptions were found as a result of this procedure.

## **City's Response:**

City management agrees with this finding noting that the fuel allocation for fiscal year 2017-18 was based on cost allocation methodology prior to implementation of our CostTree® allocation software. We have implemented this new method in all allocations beginning with fiscal year 2019 and documentation to support any future allocation calculations will be made available upon request.

**Procedure #5**

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

**Findings:**


Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$278,879 as indirect costs. However, per discussion with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified additional indirect costs charged as MOE expenditures on other lines of the City's Expenditure Report totaling \$110,618 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$134,617. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for five transactions totaling \$17,476. The City asserted the allocations were based on an evaluation performed in FY 2013-14, and had not been updated for fiscal year June 30, 2018. The City was unable to provide supporting documentation for the cost allocation methodology. No other exceptions were found as a result of this procedure.

**City's Response:**

City management agrees with this finding noting that the fuel allocation for fiscal year 2017-18 was based on cost allocation methodology prior to implementation of our CostTree® allocation software. We have implemented this new method in all allocation beginning with fiscal year 2019 and documentation to support any future allocation calculations will be made available upon request.

Signature:   
City Manager, Rick Otto

Signature:   
Administrative Services Director, Will Kolbow

Signature:   
Director of Public Works, Christopher Cash



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF SAN CLEMENTE**

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

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), on the City of San Clemente's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$1,135,209 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (001), under various program codes including Development Engineering (411), Traffic (413), Design and Development (414), Major Street Maintenance (416), and City Administration (203). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$4,745,890 (see Schedule A), which exceeded the requirement. We agreed the total expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$2,578,217, representing approximately 54% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified one expenditure, totaling \$3,885 that was not properly classified as a local street and road expenditure, nor was the cost allowable per the Ordinance. However, after removing the amount from total MOE expenditures, the City met the minimum MOE requirement. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$766,293 as indirect costs. Indirect MOE expenditures tested totaled \$320,620. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$2,782,682 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 966,487
2016/2017	Local Fair Share (M2)	\$ 443,221

We agreed the fund balance of \$1,409,708 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 042, Street Improvement Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$1,099,736 (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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$928,394 representing approximately 84% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We identified three expenditures totaling \$5,396, related to payroll overhead costs. The City allocates 90% of direct payroll as overhead for administration costs. The 90% rate was determined as part of an analysis performed in 2008 to estimate overhead costs for staff time. We were unable to verify through a recent cost study the current overhead allocation rate of 90%. Total overhead in the population for the year ended June 30, 2018 was \$20,500. This finding was also identified in the prior year report for the fiscal year ended June 30, 2017. No other exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail and the Expenditure Report (Schedule 3, Line 1), the City reported \$0 as indirect costs for the fiscal year ended June 30, 2018. However, per discussion with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in Line 3 of the City's Expenditure Report totaling \$20,500 for the fiscal year ended June 30, 2018. Refer to finding under procedure 8. No other exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.



At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavinich Train, Douglas Co, LLP*

Laguna Hills, California  
March 13, 2019

**CITY OF SAN CLEMENTE, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

## Maintenance of Effort (MOE) Expenditures:

## Maintenance:

Patching - Schedule 3, line 11	\$ 308,643
Overlay & Sealing - Schedule 3, line 12	1,781,770
Street Lights & Traffic Signals - Schedule 3, line 13	1,693,894

## Construction:

Street Reconstruction - Schedule 3, line 3	195,290
Indirect and/or Overhead - Schedule 3, Line 1	<u>766,293</u>

Total MOE Expenditures	<u>4,745,890</u>
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## Measure M2 Local Fair Share Expenditures (Schedule 4):

Avenida Palizada	78,000
Avenida Presidio Rehabilitation - Phase II	400,000
Avenida Vaquero - Under I-5	319,003
Via Cascadita	1,244
As Needed Pavement Repairs	<u>301,489</u>

Total Measure M2 Local Fair Share Expenditures	<u>1,099,736</u>
--	------------------

Total MOE and Measure M2 Local Fair Share Expenditures	<u><u>\$ 5,845,626</u></u>
--	----------------------------

## Note:

The above amounts were taken directly from the financial records of the City of San Clemente and were not audited.



# City of San Clemente City Manager

James Makshanoff, City Manager

Phone: (949) 361-8200 Fax: (949) 361-8309

makshanoffj@san-clemente.org

EXHIBIT 1

March 13, 2019

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of San Clemente as of and for the fiscal year ended June 30, 2018.

#### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

#### **Findings:**

MOE expenditures tested totaled \$2,578,217, representing approximately 54% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified one expenditure, totaling \$3,885 that was not properly classified as a local street and road expenditure, nor was the cost allowable per the Ordinance. However, after removing the amount from total MOE expenditures, the City met the minimum MOE requirement. No other exceptions were found as a result of this procedure.

#### **City's Response:**

*Cleaning and removal of debris from a canyon was erroneously charged to the Street Maintenance and Repair program of the General Fund.*

**Procedure #8**

We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

**Findings:**

Measure M2 Local Fair Share expenditures tested totaled \$928,394 representing approximately 84% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We identified three expenditures totaling \$5,396, related to payroll overhead costs. The City allocates 90% of direct payroll as overhead for administration costs. The 90% rate was determined as part of an analysis performed in 2008 to estimate overhead costs for staff time. We were unable to verify through a recent cost study the current overhead allocation rate of 90%. Total overhead in the population for the year ended June 30, 2018 was \$20,500. This finding was also identified in the prior year report for the fiscal year ended June 30, 2017. No other exceptions were found as a result of this procedure.

**City's Response:**

*The City is in the process of submitting a Request for Proposal (RFP) for an external review since the City filled the Management Analyst position in November. We will be doing a Request for Proposal on the overhead costs by June 2019, with the study completed by end of December 2019; as two Finance retirements occurred that delayed the RFP process. A prior period entry was completed to transfer the \$20,500 out of the Street Improvement fund.*

**Procedure #9**

We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

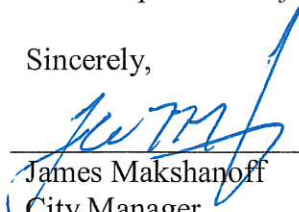
**Findings:**


Based upon inspection of the general ledger detail and the Expenditure Report (Schedule 3, Line 1), the City reported \$0 as indirect costs for the fiscal year ended June 30, 2018. However, per discussion with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in Line 3 of the City's Expenditure Report totaling \$20,500 for the fiscal year ended June 30, 2018. Refer to finding under procedure 8. No other exceptions were found as a result of this procedure.

**City's Response:**

*The City is in the process of submitting a Request for Proposal (RFP) for an external review since the City filled the Management Analyst position in November. We will be doing a Request for Proposal on the overhead costs by June 2019, with the study completed by end of December 2019; as two Finance retirements occurred that delayed the RFP process. A prior period entry was completed to transfer the \$20,500 out of the Street Improvement fund.*

Sincerely,

  
\_\_\_\_\_  
James Makshanoff  
City Manager

  
\_\_\_\_\_  
Erik Sund  
Assistant City Manager/  
Director of Finance & Administrative  
Services

  
\_\_\_\_\_  
Tom Bonigut  
Director of Public Works



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY SANTA ANA**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Santa Ana's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$7,755,107 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund under the Street Light Maintenance Accounting Unit (01117630), Roadway Markings/Signs Accounting Unit (01117625), Roadway Cleaning Accounting Unit (06817641), and Street Signs Accounting Unit (06817643). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$8,207,411 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$8,207,411 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$2,507,830, representing approximately 31% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. If MOE expenditures of \$715,626 were removed, the City would not meet the minimum MOE requirement.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. However, per discussion with City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in other lines of the City’s Expenditure Report totaling \$1,546,764 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$1,456,821. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$13,785,292 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 4,726,596
2016/2017	Local Fair Share (M2)	\$ 4,619,182
2015/2016	Local Fair Share (M2)	\$ 270,073

We agreed the fund balance of \$9,615,851 compared to the City’s Expenditure Report (Schedule 1, line 20) of \$9,747,041, identifying a difference of \$131,190. No other exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City's Measure M2 Local Fair Share expenditures are recorded in Fund 32, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$6,578,954 (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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$4,723,797 representing approximately 72% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, \$571,578 of indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. M2 expenditures under Schedule 3, Line 1 tested totaled \$101,600. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.


Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.



This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

  
Laguna Hills, California  
March 13, 2019

**CITY OF SANTA ANA, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Street Lights & Traffic Signals - Schedule 3, line 13	\$ 2,485,446
Other Street Purpose Maintenance - Schedule 3, line 15	<u>5,721,965</u>
Total MOE Expenditures	<u>8,207,411</u>

Measure M2 Local Fair Share Expenditures (Schedule 4):

Alley Improvement Program (FY 14/15 - 17/18)	299,095
Bike Lane Project Development (FY 14 & FY 18)	39,625
Bristol Street Corridor Traffic Synchronization	20,948
Bristol Street Protected Lane Edinger - 1st	21,686
Citywide Bike Racks and SARTC Bicycle Center	1,631
Crosswalk Upgrades - Phase II	1,409
Fairview St: Segerstrom to NCL (Arterial Street Preventative Maintenance)	724,941
First Street Bike Lane - Newhope to Harbor	25,629
Arterial Street Preventative Maintenance	489,726
Grand/Glassel/Kraemer Corridor Traffic Signal Synchronization	11,581
Harbor Boulevard Corridor Traffic Signal Synchronization	12,024
Heninger Elementary Safe Routes to School	41,243
Local Street Preventive Maintenance FY 17/18	1,048,554
Pavement Management (FY16-17 -17/18)	307,293
Pedestrian Countdown and ADA Upgrade (Count Down Pedestrian Heads - Citywide)	(1,483)
Project Development FY 17/18	144,129
Right-of-Way Management FY17/18	91,849
Traffic Management Plans FY 16/17 - 17/18	28,307
Traffic Signal Modifications at 4 Intersections*	16,029
Warner Industrial Community Pavement Improvements	2,763,420
Warner Avenue Rehabilitation: WCL at Santa Ana River to Grand (Arterial Street Preventative Maintenance)	452,061
Westminster Avenue/17th Street Corridor Traffic Signal Synchronization	9,929
Westminster Avenue Rehabilitation: Clinton to Fairview	23,541
Westminster Avenue Rehabilitation: Harbor to Clinton	<u>5,787</u>
Total Measure M2 Local Fair Share Expenditures	<u>6,578,954</u>
Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 14,786,365</u>

Note:

The above amounts were taken directly from the financial records of the City of Santa Ana and were not audited.

\* This includes 4 separate CIP projects including  
 17th Street at English Street - Traffic Signal Modification  
 Edinger Avenue at Sullivan Street - Traffic Signal Modification  
 MacArthur Boulevard at Plaza Drive - Traffic Signal Modification  
 Westminster Avenue at Clinton Street - Traffic Signal Modification

MAYOR  
Miguel A. Pulido  
MAYOR PRO TEM  
Juan Villegas  
COUNCILMEMBERS  
Cecilia Iglesias  
David Penaloza  
Vacant  
Vicente Sarmiento  
Jose Solorio



ACTING CITY MANAGER  
Steven A. Mendoza  
CITY ATTORNEY  
Sonia R. Carvalho  
ACTING CLERK OF THE COUNCIL  
Norma Mitre-Ramirez

## EXHIBIT 1

# CITY OF SANTA ANA

20 Civic Center Plaza • P.O. Box 1988  
Santa Ana, California 92702  
[www.santa-ana.org](http://www.santa-ana.org)

March 13, 2019

Vavrinek, Trine, Day & Co., LLP  
25231 Paseo De Alicia, Suite 100  
Laguna Hills, California 92653

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Santa Ana as of and for the fiscal year ended June 30, 2018.

### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

### **Findings:**

MOE expenditures tested totaled \$2,507,830, representing approximately 31% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. If MOE expenditures of \$715,626 were removed, the City would not meet the minimum MOE requirement.

### **City's Response:**

The \$715,626 represents Internal Service Fund charges allocated to the Public Works Agency programs identified in the MOE Calculation Report. The allocation methodology was developed based on the City's review of services provided by each Internal Service Fund and associated costs. These charges have been adjusted incrementally each year to reflect changes in the total cost to provide services and approved by the City Council through the annual budget process. However, due to staff changes and records retention, the City is unable to locate supporting documentation for the initial allocation methodology. The City will be engaging a third party to develop and implement updated internal service charges.

SANTA ANA CITY COUNCIL

Miguel A. Pulido  
Mayor  
[mpulido@santa-ana.org](mailto:mpulido@santa-ana.org)

Juan Villegas  
Mayor Pro Tem, Ward 5  
[jvillegas@santa-ana.org](mailto:jvillegas@santa-ana.org)

Vicente Sarmiento  
Ward 1  
[vsarmiento@santa-ana.org](mailto:vsarmiento@santa-ana.org)

David Penaloza  
Ward 2  
[dpenaloza@santa-ana.org](mailto:dpenaloza@santa-ana.org)

Jose Solorio  
Ward 3  
[jsolorio@santa-ana.org](mailto:jsolorio@santa-ana.org)

Vacant  
Ward 4

Cecilia Iglesias  
Ward 6  
[ciglesias@santa-ana.org](mailto:ciglesias@santa-ana.org)

Subsequent to filing the fiscal year 2017-18 MOE Calculation Report, the City became aware that expenditures related to its graffiti abatement program were erroneously excluded from the report. OCTA had previously confirmed that the graffiti abatement expenditures were eligible for MOE calculations. The total expenditures related to the graffiti abatement program for the fiscal year ended June 30, 2018 was \$1,161,335. The addition of the graffiti abatement expenditures would reflect the City’s continued compliance in meeting and/or exceeding the minimum MOE requirements.

**Procedure #5**

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

**Findings:**

Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. However, per discussion with City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in other lines of the City’s Expenditure Report totaling \$1,546,764 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$1,456,821. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. No other exceptions were found as a result of this procedure.

**City’s Response:**

The City reviewed and verified the indirect costs identified by the auditors. The City will report indirect costs on M2 Expenditures Report Schedule 3, line 1, effective fiscal year 2018-19. As discussed in the City’s response to the finding noted under Procedure #4 above, the addition of the graffiti abatement expenditures would reflect the City’s continued compliance in meeting and/or exceeding the minimum MOE requirements.

**Procedure #6**

We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

**Findings:**

The City received \$13,785,292 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 4,726,596
2016/2017	Local Fair Share (M2)	\$ 4,619,182
2015/2016	Local Fair Share (M2)	\$ 270,073

SANTA ANA CITY COUNCIL

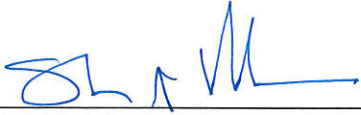


We agreed the fund balance of \$9,615,851 to the City's Expenditure Report (Schedule 1, line 20), identifying a difference of \$131,190. No other exceptions were found as a result of this procedure.

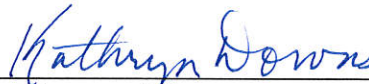
**City's Response:**

The fund balance of \$9,615,851 did not include \$220,775 of interest allocation reported on Schedule 1, line 20 of the M2 Expenditures Report. Therefore, the fund balance should have been \$9,836,626, which results in a difference of \$89,585. The difference was an unidentified variance carried over from prior fiscal years. Due to staff changes and records retention, the City was unable to find supporting documentation for the variance. During upcoming fiscal years, the City will continue to review and improve internal procedures to ensure accurate financial reporting.

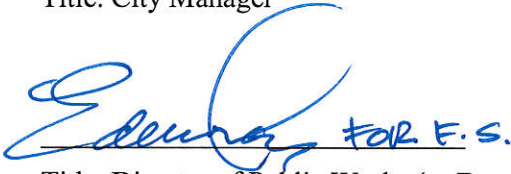
Sincerely,



Title: City Manager



Title: Director of Finance



Title: Director of Public Works (or Department that oversees Measure M-Local Fair Share)

SANTA ANA CITY COUNCIL



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY SEAL BEACH**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Seal Beach's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$551,208 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (001) under the Engineering (042), Storm Drains (043), Street Maintenance (044), and Landscaping (049) accounts. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$740,265 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$740,265 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$254,208 representing approximately 34% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified six expenditures, totaling \$31,499 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. In addition, per review of the general ledger detail, we identified nine transactions, totaling \$730 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. After removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$215,132 as indirect costs. Indirect MOE expenditures tested totaled \$4,658 with no exceptions. However, per discussions with the City’s accounting personnel and inspection of the general ledger expenditure detail, we identified an additional \$730 of unallowable costs charged as MOE expenditures in Line 1 as described in procedure 4. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$1,192,976 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 401,885
2016/2017	Local Fair Share (M2)	\$ 399,038
2015/2016	Local Fair Share (M2)	\$ 391,892

We agreed the fund balance of \$1,192,815 to the City’s Expenditure Report (Schedule 1, line 20) of \$1,270,756, identifying a difference of \$77,941. The difference was due to the City not properly calculating the ending fund balance for the report, and subsequently identifying M2 expenditures not included in previously submitted Expenditures Reports. No other exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City's Measure M2 Local Fair Share expenditures are recorded in Fund 042, Measure M2 Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$369,283 (see Schedule A), a difference of \$908 compared to the City's Expenditure Report (Schedule 2 line 17) of \$370,191. Schedule 4 of the Expenditure Report equaled \$369,283, which agreed to the amount per the general ledger. No other exceptions were found as a result of this procedure.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$311,789 representing approximately 84% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. Per inspection of the City's Schedule 4, we identified two projects (Street Maintenance Overhead and Administration and Battery Back-Up Project) that were not included in the City's Seven-Year Capital Improvement Program (CIP). We identified five expenditures totaling \$24,125 in our sample, which were not directly tied to an approved CIP Project. No other exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, the Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, a total of \$50,000 of indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We tested \$5,540 of M2 indirect costs and were unable to verify that the payroll costs were directly related to an approved project on the City's Seven-Year Capital Improvement Program (CIP). No other exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.



This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.



Laguna Hills, California  
March 12, 2019

**CITY OF SEAL BEACH, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Overlay & Sealing - Schedule 3, line 12	\$ 16,791
Street Lights & Traffic Signals - Schedule 3, line 13	16,033
Storm Damage - Schedule 3, line 14	69,624
Other Street Purpose Maintenance - Schedule 3, line 15	410,894

Construction:

Pedestrian Ways & Bikepaths - Schedule 3, line 5	11,791
Indirect and/or Overhead - Schedule 3, line 1	215,132
Total MOE Expenditures	740,265

Measure M2 Local Fair Share Expenditures (Schedule 4):

Westminster Avenue Median Improvement (Project No. ST-1509)	23,190
Local Street Resurfacing Program (Project No. ST-1602)	45,798
Westminster Avenue Rehab-WCL to SBB (Project No. ST-1610)	173,841
Arterial Street Resurfacing Program (Project No. ST-1703)	53,969
New Traffic Signal Battery Back-Up (Project No. ST-1808)	3,900
Street Maintenance Overhead and Administration *	50,000
Battery Back Up Project *	18,585
Total Measure M2 Local Fair Share Expenditures	369,283
Total MOE and Measure M2 Local Fair Share Expenditures	\$ 1,109,548

\* Project was not listed on the City's approved Seven-Year CIP (See Procedure 8).

Note:

The above amounts were taken directly from the financial records of the City of Seal Beach and were not audited.



## EXHIBIT 1

March 12, 2019

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Seal Beach as of and for the fiscal year ended June 30, 2018.

### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

### **Findings:**

MOE expenditures tested totaled \$254,208 representing approximately 34% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified six expenditures, totaling \$31,499 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. In addition, per review of the general ledger detail, we identified nine transactions, totaling \$730 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. After removing the amounts from total MOE expenditures, the City continued to meet the minimum MOE requirement. No other exceptions were found as a result of this procedure.

### **City's Response:**

City concurs. The City will develop a standard operating procedure (SOP) based on the specific requirements of the City's Ordinance in regards to ensuring that only allowable MOE expenditures are included. This SOP will include a mid-year review and status report to ensure the City remains on target regarding the projected MOE and that invoices have been properly coded.

**Procedure #5**

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

**Findings:**

Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$215,132 as indirect costs. Indirect MOE expenditures tested totaled \$4,658 with no exceptions. However, per discussions with the City’s accounting personnel and inspection of the general ledger expenditure detail, we identified an additional \$730 of unallowable costs charged as MOE expenditures in Line 1 as described in procedure 4. No other exceptions were found as a result of this procedure.

**City’s Response:**

The City will develop a standard operating procedure (SOP) based on the specific requirements of the City’s Ordinance in regards to ensuring that only allowable MOE expenditures are included.

**Procedure #6**

We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

**Findings:**

The City received \$1,192,976 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 401,885
2016/2017	Local Fair Share (M2)	\$ 399,038
2015/2016	Local Fair Share (M2)	\$ 391,892

We agreed the fund balance of \$1,192,815 to the City’s Expenditure Report (Schedule 1, line 20) of \$1,270,756, identifying a difference of \$77,941. The difference was due to the City not properly calculating the ending fund balance for the report, and subsequently identifying M2 expenditures not included in previously submitted Expenditures Reports. No other exceptions were found as a result of this procedure.

**City’s Response:**

We concur with the auditor findings. Staff now have a better understanding of the reporting dynamics and have already begun procedural changes that will ensure correct fund balance reporting going forward.

## **Procedure #7**

We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

### **Findings:**

The City's Measure M2 Local Fair Share expenditures are recorded in Fund 042, Measure M2 Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$369,283 (see Schedule A), a difference of \$908 compared to the City's Expenditure Report (Schedule 2 line 17) of \$370,191. Schedule 4 of the Expenditure Report equaled \$369,283, which agreed to the amount per the general ledger. No other exceptions were found as a result of this procedure.

### **City's Response:**

We concur with the auditor findings. The difference was related to "Interest Allocation" and was discussed with OCTA staff prior to the commencement of the audit. A revised report was submitted to OCTA and, due to the immateriality, it was determined that the revised report would not need to be approved by the city council. Additional review will be performed prior to report submissions being made to help ensure that this doesn't recur.

## **Procedure #8**

We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

### **Findings:**

Measure M2 Local Fair Share expenditures tested totaled \$311,789 representing approximately 84% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. Per inspection of the City's Schedule 4, we identified two projects (Street Maintenance Overhead and Administration and Battery Back-Up Project) that were not included in the City's Seven-Year Capital Improvement Program (CIP). We identified five expenditures totaling \$24,125 in our sample, which were not directly tied to an approved CIP Project. No other exceptions were found as a result of this procedure.

### **City's Response:**

The City concurs. As part of the FY 2019-20 City budget process (and future annual City budget processes) the City will thoroughly review its 7-year CIP to ensure that each project listed conforms to the City's Expenditure Report (Schedule 4).

**Procedure #9**

We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

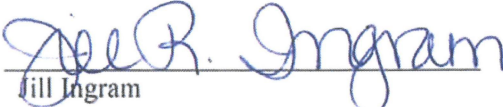
**Findings:**

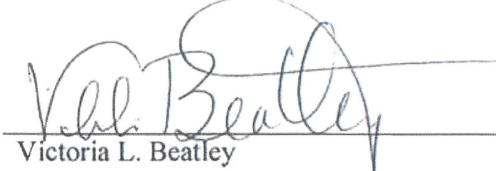
Based upon inspection of the general ledger detail, the Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, a total of \$50,000 of indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We tested \$5,540 of M2 indirect costs and were unable to verify that the payroll costs were directly related to an approved project on the City's Seven-Year Capital Improvement Program (CIP). No other exceptions were found as a result of this procedure.

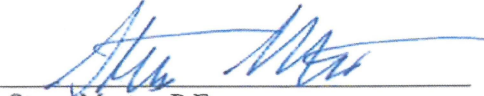
**City's Response:**

The City concurs. An SOP will be developed to ensure that indirect costs are only charged to eligible Capital Projects specifically listed the City's Seven Year Capital Improvement Program.

Sincerely,

  
\_\_\_\_\_  
Jill Ingram  
City Manager

  
\_\_\_\_\_  
Victoria L. Beatley  
Director of Finance

  
\_\_\_\_\_  
Steve Myrter, P.E.  
Director of Public Works



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF STANTON**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Stanton's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$245,213 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (101) under the Street Maintenance Department. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$246,244 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$246,244 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$115,170, representing approximately 47% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified five expenditures, totaling \$8,593 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. After removing the amounts from total MOE expenditures, the City did not meet the minimum MOE requirement.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$25,168 as indirect costs. Indirect MOE expenditures tested totaled \$12,584. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$1,471,623 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 499,681
2016/2017	Local Fair Share (M2)	\$ 175,576

We agreed the fund balance of \$675,257 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 220, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$1,279,188 (see Schedule A), which agrees 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.



8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$1,020,348 representing approximately 80% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, no indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavriach, Train, Douglas Co., LLC*

Laguna Hills, California

March 12, 2019

**CITY OF STANTON, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Other Street Purpose Maintenance - Schedule 3, line 15	\$ 221,076
Indirect and/or Overhead - Schedule 3, line 1	<u>25,168</u>

Total MOE Expenditures	<u>246,244</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

Rutledge & Palais Alley Improvement Project (Citywide Pavement Rehabilitation)	807,596
Western Ave. & Thunderbid Traffic Signal Project (Traffic Signal Improvements)	321,082
Maintenance - Various Street Repairs (Citywide Sluury Seal / Citywide Sidewalk Repair)	<u>150,510</u>

Total Measure M2 Local Fair Share Expenditures	<u>1,279,188</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 1,525,432</u>
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Note:

The above amounts were taken directly from the financial records of the City of Stanton and were not audited.



March 12, 2019

**David J. Shawver**  
*Mayor*

**Rigoberto A. Ramirez**  
*Council Member*

**Carol Warren**  
*Council Member*

**Gary Taylor**  
*Council Member*

**Robert W. Hall**  
*Interim City Manager*

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Stanton as of and for the fiscal year ended June 30, 2018.

**Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

**Findings:**

MOE expenditures tested totaled \$115,170, representing approximately 47% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified five expenditures, totaling \$8,593 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. After removing the amounts from total MOE expenditures, the City did not meet the minimum MOE requirement.

**City's Response:**

The City has identified additional General Fund local street and road expenditures in the amount of \$13,482.89. These expenditures were not recorded as MOE expenditures; however we believe the identified expenditures qualify as local street and road-related, and the total exceeds the identified disallowed costs. We also have over \$25,000 in local street and road expenditures charged to a Lighting and Landscaping District Fund in excess of our shortage that could be transferred if necessary. Alternatively, the City would be willing to transfer from the General Fund or overspend our MOE next year. We are willing to do whatever it takes to be in compliance of our MOE requirement.

The City has already made revisions to internal controls to ensure that this situation will not occur again. Additional controls implemented include:

- a) An additional review to ensure all General Fund street maintenance-related expenditures are accurately classified.
- b) A mid-year review of expenditures charged to our Street Maintenance division.

7800 Katella Avenue  
Stanton, CA 90680  
Phone (714) 379-9222  
Fax (714) 890-1443  
[www.ci.stanton.ca.us](http://www.ci.stanton.ca.us)

- c) A year-end review to ensure that expenditures charged are appropriate and that the MOE has been met, with the back-up of re-allocating funds charged to our Lighting and Landscaping District Fund if our MOE has not been met.
- d) On top of the additional procedures, we will be budgeting a minimum of 10% cushion between the minimum MOE requirement and the City's local street and road expenditure budget.

As a result of the above internal control changes, we are confident that the City will meet the minimum MOE requirements in the future, and would be willing to comply with another audit next year or one in the next few years to verify that these controls protect against falling short of our MOE requirement.

Sincerely,



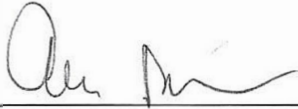
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Title: Interim City Manager



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Title: Assistant City Manager  
(Director of Finance)



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Title: Public Works Director



**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY WESTMINSTER**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Westminster's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$1,548,761 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (100) under the Public Works Department. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$3,080,362 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$3,080,362 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$1,274,311, representing approximately 41% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified six expenditures, totaling \$160,378 that were not properly classified as a local street and road expenditure, nor were the cost allowable per the Ordinance. However, after removing the amount from total MOE expenditures, the City met the minimum MOE requirement. No other exceptions were found as a result of this procedure.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City did not report any indirect costs. However, per discussions with the City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as MOE expenditures in Line 17 of the City’s Expenditure Report totaling \$913,575 for the fiscal year ended June 30, 2018. Indirect MOE expenditures tested totaled \$413,874. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$4,220,777 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 1,160,116

We agreed the fund balance of \$1,160,116 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 211, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$537,835 (see Schedule A), which agrees 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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$382,198 representing approximately 71% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We identified four projects totaling \$463,655 on the City's Expenditure Report (Schedule 4) that were not listed on the Seven-Year CIP, nor associated with approved projects from the Seven-Year CIP. Our sample included 18 expenditures from these projects totaling \$318,192. No other exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, Line 1), the City did not report any indirect costs. However, per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as Measure M2 Local Fair Share expenditures in Line 15 of the City's Expenditure Report totaling \$100,013 for the fiscal year ended June 30, 2018. Indirect M2 expenditures tested totaled \$42,686. Refer to exceptions identified under procedure 8. No other exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.



At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavrinch Train, Dry Co., LLP*

Laguna Hills, California

March 12, 2019

**CITY OF WESTMINSTER, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Other Street Purpose Maintenance - Schedule 3, line 15	\$ 1,065,318
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Construction:

Street Reconstruction - Schedule 3, line 3	527,659
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Other - Schedule 3, line 17	<u>1,487,385</u>
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Total MOE Expenditures	<u>3,080,362</u>
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Measure M2 Local Fair Share Expenditures (Schedule 4):

Citywide Catch Basin Screen	43,115
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Traffic Signal Modifications	449
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Citywide Street Improvements	30,616
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Debt Service 2008 COPs *	221,281
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Citywide Traffic Signal Electricity Charges *	54,377
---	--------

Citywide Street Cleaning *	87,984
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Administration *	<u>100,013</u>
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Total Measure M2 Local Fair Share Expenditures	<u>537,835</u>
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Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 3,618,197</u>
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\* Project was not listed on the City's approved Seven-Year CIP (See Procedure 8).

Note:

The above amounts were taken directly from the financial records of the City of Westminster and were not audited.



# City of Westminster

8200 Westminster Boulevard, Westminster, CA 92683 714.898.3311  
www.westminster-ca.gov

## EXHIBIT 1

March 12, 2019

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

TRI TA  
Mayor

KIMBERLY HO  
Vice Mayor

SERGIO CONTRERAS  
Council Member

TAI DO  
Council Member

CHI CHARLIE NGUYEN  
Council Member

EDDIE MANFRO  
City Manager

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Westminster as of and for the fiscal year ended June 30, 2018.

### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

### **Findings:**

MOE expenditures tested totaled \$1,274,311, representing approximately 41% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified six expenditures, totaling \$160,378 that were not properly classified as a local street and road expenditure, nor were the cost allowable per the Ordinance. However, after removing the amount from total MOE expenditures, the City met the minimum MOE requirement. No other exceptions were found as a result of this procedure.

### **City's Response:**

*The City will review expenditures in the future to make sure they are eligible for MOE.*

## **Procedure #5**

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

### **Findings:**

Based on inspection of the Expenditure Report (Schedule 3, line 1), the City did not report any indirect costs. However, per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as MOE expenditures in Line 17 of the City's Expenditure Report totaling \$913,575 for the fiscal year ended June 30, 2018. Indirect MOE expenditures tested totaled \$413,874. No other exceptions were found as a result of this procedure.

### **City's Response:**

*The indirect charges will be shown on the Indirect and/or Overhead field in the future.*

## **Procedure #8**

We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

### **Findings:**

Measure M2 Local Fair Share expenditures tested totaled \$382,198 representing approximately 71% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. We identified four projects totaling \$463,655 on the City's Expenditure Report (Schedule 4) that were not listed on the Seven-Year CIP, nor associated with approved projects from the Seven-Year CIP. Our sample included 18 expenditures from these projects totaling \$318,192. No other exceptions were found as a result of this procedure.

### **City's Response:**

*The City will ensure that the projects listed on Schedule 4 are part of the City's approved Seven-Year Capital Improvement Program, or associated with such projects.*

**Procedure #9**

We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

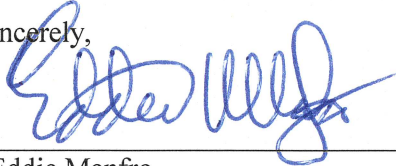
**Findings:**

Based on inspection of the Expenditure Report (Schedule 3, Line 1), the City did not report any indirect costs. However, per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as Measure M2 Local Fair Share expenditures in Line 15 of the City's Expenditure Report totaling \$100,013 for the fiscal year ended June 30, 2018. Indirect M2 expenditures tested totaled \$42,686. Refer to exceptions identified under procedure 8. No other exceptions were found as a result of this procedure.

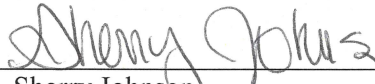
**City's Response:**

*The indirect charges will be shown on the Indirect and/or Overhead field in the future.*

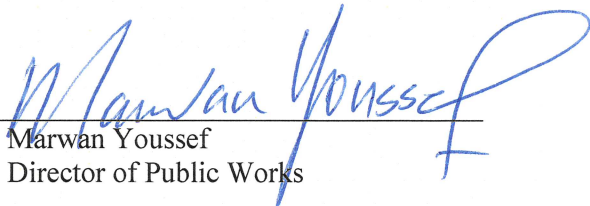
Sincerely,



Eddie Manfro  
City Manager



Sherry Johnson  
Director of Finance



Marwan Youssef  
Director of Public Works

**SUMMARY OF RESULTS OF AGREED-UPON PROCEDURES AUDITS**  
**Orange County Local Transportation Authority**  
**Measure M2 Senior Mobility Program for the Year Ended June 30, 2018**

City	Result	City Management Response
Dana Point	The Measure M2 fund balance reported on the Dana Point's Expenditure Report did not agree to the fund balance per the general ledger. The \$4,724 difference was due to an incorrect beginning fund balance listed on Schedule 1 of the Expenditure Report.	Dana Point agrees and will submit a revised Fiscal Year (FY) 2017-18 M2 Expenditure Report.
	While the third party contractor validates participant eligibility, the contract does not require it and Dana Point did not monitor to ensure participants were being reviewed for eligibility	Verification of eligibility will now be handled by Dana Point staff.
	Dana Point contracts with Age Well Senior Services (Age Well) for its Senior Mobility Program (SMP) transportation. Dana Point staff asserted that Age Well was selected through a competitive process in 2013; however, there was no documentation to evidence this. Further, while Age Well indicates that wheelchair accessible vehicles are available, the contract with Age Well does not include the required language related to availability of accessible vehicles.	Dana Point agrees and will amend the existing contract with Age Well to include required language and include the language in the next Request for Proposal (RFP) process.
	None of the four monthly reports tested was submitted within 30 days of month end, as required.	Dana Point agrees and has amended procedures to ensure all reports are submitted within 30 days, as required.
La Habra	La Habra received \$55,543 during the FY ended June 30, 2018, which did not agree to the amount reported on La Habra's Expenditure Report. La Habra's Expenditure Report reflected revenues of \$56,028. The \$485 difference related to the timing of an accrual posting.	La Habra will ensure that the timing of accrual postings is accurate by cross-referencing future reports to the SMP disbursement report from OCTA.
	La Habra indicated that services from Keolis Transit Services (Keolis) were procured through a piggyback of a City of Costa Mesa (Costa Mesa) procurement in June 2017; however, the city had not obtained evidence that the procurement was competitive, as required. In addition, the contract with Keolis does not include required language relating to provision of wheelchair accessible vehicles, as needed.	La Habra abides by purchasing policy, which allows the purchase of services utilizing pricing which is established by another governmental agency's successful bid award, and which was conducted on a competitive basis. Staff reviewed Costa Mesa's RFP and discussed the process with staff. In the future, La Habra will include written documentation to reiterate verification of the procurement and selection processes.
	Two of the four monthly reports tested were not submitted within 30 days of month-end, as required.	Starting in December 2017, La Habra has assigned responsibility for filing monthly reports to the Finance Department.
Lake Forest	No exceptions noted.	
San Clemente	SMP expenditures for the FY ended June 30, 2018, were \$52,616, which differed from the amount reported on the San Clemente's Expenditure Report. San Clemente reported expenditures of \$67,206, which included portions of the city's match, in error.	Due to staff turnover, the individuals responsible are still becoming familiar with the reporting and tracking of costs related to this program and will correct this for FY 2018-19. San Clemente will refile the FY 2017-18 Expenditure Report with the adjustments identified.
	Testing of a sample of SMP trips identified one trip, for \$30, which was not eligible per the San Clemente's Service Plan. The trip originated outside of city limits and San Clemente's Service Plan specifies all trips be within city limits.	San Clemente agrees and will review trip details to make sure that only eligible services are provided. Any ineligible costs will be deducted from the next reimbursement request.
	During application of agreed-upon procedures for the FY ended June 30, 2017, auditors noted that San Clemente had not competitively procured transportation services and, instead, extended the service provider contract beyond the originally authorized term. San Clemente re-procured these services effective August 2018.	San Clemente will ensure all applicable services are included and clearly identified on future RFPs.
	Two of the four monthly reports tested were not submitted within 30 days of month-end, as required.	San Clemente identified an individual to become familiar with reporting and tracking of costs. This individual will report on a timely basis.

**ORANGE COUNTY LOCAL  
TRANSPORTATION AUTHORITY  
MEASURE M2 SENIOR MOBILITY PROGRAM  
AGREED-UPON PROCEDURES REPORTS  
Year Ended June 30, 2018**

**ORANGE COUNTY LOCAL  
TRANSPORATION AUTHORITY**

**MEASURE M2 SENIOR MOBILITY PROGRAM**

**AGREED-UPON PROCEDURES REPORTS**

**Year Ended June 30, 2018**

The cities listed below were selected by the Audit Subcommittee of the Taxpayers Oversight Committee to perform agreed-upon procedures for the fiscal year ended June 30, 2018. Please refer to the individual divider tab for our report on each Agency.

City of Dana Point

City of La Habra

City of Lake Forest

City of San Clemente





**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES – CITY OF DANA POINT**

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

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), on the City of Dana Point's (City) compliance with certain provisions of the Measure M2 Senior Mobility Program as of, and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained and read the Cooperative Agreement for the Senior Mobility Program between OCLTA and the City to determine that the agreement was properly approved and executed.

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

2. We described which fund(s) the City used to track expenditures relating to Measure M2 Senior Mobility Program monies in its general ledger and the amount spent during the fiscal year ended June 30, 2018. We agreed the amount listed as expended on the City's Expenditure Report (Schedule 2, line 21 for Project U), explaining any differences.

Findings: The City's expenditures are tracked in the general ledger by fund, sub-project and object. The City records its Senior Mobility Program expenditures in its Measure M Fund (04) under the Professional Services object code (2230). Match expenditures are recorded in the City's General Fund (01), under the Professional Services (2230) and Recreational Programs (2430) object codes. During the year ended June 30, 2018, the City reported total program expenditures of \$73,984, which included \$17,520 as the City's match. The City reported \$56,464 in program expenditures on the Expenditure Report (Schedule 2, Line 21 for Project U) which agreed to the M2 funded portion of total expenditures, excluding the match funds. No exceptions were identified as a result of this procedure.

3. We obtained a listing of Measure M2 Senior Mobility Program payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Senior Mobility Program as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 24), and determined whether funds were expended within three years of receipt, explaining any differences. For payments received during the fiscal year ended June 30, 2018, we agreed to the amount listed as received on the City’s Expenditure Report (Schedule 2, line 8 for Project U), explaining any differences.

Findings: The City received \$146,566 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Senior Mobility Program (M2)	\$ 50,144
2016/2017	Senior Mobility Program (M2)	\$ 23,002

We compared the fund balance of \$73,146 from the general ledger to the fund balance reported in the City’s Expenditure Report (Schedule 1, line 24) of \$77,870, noting a \$4,724 difference. The difference was due to an incorrect beginning fund balance reported in Schedule 1, Line 8. The amount was rolled forward from the prior year M2 Expenditure Report ending fund balance.

The City received \$50,144 during the fiscal year ended June 30, 2018 which agreed to the City’s Expenditure Report (Schedule 2, Line 8 for Project U). Aside from the item above, no other exceptions were found as a result of this procedure.

4. We obtained and inspected the City’s interest allocation and fare collection methodologies to ensure the proper amount of interest/program revenue was credited to the Measure M2 Senior Mobility Program Fund. We agreed the amount reflected to the amount of interest listed on the City’s Expenditure Report (Schedule 2, line 8 – Project U), explaining any differences.

Findings: The City reported \$450 of interest income for the year ended June 30, 2018 which agreed to the City’s Expenditure Report (Schedule 2, Line 8 for Project U). Additionally, we inquired of City personnel regarding fare collection methodologies. The City did not charge fares for senior transportation services during the year. No exceptions were found as a result of this procedure.

5. We verified that the City satisfied the requirement of twenty percent (20%) matching of the total expenditures for the fiscal year ended June 30, 2018.

Findings: The total match expenditures amounted to \$17,520 which was approximately 24% of the total expenditures of \$73,984. No exceptions were found as a result of this procedure.

6. We selected a sample of Measure M2 Senior Mobility Program expenditures from the City’s general ledger expenditure detail, and have described the percentage selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were exclusively for Senior Mobility Program and met the requirements outlined in the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: Measure M2 Senior Mobility Program expenditures tested totaled \$57,779 representing approximately 78% of total Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

7. We inquired as to the procedures used by the City to ensure that services are provided only to eligible participants in accordance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: We inquired of management as to the procedures used to ensure services are provided only to eligible participants. The third party contractor registers senior participants, and validates date of birth documented on registration forms. While the third party contractor validates eligibility, the contract does not require it and the City did not monitor to ensure participants were being reviewed for eligibility.

8. We identified whether or not indirect costs were charged as Measure M2 Senior Mobility Program expenditures. If applicable, we compared indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based on the Expenditure Report (Schedule 3, Line 1), the City reported \$0 in indirect costs. Per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, no indirect costs were identified as Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. No exceptions were identified as a result of this procedure.

9. We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:

- a. Verified that the Contractor was selected using a competitive procurement process.
- b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

Findings: Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with Age Well Senior Services (Age Well), to provide senior transportation services under the Senior Mobility Program. The City has contracted with Age Well since January 2013. City staff asserted the procurement in 2013 relied upon a competitive process, however, the City did not have evidence of the RFP issued or bidding documentation. The contract was originally executed for a three year term through June 30, 2016, with an option to extend for up to five additional years through June 30, 2021. In July 2016, the City extended the contract through June 30, 2021. Per inspection of the original contract through June 30, 2016, and the amended contract through June 30, 2021, we did not find the language requiring that wheelchair accessible vehicles be made available and used as needed. However Age Well's policies and procedures indicate wheelchair accessible vehicles are available. No other exceptions were identified as a result of this procedure.

10. We obtained the proof of insurance coverage for the City's Contractor and performed the following:

- a. Inspected the insurance coverage to ensure the terms satisfied the requirements established in the Cooperative Agreement.
- b. Verified that the current year proof of insurance was submitted and is on file with OCLTA in accordance with the Cooperative Agreement.

Findings: We obtained and inspected the insurance coverage for the contractor, and verified the requirements established in the Cooperative Agreement were met. Additionally, the current year proof of insurance for the City's contractor was submitted and on file with OCLTA. No exceptions were found as a result of this procedure.

11. We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

Findings: We sampled four monthly summary reports (November 2017, December 2017, March 2018, and June 2018). Through inspection, we determined none of the four reports were timely submitted within 30 days of month end to OCLTA. OCLTA staff confirmed that reports were received on the following dates:

<u>Reporting Month</u>	<u>Date Submitted</u>	<u>Days Late</u>
November 2017	January 3, 2018	4
December 2017	February 1, 2018	2
March 2018	May 1, 2018	1
June 2018	July 31, 2018	1

No other exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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 Senior Mobility Program. 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.

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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.



Laguna Hills, California  
March 12, 2019



March 12, 2019

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

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Senior Mobility Program for the City of Dana Point as of and for the fiscal year ended June 30, 2018.

**Procedure #3**

We obtained a listing of Measure M2 Senior Mobility Program payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Senior Mobility Program as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 24), and determined whether funds were expended within three years of receipt, explaining any differences. For payments received during the fiscal year ended June 30, 2018, we agreed to the amount listed as received on the City’s Expenditure Report (Schedule 2, line 8 for Project U), explaining any differences.

Findings: The City received \$146,566 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Senior Mobility Program (M2)	\$ 50,144
2016/2017	Senior Mobility Program (M2)	\$ 23,002

We compared the fund balance of \$73,146 from the general ledger to the fund balance reported in the City’s Expenditure Report (Schedule 1, line 24) of \$77,870, noting a \$4,724 difference. The difference was due to an incorrect beginning fund balance reported in Schedule 1, Line 8. The amount was rolled forward from the prior year M2 Expenditure Report ending fund balance.

**City’s Response:**

Though the City’s accounting system reflects the correct amounts, the totals shown on the manual M2 report were incorrect. The City agrees with the finding and will be submitting a revised FY 2017/2018 M2 Expenditure Report to OCTA.

**Procedure #7**

We inquired as to the procedures used by the City to ensure that services are provided only to eligible participants in accordance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: We inquired of management as to the procedures used to ensure services are provided only to eligible participants. The third party contractor registers senior participants, and validates date of birth documented on registration forms. While the third party contractor validates eligibility, the contract does not require it and the City did not monitor to ensure participants were being reviewed for eligibility.

**City's Response:**

Though the City does not believe any ineligible participants were served, it agrees with this finding and has taken measures to amend existing policies and procedures. Where previously the City had delegated this responsibility to its private contractors, registration for the Senior Mobility Program will now be handled by City staff to ensure that services are provided only to eligible participants.

**Procedure #9**

We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:

- a. Verified that the Contractor was selected using a competitive procurement process.
- b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

Findings: Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with Age Well Senior Services (Age Well), to provide senior transportation services under the Senior Mobility Program. The City has contracted with Age Well since January 2013. City staff asserted the procurement in 2013 relied upon a competitive process, however, the City did not have evidence of the RFP issued or bidding documentation. The contract was originally executed for a three year term through June 30, 2016, with an option to extend for up to five additional years through June 30, 2021. In July 2016, the City extended the contract through June 30, 2021. Per inspection of the original contract through June 30, 2016, and the amended contract through June 30, 2021, we did not find the language requiring that wheelchair accessible vehicles be made available and used as needed. However Age Well's policies and procedures indicate wheelchair accessible vehicles are available. No other exceptions were identified as a result of this procedure.

**City's Response:**

The City knows that Age Well only uses wheelchair accessible vehicles. However, the City agrees and will amend the existing contract with Age Well to include specific language requiring the availability and use of wheelchair accessible vehicles. Such language will also be included in the next RFP process and subsequent contract, and the City will maintain documentation related to the competitive procurement process.

**Procedure #11**

We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

Findings: We sampled four monthly summary reports (November 2017, December 2017, March 2018, and June 2018). Through inspection, we determined none of the four reports were timely submitted within 30 days of month end to OCLTA. OCLTA staff confirmed that reports were received on the following dates:

<u>Reporting Month</u>	<u>Date Submitted</u>	<u>Days Late</u>
November 2017	January 3, 2018	4
December 2017	February 1, 2018	2
March 2018	May 1, 2018	1
June 2018	July 31, 2018	1

No other exceptions were found as a result of this procedure.

**City's Response:**

The City agrees with the finding that four of the monthly reports were received between one (1) and four (4) days after their required filing deadlines. Staff has amended procedures to ensure that all reports are submitted within 30 days of month end.

Sincerely,



Title: City Manager



Title: Director of Finance



Title: Recreation Manager



**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES – CITY OF LA HABRA**

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

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), on the City of La Habra's (City) compliance with certain provisions of the Measure M2 Senior Mobility Program as of, and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained and read the Cooperative Agreement for the Senior Mobility Program between OCLTA and the City to determine that the agreement was properly approved and executed.

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

2. We described which fund(s) the City used to track expenditures relating to Measure M2 Senior Mobility Program monies in its general ledger and the amount spent during the fiscal year ended June 30, 2018. We agreed the amount listed as expended on the City's Expenditure Report (Schedule 2, line 21 for Project U), explaining any differences.

Findings: The City's expenditures are tracked in the general ledger by fund, sub-project, and object. The City records its Senior Mobility Program expenditures in its Air Quality Improvement Fund (134) under Professional Service (account# 155101-7739). During the year ended June 30, 2018, the City incurred total program expenditures of \$167,106, which included \$111,078 as the City's match. The City reported \$56,028 in program expenditures on the Expenditure Report (Schedule 2, line 21 for Project U) which agreed to the M2 funded portion of total expenditures, excluding the match funds. No exceptions were found as a result of this procedure.



3. We obtained a listing of Measure M2 Senior Mobility Program payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City's Measure M2 Senior Mobility Program as of June 30, 2018, agreed to the balance as listed on the City's Expenditure Report (Schedule 1, line 24), and determined whether funds were expended within three years of receipt, explaining any differences. For payments received during the fiscal year ended June 30, 2018, we agreed to the amount listed as received on the City's Expenditure Report (Schedule 2, line 8 for Project U), explaining any differences.

Findings: The City received \$162,348 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The City had \$0 remaining fund balance as of June 30, 2018, which agreed to the City's Expenditure Report (Schedule 1, Line 24).

The City received \$55,543 during the fiscal year ended June 30, 2018, a \$485 difference compared to the City's Expenditure Report (Schedule 2, Line 8 for Project U) amount of \$56,028, due to the timing of an accrual posting. No exceptions were found as a result of this procedure.

4. We obtained and inspected the City's interest allocation and fare collection methodologies to ensure the proper amount of interest/program revenue was credited to the Measure M2 Senior Mobility Program Fund. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 8 – Project U), explaining any differences.

Findings: The City reported \$0 of interest income for the year ended June 30, 2018 which agreed to the City's Expenditure Report (Schedule 2, Line 8 for Project U). Additionally, we inquired of City personnel regarding fare collection methodologies. Fares are collected by Keolis Transit Services for the bus shuttle program. Fare revenues are tracked through the monthly summary reports. During the year, the City collected \$1,112, which was used as part of the City's match. No exceptions were found as a result of this procedure.

5. We verified that the City satisfied the requirement of twenty percent (20%) matching of the total expenditures for the fiscal year ended June 30, 2018.

Findings: The total match expenditures amounted to \$111,078 which was approximately 66% of the total expenditures of \$167,106. No exceptions were found as a result of this procedure.

6. We selected a sample of Measure M2 Senior Mobility Program expenditures from the City's general ledger expenditure detail, and have described the percentage selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were exclusively for Senior Mobility Program and met the requirements outlined in the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: Measure M2 Senior Mobility Program expenditures tested totaled \$131,299 representing approximately 79% of total Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. Per inspection of supporting documentation, we identified trips that were categorized as work, school, family and friend visits. City management asserted that these trips fall under the Personal Care category allowed per the Cooperative Agreement. No exceptions were found as a result of this procedure.

7. We inquired as to the procedures used by the City to ensure that services are provided only to eligible participants in accordance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: We inquired of management as to the procedures used to ensure services are provided only to eligible participants. Upon registration, the City reviews and validates date of birth documented on registration forms, to ensure participants are 60 years of age or older. No exceptions were found as a result of this procedure.

8. We identified whether or not indirect costs were charged as Measure M2 Senior Mobility Program expenditures. If applicable, we compared indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based on the Expenditure Report (Schedule 3, Line 1), the City reported \$0 in indirect costs. Per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, no indirect costs were identified as Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. No exceptions were identified as a result of this procedure.

9. We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:
  - a. Verified that the Contractor was selected using a competitive procurement process.
  - b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

Findings: Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with Keolis Transit Services to provide senior transportation services under the Senior Mobility Program. The contract, which was competitively procured, originally allowed for a three-year initial term and one, two-year option term through April 30, 2018. In April 2018, the City awarded a new contract for senior transportation services to Keolis Transit Services. According to City staff, the procurement in April 2018 relied upon a competitive process conducted by the City of Costa Mesa in June 2017. City management reviewed the City of Costa Mesa's Request for Proposal and determined that the general scope of services were similar to the City's program requirements. City management asserted that the City's Recreation Manager inquired of the City of Costa Mesa's Recreation Manager to discuss the procurement process and review program packets. However, no further related evidence of the procurement process was provided. No other exceptions were found as a result of this procedure.

10. We obtained the proof of insurance coverage for the City's Contractor and performed the following:
  - a. Inspected the insurance coverage to ensure the terms satisfied the requirements established in the Cooperative Agreement.
  - b. Verified that the current year proof of insurance was submitted and is on file with OCLTA in accordance with the Cooperative Agreement.

Findings: We obtained and inspected the insurance coverage for Keolis Transit Services, and verified the requirements established in the Cooperative Agreement were met. Additionally, the current year proof of insurance for the City's contractor was submitted and on file with OCLTA. No exceptions were found as a result of this procedure.

11. We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

Findings: We sampled four monthly summary reports (September 2017, October 2017, February 2018, and June 2018). Through inspection, we determined two of four reports were timely submitted within 30 days of month end to OCLTA. OCLTA staff confirmed that reports were received on the following dates:

<u>Reporting Month</u>	<u>Date Submitted</u>	<u>Days Late</u>
September 2017	November 9, 2017	10
October 2017	December 13, 2017	13
February 2018	March 22, 2018	-
June 2018	July 30, 2018	-

No other exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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 Senior Mobility Program. 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.

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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.



Laguna Hills, California  
March 12, 2019



City of La Habra

*“A Caring Community”*

**ADMINISTRATION BUILDING**

110 E. La Habra Boulevard  
Post Office Box 337  
La Habra, CA 90633-0785  
Office: (562) 383-4010  
Fax: (562) 383-4474

March 12, 2019

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Senior Mobility Program for the City of La Habra as of and for the fiscal year ended June 30, 2018.

**Procedure #9**

We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:

- a. Verified that the Contractor was selected using a competitive procurement process.
- b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

**Findings:**

Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with Keolis Transit Services to provide senior transportation services under the Senior Mobility Program. The contract, which was competitively procured, originally allowed for a three-year initial term and one, two-year option term through April 30, 2018. In April 2018, the City awarded a new contract for senior transportation services to Keolis Transit Services. According to City staff, the procurement in April 2018 relied upon a competitive process conducted by the City of Costa Mesa in June 2017. City management reviewed the City of Costa Mesa’s Request for Proposal and determined that the general scope of services were similar to the City’s program requirements. City management asserted that the City’s Recreation Manager inquired of the City of Costa Mesa’s Recreation Manager to discuss the procurement process and review program packets. However, no further related evidence of the procurement process was provided. No other exceptions were found as a result of this procedure.

**City’s Response:**

The City of La Habra abides by City purchasing policy 4.20.070 Exceptions to bidding requirement for purchase of goods and services. This Municipal Code allows the purchase of goods, supplies and services pursuant to 4.20.060. It states that the city can utilize cooperative governmental purchasing contracts or pricing for a given item or service which was established by another governmental agency’s successful bid

award for that general or specific type of item or service, and which had been conducted on a negotiated or competitive basis. Staff reviewed the City of Costa Mesa Request for Proposals, spoke with Costa Mesa City staff about the process and reviewed results of the bids. In the future, the City will expand our process to include written documentation to the Agency to reiterate verification of telephone conversations and our understanding of their selection processes.

**Procedure #11**

We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

**Findings:**

We sampled four monthly summary reports (September 2017, October 2017, February 2018, and June 2018). Through inspection, we determined two of four reports were timely submitted within 30 days of month end to OCLTA. OCLTA staff confirmed that reports were received on the following dates:

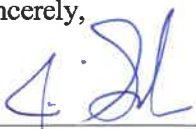
<u>Reporting Month</u>	<u>Date Submitted</u>	<u>Days Late</u>
September 2017	November 9, 2017	10
October 2017	December 13, 2017	13
February 2018	March 22, 2018	-
June 2018	July 30, 2018	-


No other exceptions were found as a result of this procedure.

**City's Response:**

Starting December of 2017, City has assigned to Finance department to file the monthly summary report to ensure timely submission.

Sincerely,

  
\_\_\_\_\_  
James D. Sadro  
City Manager

  
\_\_\_\_\_  
Melvin L. Shannon  
Director of Finance

  
\_\_\_\_\_  
Kelly Fujio  
Director of Community Services



**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES – CITY OF LAKE FOREST**

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

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), on the City of Lake Forest's (City) compliance with certain provisions of the Measure M2 Senior Mobility Program as of, and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained and read the Cooperative Agreement for the Senior Mobility Program between OCLTA and the City to determine that the agreement was properly approved and executed.

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

2. We described which fund(s) the City used to track expenditures relating to Measure M2 Senior Mobility Program monies in its general ledger and the amount spent during the fiscal year ended June 30, 2018. We agreed the amount listed as expended on the City's Expenditure Report (Schedule 2, line 21 for Project U), explaining any differences.

Findings: The City's expenditures are tracked in the general ledger by fund, sub-project and object. The City records its Senior Mobility Program expenditures in its Measure M Senior Mobility Program Fund (221) under the Community Services Department (530) and Senior Transportation Expenditure account (695.003). The City also tracks administrative costs in the General Fund (100) under the Community Services Department (530) and Finance Department (200). During the year ended June 30, 2018, the City reported total program expenditures of \$108,872, which included \$10,347 as the City's match using fare revenues collected from senior transportation related activities and \$15,831 as the City's General Fund match used to pay for Administrative Costs. The City reported \$82,694 in program expenditures on the Expenditure Report (Schedule 2, line 21 for Project U) which agreed to the M2 funded portion of total expenditures, excluding the match funds. No exceptions were found as a result of this procedure.

3. We obtained a listing of Measure M2 Senior Mobility Program payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Senior Mobility Program as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 24), and determined whether funds were expended within three years of receipt, explaining any differences. For payments received during the fiscal year ended June 30, 2018, we agreed to the amount listed as received on the City’s Expenditure Report (Schedule 2, line 8 for Project U), explaining any differences.

Findings: The City received \$198,825 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Senior Mobility Program (M2)	\$ 49,412

We compared the fund balance of \$49,412 from the general ledger to the fund balance reported in the City’s Expenditure Report (Schedule 1, line 24) with no exceptions.

The City received \$68,023 during the fiscal year ended June 30, 2018, a \$594 difference to the City’s Expenditure Report (Schedule 2, Line 8 for Project U) amount of \$68,617 due to the timing of an accrual posting. No exceptions were found as a result of this procedure.

4. We obtained and inspected the City’s interest allocation and fare collection methodologies to ensure the proper amount of interest/program revenue was credited to the Measure M2 Senior Mobility Program Fund. We agreed the amount reflected to the amount of interest listed on the City’s Expenditure Report (Schedule 2, line 8 – Project U), explaining any differences.

Findings: The City reported \$688 of interest income for the year ended June 30, 2018 which agreed to the City’s Expenditure Report (Schedule 2, Line 8 for Project U). Additionally, we inquired of City personnel regarding fare collection methodologies. Fares are collected by the City for the taxi voucher program and by Age Well Senior Services for the bus shuttle program. Fare revenues are tracked in the City’s general ledger within the Measure M Senior Mobility Program Fund (221) under the SMP Fare Revenue account (440.001). During the year, the City collected \$10,347, which was used as part of the City’s match. No exceptions were found as a result of this procedure.

5. We verified that the City satisfied the requirement of twenty percent (20%) matching of the total expenditures for the fiscal year ended June 30, 2018.

Findings: The total match expenditures amounted to \$26,178 which was approximately 24% of the total expenditures of \$108,872. No exceptions were found as a result of this procedure.

6. We selected a sample of Measure M2 Senior Mobility Program expenditures from the City’s general ledger expenditure detail, and have described the percentage selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were exclusively for Senior Mobility Program and met the requirements outlined in the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: Measure M2 Senior Mobility Program expenditures tested totaled \$83,935 representing approximately 77% of total Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

7. We inquired as to the procedures used by the City to ensure that services are provided only to eligible participants in accordance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: We inquired of management as to the procedures used to ensure services are provided only to eligible participants. The third party contractor registers senior participants for the bus shuttle program and the City registers senior participants for the taxi voucher program. The bus shuttle program relies on date of birth provided at registration on the application. The taxi voucher program requires at least one method of verification in the form of a driver's license or a DMV issued ID card. No exceptions were found as a result of this procedure.

8. We identified whether or not indirect costs were charged as Measure M2 Senior Mobility Program expenditures. If applicable, we compared indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based on the Expenditure Report (Schedule 3, Line 1), the City reported \$0 in indirect costs. Per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, no indirect costs were identified as Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. No exceptions were identified as a result of this procedure.

9. We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:
  - a. Verified that the Contractor was selected using a competitive procurement process.
  - b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

Findings: Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with two third party service providers, Age Well Senior Services (Age Well) and California Yellow Cab (Yellow Cab) to provide senior transportation services under the Senior Mobility Program. We verified that Age Well and Yellow Cab were selected using a competitive procurement process through inspection of the City's Request for Proposal, bidding documents, and the executed agreement with both service providers. Per inspection of the contract agreement, we verified that wheelchair accessible vehicles are available and used as needed. The contract's Scope of Services section for Age Well and Yellow Cab states "All vehicles utilized by the contractor must be ADA approved lift-equipped, accessible vehicles" and "Upon request, the contractor must have the ability to offer seniors a wheelchair accessible taxi option" respectively. No exceptions were found as a result of our procedure.

10. We obtained the proof of insurance coverage for the City's Contractor and performed the following:
  - a. Inspected the insurance coverage to ensure the terms satisfied the requirements established in the Cooperative Agreement.
  - b. Verified that the current year proof of insurance was submitted and is on file with OCLTA in accordance with the Cooperative Agreement.

Findings: We obtained and inspected the insurance coverage for both contractors, Age Well Senior Services and California Yellow Cab, and verified the requirements established in the Cooperative Agreement were met. Additionally, the current year proof of insurance for the City's contractors were submitted and on file with OCLTA. No exceptions were found as a result of this procedure.



11. We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

Findings: We sampled four monthly summary reports (July 2017, November 2017, January 2018, and June 2018). Through inspection, we determined all four reports were timely submitted within 30 days of month end to OCLTA. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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 Senior Mobility Program. 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.

This report is intended solely for the information and use of the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.



Laguna Hills, California  
March 12, 2019



**INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES – CITY OF SAN CLEMENTE**

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

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), on the City of San Clemente's (City) compliance with certain provisions of the Measure M2 Senior Mobility Program as of, and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained and read the Cooperative Agreement for the Senior Mobility Program between OCLTA and the City to determine that the agreement was properly approved and executed.

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

2. We described which fund(s) the City used to track expenditures relating to Measure M2 Senior Mobility Program monies in its general ledger and the amount spent during the fiscal year ended June 30, 2018. We agreed the amount listed as expended on the City's Expenditure Report (Schedule 2, line 21 for Project U), explaining any differences.

Findings: The City's expenditures are tracked in the general ledger by fund, sub-project and object. The City records its Senior Mobility Program expenditures in its Gas Tax Fund (012) under the OCTA Senior Center Transportation Account (861-44723). During the year ended June 30, 2018, the City incurred total program expenditures of \$84,007, which included \$14,590 as the City's General Fund match and \$16,801 as a match by the City's third party service provider. The M2 funded portion of \$52,616 is different from the M2 Expenditure Report (Schedule 2, Line 21 for Project U) of \$67,206, a difference of \$14,590. The City included portions of the match on the expenditure report as M2 funded expenditures. No other exceptions were found as a result of this procedure.

3. We obtained a listing of Measure M2 Senior Mobility Program payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Senior Mobility Program as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 24), and determined whether funds were expended within three years of receipt, explaining any differences. For payments received during the fiscal year ended June 30, 2018, we agreed to the amount listed as received on the City’s Expenditure Report (Schedule 2, line 8 for Project U), explaining any differences.

Findings: The City received \$214,394 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Senior Mobility Program (M2)	\$ 23,107

We compared the fund balance of \$23,107 from the general ledger to the fund balance reported in the City’s Expenditure Report (Schedule 1, line 24), with no exceptions.

The City received \$73,349 during the fiscal year ended June 30, 2018 which agreed to the City’s Expenditure Report (Schedule 2, Line 8 for Project U). No exceptions were found as a result of this procedure.

4. We obtained and inspected the City’s interest allocation and fare collection methodologies to ensure the proper amount of interest/program revenue was credited to the Measure M2 Senior Mobility Program Fund. We agreed the amount reflected to the amount of interest listed on the City’s Expenditure Report (Schedule 2, line 8 – Project U), explaining any differences.

Findings: The City reported \$1,229 of interest income for the year ended June 30, 2018 which agreed to the City’s Expenditure Report (Schedule 2, Line 8 for Project U). Additionally, we inquired of City personnel regarding fare collection methodologies. The City did not charge fares for senior transportation services during the year. No exceptions were found as a result of this procedure.

5. We verified that the City satisfied the requirement of twenty percent (20%) matching of the total expenditures for the fiscal year ended June 30, 2018.

Findings: The total match expenditures amounted to \$31,391 which was approximately 37% of the total expenditures of \$84,007. No exceptions were found as a result of this procedure.

6. We selected a sample of Measure M2 Senior Mobility Program expenditures from the City’s general ledger expenditure detail, and have described the percentage selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were exclusively for Senior Mobility Program and met the requirements outlined in the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: Measure M2 Senior Mobility Program expenditures tested totaled \$71,153 representing approximately 85% of total Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. One trip identified was for transportation services that was not within the SMP Agency Service Plan (Service Plan) of the Cooperative Agreement (Agreement). The Service Plan specifies eligible trips are limited to senior center, nutrition, and shopping trips within the City of San Clemente. The trip identified had a pick up location in the City of Mission Viejo and was not for an eligible trip category per the City’s Service Plan. The total trip cost was \$30. No other exceptions were found as a result of this procedure.

7. We inquired as to the procedures used by the City to ensure that services are provided only to eligible participants in accordance with the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

Findings: We inquired of management as to the procedures used to ensure services are provided only to eligible participants. Upon registration, the City reviews and validates date of birth documented on registration forms, to ensure participants are 60 years of age or older. No exceptions were found as a result of this procedure.

8. We identified whether or not indirect costs were charged as Measure M2 Senior Mobility Program expenditures. If applicable, we compared indirect costs identified to the amount reported on the City's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based on the Expenditure Report (Schedule 3, Line 1), the City reported \$0 in indirect costs. Per discussions with the City's accounting personnel and inspection of the general ledger expenditure detail, no indirect costs were identified as Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. No exceptions were identified as a result of this procedure.

9. We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:
  - a. Verified that the Contractor was selected using a competitive procurement process.
  - b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

Findings: Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with Age Well Senior Services (Age Well) to provide senior transportation services under the Senior Mobility Program. The contract, which was competitively procured, was originally executed for only a three-year initial term and one, two-year option term through June 30, 2016. In May 2016, City Council approved to contract with Age Well for another five years. The contract was extended through June 30, 2021 without a new competitive procurement. The City received a finding in the prior year Senior Mobility Program AUP and was required by OCLTA to competitively procure services for future fiscal years. We verified that wheelchair accessible vehicles are available and used as needed by including the Project U Program Guidelines as part of the amended contract.

The City issued a new RFP on May 17, 2018 for senior transportation services beginning August 21, 2018. Per inquiry with City management and inspection of related Council agenda items, the City competitively procured a contract with California Yellow Cab (Yellow Cab) for senior transportation services beginning in fiscal year 2018-19. We verified that Yellow Cab was selected using a competitive procurement process through inspection of the City's Request for Proposal, bidding documents, and the executed agreement with California Yellow Cab. Per inspection of the of the contract agreement, we verified that wheelchair accessible vehicles are available and used as needed. The contractor's scope of services states that California Yellow Cab's fleet consists of "ADA compliance wheelchair-access vans." No other exceptions were found as a result of this procedure.

10. We obtained the proof of insurance coverage for the City’s Contractor and performed the following:
- a. Inspected the insurance coverage to ensure the terms satisfied the requirements established in the Cooperative Agreement.
  - b. Verified that the current year proof of insurance was submitted and is on file with OCLTA in accordance with the Cooperative Agreement.

Findings: We obtained and inspected the insurance coverage for Age Well, and verified the requirements established in the Cooperative Agreement were met. Additionally, the current year proof of insurance for the City’s contractor was submitted and on file with OCLTA. No exceptions were found as a result of this procedure.

11. We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

Findings: We sampled four monthly summary reports (July 2017, October 2017, January 2018, and June 2018). Through inspection, we determined two of four reports were timely submitted within 30 days of month end to OCLTA. OCLTA staff confirmed that reports were received on the following dates:

<u>Reporting Month</u>	<u>Date Submitted</u>	<u>Days Late</u>
July 2017	September 5, 2017	6
October 2017	December 5, 2017	5
January 2018	February 12, 2018	-
June 2018	July 16, 2018	-

No other exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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 Senior Mobility Program. 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.

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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be, and should not be, used by anyone other than those specified parties.

*Vavrinch, Travis, DMS & Co., LLP*

Laguna Hills, California  
 March 13, 2019



# City of San Clemente City Manager

James Makshanoff, City Manager

Phone: (949) 361-8200 Fax: (949) 361-8309

[makshanoffj@san-clemente.org](mailto:makshanoffj@san-clemente.org)

EXHIBIT 1

March 13, 2019

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Senior Mobility Program for the City of San Clemente as of and for the fiscal year ended June 30, 2018.

## **Procedure #2**

We described which fund(s) the City used to track expenditures relating to Measure M2 Senior Mobility Program monies in its general ledger and the amount spent during the fiscal year ended June 30, 2018. We agreed the amount listed as expended on the City's Expenditure Report (Schedule 2, line 21 for Project U), explaining any differences.

## **Findings:**

The City's expenditures are tracked in the general ledger by fund, sub-project and object. The City records its Senior Mobility Program expenditures in its Gas Tax Fund (012) under the OCTA Senior Center Transportation Account (861-44723). During the year ended June 30, 2018, the City incurred total program expenditures of \$84,007, which included \$14,590 as the City's General Fund match and \$16,801 as a match by the City's third party service provider. The M2 funded portion of \$52,616 is different from the M2 Expenditure Report (Schedule 2, Line 21 for Project U) of \$67,206, a difference of \$14,590. The City included portions of the match on the expenditure report as M2 funded expenditures. No other exceptions were found as a result of this procedure.

## **City's Response:**

*Due to staff turnover, the individuals responsible are still becoming familiar with the reporting and tracking of costs related to this program and will correct this for FY 2018-19. The City will refile the FY 2017-18 Expenditure report with the adjustments in the findings above.*

**Procedure #6**

We selected a sample of Measure M2 Senior Mobility Program expenditures from the City's general ledger expenditure detail, and have described the percentage selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditures selected in (a) above were exclusively for Senior Mobility Program and met the requirements outlined in the Measure M2 Project U Senior/Disabled Program Funding Policy Guidelines and the cooperative agreement.

**Findings:**

Measure M2 Senior Mobility Program expenditures tested totaled \$71,153 representing approximately 85% of total Measure M2 Senior Mobility Program expenditures for the fiscal year ended June 30, 2018. One trip identified was for transportation services that was not within the SMP Agency Service Plan (Service Plan) of the Cooperative Agreement (Agreement). The Service Plan specifies eligible trips are limited to senior center, nutrition, and shopping trips within the City of San Clemente. The trip identified had a pick up location in the City of Mission Viejo and was not for an eligible trip category per the City's Service Plan. The total trip cost was \$30. No other exceptions were found as a result of this procedure.

**City's Response:**

*The City has evaluated the trip detail for FY 2017-18 and agrees with the findings above. With the new transportation service for FY 2018-19, the City has reviewed, and will continue to review, the details of the trip reports to make sure that only eligible services are provided and will deduct any ineligible costs on the next reimbursement request.*

**Procedure #9**

We determined if the City contracts with a third party service provider to provide senior transportation service, and performed the following:

- a. Verified that the Contractor was selected using a competitive procurement process.
- b. Inspected the contract agreement to ensure that wheelchair accessible vehicles are available and used as needed.

**Findings:**

Based on inspection of the general ledger expenditure detail and discussion with City personnel, the City contracted with Age Well Senior Services (Age Well) to provide senior transportation services under the Senior Mobility Program. The contract, which was competitively procured, was originally executed for only a three-year initial term and one, two-year option term through June 30, 2016. In May 2016, City Council approved to contract with Age Well for another five years. The contract was extended through June 30, 2021 without a new competitive procurement. The City received a finding in the prior year Senior Mobility Program AUP and was required by OCLTA to competitively procure services for future fiscal years. We verified that wheelchair accessible vehicles are available and used as needed by including the Project U Program Guidelines as part of the amended contract.

The City issued a new RFP on May 17, 2018 for senior transportation services beginning August 21, 2018. Per inquiry with City management and inspection of related Council agenda items, the City competitively procured a contract with California Yellow Cab (Yellow Cab) for senior transportation services beginning in fiscal year 2018-19. We verified that Yellow Cab was selected using a competitive procurement process through inspection of the City's Request for Proposal, bidding documents, and the executed agreement with California Yellow Cab. Per inspection of the of the contract agreement, we verified that wheelchair accessible vehicles are available and used as needed. The contractor's scope of services states that California Yellow Cab's fleet consists of "ADA compliance wheelchair-access vans." No other exceptions were found as a result of this procedure.

**City's Response:**

*The City on future Request for Proposals will continue to make sure applicable services are included and clearly identified.*

**Procedure #11**

We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

**Findings:**

We obtained and sampled four monthly summary reports, and determined the reports were submitted within thirty (30) calendar days of month end.

**Findings:** We sampled four monthly summary reports (July 2017, October 2017, January 2018, and June 2018). Through inspection, we determined two of four reports were timely submitted within 30 days of month end to OCLTA. OCLTA staff confirmed that reports were received on the following dates:



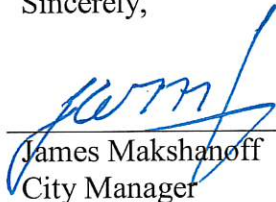
<u>Reporting Month</u>	<u>Date Submitted</u>	<u>Days Late</u>
July 2017	September 5, 2017	6
October 2017	December 5, 2017	5
January 2018	February 12, 2018	-
June 2018	July 16, 2018	-

No other exceptions were found as a result of this procedure.

**City's Response:**

*Due to staff turnover, the City identified an individual to become familiar with the reporting and tracking of costs related to this program at the first of the calendar year (January 2018). This individual will continue to report on a timely basis.*

Sincerely,



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James Makshanoff  
City Manager



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Erik Sund  
Assistant City Manager/  
Director of Finance & Administrative  
Services



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Tom Bonigut  
Director of Public Works



## COMMITTEE TRANSMITTAL

**May 13, 2019**

**To:** Members of the Board of Directors  
**From:** *RW*  
Laurena Weinert, Clerk of the Board  
**Subject:** Measure M2 Eligibility for the City of Santa Ana

### Executive Committee Meeting of May 6, 2019

**Present:** Chairman Shaw, Vice Chairman Jones, and Directors Bartlett, Do, Hennessey, and M. Murphy  
**Absent:** Director Davies

### **Committee Vote**


This item was passed by the Members present.

### **Committee Recommendations**

- A. Find the City of Santa Ana ineligible to receive net Measure M2 revenues.
- B. Suspend payments to the City of Santa Ana of net Measure M2 revenues until the City of Santa Ana can demonstrate compliance with Measure M2 eligibility requirements and the Board of Directors acts to find the City of Santa Ana an "eligible agency."
- C. Authorize the Chief Executive Officer to execute Amendment No. 5 to Contract No. C-5-3564 with Vavrinek, Trine, Day and Company, LLP to revise the scope of work, add an additional task to apply agreed-upon procedures to assess compliance with maintenance of effort expenditure requirements, extend the agreement through June 30, 2020, and authorize staff to deduct fiscal year 2018-19 audit costs from any future net Measure M2 payments to the City of Santa Ana.
- D. Increase the City of Santa Ana's maintenance of effort requirement for fiscal year 2018-19 by the amount of expenditures that were not met as identified in the fiscal year 2017-18 audit.
- E. Authorize the Chief Executive Officer to negotiate and execute a settlement agreement with the City of Santa Ana to correct and remedy the fiscal year 2017-18 audit issues.



**May 6, 2019**

**To:** Executive Committee  
**From:** Darrell E. Johnson, Chief Executive Officer   
**Subject:** Measure M2 Eligibility for the City of Santa Ana

**Overview**

The Orange County Transportation Authority's Internal Auditor recently prepared an audit of the City of Santa Ana for fiscal year 2017-18. The audit concluded that the City of Santa Ana did not expend sufficient discretionary funds on streets and road purposes to meet the Measure M2 Ordinance maintenance of effort requirement. Based on this information, recommendations are presented related to compliance with the Measure M2 Ordinance.

**Recommendations**

- A. Find the City of Santa Ana ineligible to receive net Measure M2 revenues.
- B. Suspend payments to the City of Santa Ana of net Measure M2 revenues until the City of Santa Ana can demonstrate compliance with Measure M2 eligibility requirements and the Board of Directors acts to find the City of Santa Ana an "eligible agency."
- C. Authorize the Chief Executive Officer to execute Amendment No. 5 to Contract No. C-5-3564 with Vavrinek, Trine, Day and Company, LLP to revise the scope of work, add an additional task to apply agreed-upon procedures to assess compliance with maintenance of effort expenditure requirements, extend the agreement through June 30, 2020, and authorize staff to deduct fiscal year 2018-19 audit costs from any future net Measure M2 payments to the City of Santa Ana.
- D. Increase the City of Santa Ana's maintenance of effort requirement for fiscal year 2018-19 by the amount of expenditures that were not met as identified in the fiscal year 2017-18 audit.
- E. Authorize the Chief Executive Officer to negotiate and execute a settlement agreement with the City of Santa Ana to correct and remedy the fiscal year 2017-18 audit issues.

***Background***

The Measure M2 (M2) Ordinance outlines eligibility requirements that each local agency must continually satisfy to receive net revenues from the M2 Program, including local fair share, the Senior Mobility Program, and awards through competitive programs. One of the requirements is that a local agency must continue to invest a certain level of discretionary revenues, such as general funds that support street and road activities, to be deemed eligible for any M2 funding. This requirement is rooted in the California Public Utilities Code (PUC) 180001 that enables local transportation authorities to seek voter approval for sales tax measures. The PUC states the intent of the legislature is that funds generated through a sales tax ordinance “shall supplement existing local revenues used for public transportation purposes and that local governments maintain their existing commitment of local funds for transportation purposes” (PUC 180200).

In the eligibility process, this requirement is referred to as the maintenance of effort (MOE) requirement and was also included in the original Measure M Program. Each jurisdiction is required to maintain a minimum level of local streets and roads discretionary expenditures. The minimum level was based on the average of general fund expenditures for local street maintenance and construction over the period of fiscal year (FY) 1985-86 through FY 1989-90. M2 used a similar benchmark and requires the amount to be adjusted for inflation every three years commensurate with overall growth of the local agency’s general fund revenues.

The local agency demonstrates its commitment to comply with the required MOE through budgeting the appropriate level of discretionary funding as part of the local agency budget process and providing the Orange County Transportation Authority (OCTA) with an expenditure report to validate the commitment at the end of the budget year.

In the 29 years of combined experience of administering the original Measure M and now M2 programs, OCTA has never had an instance in which it had to find a local jurisdiction ineligible to receive net Measure M revenues due to failure to meet the MOE requirement.

The OCTA Board of Directors (Board) makes a determination of eligibility annually based on the information that is provided by each jurisdiction and with support from the Taxpayer Oversight Committee (TOC), which is also charged with reviewing certain submittals. Following the annual eligibility cycle, the TOC directs the internal auditor to carry out audits to confirm that funds have been spent in accordance with the M2 Ordinance and that each jurisdiction had sufficient expenditures to meet the previously self-certified MOE requirement.

Every year, OCTA's Finance and Administration, Internal Audit, and Planning staff, as well as the TOC, have cautioned local agencies that budgeting at or just above the required MOE amount may put the agency's M2 funds at risk if they end up not meeting the requirement due to disallowed costs.

At the direction of the TOC, the OCTA Internal Auditor prepared an audit that was presented to the Board on April 8, 2019, which indicated that the City of Santa Ana (City) did not have sufficient expenditures for FY 2017-18 to meet its MOE requirement (Attachment A). This will impact the City's eligibility determination and the disbursement of net Measure M revenues to the City. It should be noted that the City has provided a response to the audit that is also included in Attachment A.

### ***Discussion***

In June 2017, the City provided the required MOE certification that stated it budgeted sufficient expenditures for FY 2017-18, consistent with the following requirement:

“The Authority shall not allocate any net revenues to any jurisdiction for any fiscal year until that jurisdiction has certified to the Authority that it has included in its budget for that fiscal year an amount of local discretionary funds for streets and roads purposes, at least equal to the level of its maintenance of effort requirement.”

The City met this MOE requirement based on the submittal and self-certification. The next submittal required from the City related to MOE and eligibility was the expenditure report, which was submitted to OCTA on November 29, 2018, and was formally approved by the City Council through a resolution on December 18, 2018. The City was required to spend \$7,755,107 using discretionary revenues toward streets and roads-related costs. According to the expenditure plan that was submitted, the City spent \$8,207,411 to meet this requirement.

However, the audit could not verify the indirect cost methodology for ten transactions, totaling \$715,626, to confirm that those costs are eligible MOE expenditures. The City, in its response to the audit, agreed that it could not produce the original allocation methodology that is being applied and has indicated it will engage a third party to implement updated internal service charges. After deducting these unverifiable expenditures, the City did not meet the MOE requirement for FY 2017-18. The City responded that it has graffiti abatement charges, which were not submitted toward the MOE requirement, and believes they would be eligible to meet the MOE obligation. On April 15, 2019, staff met with the City to review the City's audit response, as well as any potential follow-up items. Based on the discussion at the meeting, staff believes the audit findings should remain unchanged.

Under this circumstance, the following M2 Ordinance requirement applies:

“A determination of non-eligibility of a jurisdiction shall be made only after a hearing has been conducted and a determination has been made by the Authority’s Board of Directors that the jurisdiction is not an eligible jurisdiction.”

Because the audit determined that the City did not provide sufficient verifiable expenditures in its expenditure report to meet the MOE requirement, and in order to be consistent with the requirements of the M2 Ordinance and comply with the intent of the authorizing state statute, it is recommended that the Board find the City ineligible to receive Measure M revenues. Specific recommendations include:

- Find the City ineligible to receive net M2 revenues;
- Suspend payments to the City of net M2 revenues;
- Deduct FY 2018-19 audit costs from any future net M2 payments to the City;
- Increase the City’s MOE requirement for FY 2018-19 by the amount that the City fell short in meeting the required MOE for FY 2017-18, as identified in the FY 2017-18 audit; and
- Execute a settlement agreement with the City to correct and remedy the audit issues.

Based on these recommendations, net M2 payments would be suspended until such time that the City has re-established eligibility. These funds will be held in reserve for the City. The City will be required to demonstrate through a future OCTA audit of financial reports, (the audit would be paid for by the City), that it has met the MOE required for FY 2018-19, plus made up for the underrun in MOE expenditures from FY 2017-18. As the M2 Ordinance and eligibility guidelines do not include precise terms and conditions related to re-establishing eligibility, OCTA would execute an agreement with the City that further details specific requirements and timeframes.

### ***Summary***

A recent audit indicated that the City of Santa Ana did not meet Measure M2 eligibility requirements. Recommendations are presented in response to the audit, consistent with the intent of the Measure M2 Ordinance.

**Attachment**

- A. Vavrinek, Trine, Day & Co., LLP, Certified Public Accounts, Independent Accountants' Report on Applying Agreed-Upon Procedures - City of Santa Ana

**Prepared by:**



Adriann Cardoso  
Department Manager,  
Capital Programming  
(714) 560-5915

**Approved by:**



Kia Mortazavi  
Executive Director, Planning  
(714) 560-5741



**VAVRINEK, TRINE, DAY & CO., LLP**  
 Certified Public Accountants

VALUE THE *difference*

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
 AGREED-UPON PROCEDURES — CITY SANTA ANA**

Board of Directors

Orange County Local Transportation Authority  
 and the Taxpayers Oversight Committee of the  
 Orange County Local Transportation Authority

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), on the City of Santa Ana's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$7,755,107 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund under the Street Light Maintenance Accounting Unit (01117630), Roadway Markings/Signs Accounting Unit (01117625), Roadway Cleaning Accounting Unit (06817641), and Street Signs Accounting Unit (06817643). No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$8,207,411 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$8,207,411 to the amount reported on the City's Expenditure Report (Schedule 3, line 18) with no differences. No exceptions were found as a result of this procedure.



4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$2,507,830, representing approximately 31% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. If MOE expenditures of \$715,626 were removed, the City would not meet the minimum MOE requirement.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. However, per discussion with City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in other lines of the City’s Expenditure Report totaling \$1,546,764 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$1,456,821. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. No other exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$13,785,292 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 4,726,596
2016/2017	Local Fair Share (M2)	\$ 4,619,182
2015/2016	Local Fair Share (M2)	\$ 270,073

We agreed the fund balance of \$9,615,851 compared to the City’s Expenditure Report (Schedule 1, line 20) of \$9,747,041, identifying a difference of \$131,190. No other exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City's Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City's Measure M2 Local Fair Share expenditures are recorded in Fund 32, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$6,578,954 (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.

8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$4,723,797 representing approximately 72% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, \$571,578 of indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. M2 expenditures under Schedule 3, Line 1 tested totaled \$101,600. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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


11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

  
Laguna Hills, California  
March 13, 2019

**CITY OF SANTA ANA, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:

Street Lights & Traffic Signals - Schedule 3, line 13	\$ 2,485,446
Other Street Purpose Maintenance - Schedule 3, line 15	<u>5,721,965</u>
Total MOE Expenditures	<u>8,207,411</u>

Measure M2 Local Fair Share Expenditures (Schedule 4):

Alley Improvement Program (FY 14/15 - 17/18)	299,095
Bike Lane Project Development (FY 14 & FY 18)	39,625
Bristol Street Corridor Traffic Synchronization	20,948
Bristol Street Protected Lane Edinger - 1st	21,686
Citywide Bike Racks and SARTC Bicycle Center	1,631
Crosswalk Upgrades - Phase II	1,409
Fairview St: Segerstrom to NCL (Arterial Street Preventative Maintenance)	724,941
First Street Bike Lane - Newhope to Harbor	25,629
Arterial Street Preventative Maintenance	489,726
Grand/Glassel/Kraemer Corridor Traffic Signal Synchronization	11,581
Harbor Boulevard Corridor Traffic Signal Synchronization	12,024
Heninger Elementary Safe Routes to School	41,243
Local Street Preventive Maintenance FY 17/18	1,048,554
Pavement Management (FY16-17 -17/18)	307,293
Pedestrian Countdown and ADA Upgrade (Count Down Pedestrian Heads - Citywide)	(1,483)
Project Development FY 17/18	144,129
Right-of-Way Management FY17/18	91,849
Traffic Management Plans FY 16/17 - 17/18	28,307
Traffic Signal Modifications at 4 Intersections*	16,029
Warner Industrial Community Pavement Improvements	2,763,420
Warner Avenue Rehabilitation: WCL at Santa Ana River to Grand (Arterial Street Preventative Maintenance)	452,061
Westminster Avenue/17th Street Corridor Traffic Signal Synchronization	9,929
Westminster Avenue Rehabilitation: Clinton to Fairview	23,541
Westminster Avenue Rehabilitation: Harbor to Clinton	<u>5,787</u>
Total Measure M2 Local Fair Share Expenditures	<u>6,578,954</u>
Total MOE and Measure M2 Local Fair Share Expenditures	<u>\$ 14,786,365</u>

Note:

The above amounts were taken directly from the financial records of the City of Santa Ana and were not audited.

\* This includes 4 separate CIP projects including  
 17th Street at English Street - Traffic Signal Modification  
 Edinger Avenue at Sullivan Street - Traffic Signal Modification  
 MacArthur Boulevard at Plaza Drive - Traffic Signal Modification  
 Westminster Avenue at Clinton Street - Traffic Signal Modification

MAYOR  
Miguel A. Pulido  
MAYOR PRO TEM  
Juan Villegas  
COUNCILMEMBERS  
Cecilia Iglesias  
David Penaloza  
Vacant  
Vicente Sarmiento  
Jose Solorio



ACTING CITY MANAGER  
Steven A. Mendoza  
CITY ATTORNEY  
Sonia R. Carvalho  
ACTING CLERK OF THE COUNCIL  
Norma Mitre-Ramirez

## EXHIBIT 1

# CITY OF SANTA ANA

20 Civic Center Plaza • P.O. Box 1988  
Santa Ana, California 92702  
[www.santa-ana.org](http://www.santa-ana.org)

March 13, 2019

Vavrinek, Trine, Day & Co., LLP  
25231 Paseo De Alicia, Suite 100  
Laguna Hills, California 92653

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Santa Ana as of and for the fiscal year ended June 30, 2018.

### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

### **Findings:**

MOE expenditures tested totaled \$2,507,830, representing approximately 31% of total MOE expenditures for the fiscal year ended June 30, 2018. We were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. If MOE expenditures of \$715,626 were removed, the City would not meet the minimum MOE requirement.

### **City's Response:**

The \$715,626 represents Internal Service Fund charges allocated to the Public Works Agency programs identified in the MOE Calculation Report. The allocation methodology was developed based on the City's review of services provided by each Internal Service Fund and associated costs. These charges have been adjusted incrementally each year to reflect changes in the total cost to provide services and approved by the City Council through the annual budget process. However, due to staff changes and records retention, the City is unable to locate supporting documentation for the initial allocation methodology. The City will be engaging a third party to develop and implement updated internal service charges.

SANTA ANA CITY COUNCIL

Miguel A. Pulido  
Mayor  
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Vacant  
Ward 4

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Ward 6  
[ciglesias@santa-ana.org](mailto:ciglesias@santa-ana.org)



Subsequent to filing the fiscal year 2017-18 MOE Calculation Report, the City became aware that expenditures related to its graffiti abatement program were erroneously excluded from the report. OCTA had previously confirmed that the graffiti abatement expenditures were eligible for MOE calculations. The total expenditures related to the graffiti abatement program for the fiscal year ended June 30, 2018 was \$1,161,335. The addition of the graffiti abatement expenditures would reflect the City’s continued compliance in meeting and/or exceeding the minimum MOE requirements.

**Procedure #5**

We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

**Findings:**

Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$0 as indirect costs. However, per discussion with City’s accounting personnel and inspection of the general ledger expenditure detail, we identified indirect costs charged as M2 expenditures in other lines of the City’s Expenditure Report totaling \$1,546,764 for the fiscal year ending June 30, 2018. Indirect MOE expenditures tested totaled \$1,456,821. Similar to procedure 4 above, we were unable to verify the indirect cost methodology for 10 transactions totaling \$715,626. The City was unable to provide evidence of a documented allocation methodology to support the allocation of the charges. No other exceptions were found as a result of this procedure.

**City’s Response:**

The City reviewed and verified the indirect costs identified by the auditors. The City will report indirect costs on M2 Expenditures Report Schedule 3, line 1, effective fiscal year 2018-19. As discussed in the City’s response to the finding noted under Procedure #4 above, the addition of the graffiti abatement expenditures would reflect the City’s continued compliance in meeting and/or exceeding the minimum MOE requirements.

**Procedure #6**

We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

**Findings:**

The City received \$13,785,292 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 4,726,596
2016/2017	Local Fair Share (M2)	\$ 4,619,182
2015/2016	Local Fair Share (M2)	\$ 270,073

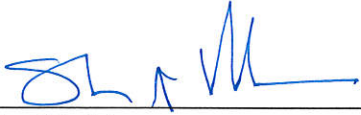
SANTA ANA CITY COUNCIL

We agreed the fund balance of \$9,615,851 to the City's Expenditure Report (Schedule 1, line 20), identifying a difference of \$131,190. No other exceptions were found as a result of this procedure.

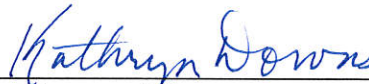
**City's Response:**

The fund balance of \$9,615,851 did not include \$220,775 of interest allocation reported on Schedule 1, line 20 of the M2 Expenditures Report. Therefore, the fund balance should have been \$9,836,626, which results in a difference of \$89,585. The difference was an unidentified variance carried over from prior fiscal years. Due to staff changes and records retention, the City was unable to find supporting documentation for the variance. During upcoming fiscal years, the City will continue to review and improve internal procedures to ensure accurate financial reporting.

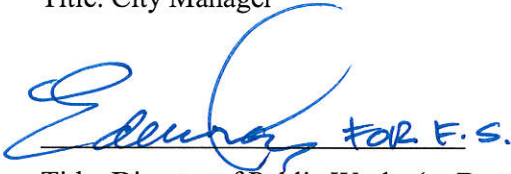
Sincerely,



Title: City Manager



Title: Director of Finance



Title: Director of Public Works (or Department that oversees Measure M-Local Fair Share)

SANTA ANA CITY COUNCIL



COMMITTEE TRANSMITTAL

May 13, 2019

**To:** Members of the Board of Directors  
**From:** *Lu*  
Laurena Weinert, Clerk of the Board  
**Subject:** Measure M2 Eligibility for the City of Stanton

Executive Committee Meeting of May 6, 2019

**Present:** Chairman Shaw, Vice Chairman Jones, and Directors Bartlett, Do, Hennessey, and M. Murphy  
**Absent:** Director Davies

**Committee Vote**

This item was passed by the Members present.

**Committee Recommendations**

- A. Find the City of Stanton ineligible to receive net Measure M2 revenues.
- B. Suspend payments to the City of Stanton of net Measure M2 revenues until the City of Stanton can demonstrate compliance with Measure M2 eligibility requirements and the Board of Directors acts to find the City of Stanton an "eligible agency."
- C. Authorize the Chief Executive Officer to execute Amendment No. 5 to Contract No. C-5-3564 with Vavrinek, Trine, Day and Company, LLP to revise the scope of work, add an additional task to apply agreed-upon procedures to assess compliance with maintenance of effort expenditure requirements, extend the agreement through June 30, 2020, and authorize staff to deduct fiscal year 2018-19 audit costs from any future net Measure M2 payments to the City of Stanton.
- D. Increase the City of Stanton's maintenance of effort requirement for fiscal year 2018-19 by the amount of expenditures that were not met as identified in the fiscal year 2017-18 audit.
- E. Authorize the Chief Executive Officer to negotiate and execute a settlement agreement with the City of Stanton to correct and remedy the fiscal year 2017-18 audit issues.





**May 6, 2019**

**To:** Executive Committee  
**From:** Darrell E. Johnson, Chief Executive Officer  
**Subject:** Measure M2 Eligibility for the City of Stanton

A handwritten signature in blue ink, appearing to read "Darrell Johnson", is positioned to the right of the "From:" field.

**Overview**

The Orange County Transportation Authority's Internal Auditor recently prepared an audit of the City of Stanton for fiscal year 2017-18. The audit concluded that the City of Stanton did not expend sufficient discretionary funds on streets and road purposes to meet the Measure M2 Ordinance maintenance of effort requirement. Based on this information, recommendations are presented related to compliance with the Measure M2 Ordinance.

**Recommendations**

- A. Find the City of Stanton ineligible to receive net Measure M2 revenues.
- B. Suspend payments to the City of Stanton of net Measure M2 revenues until the City of Stanton can demonstrate compliance with Measure M2 eligibility requirements and the Board of Directors acts to find the City of Stanton an "eligible agency."
- C. Authorize the Chief Executive Officer to execute Amendment No. 5 to Contract No. C-5-3564 with Vavrinek, Trine, Day and Company, LLP to revise the scope of work, add an additional task to apply agreed-upon procedures to assess compliance with maintenance of effort expenditure requirements, extend the agreement through June 30, 2020, and authorize staff to deduct fiscal year 2018-19 audit costs from any future net Measure M2 payments to the City of Stanton.
- D. Increase the City of Stanton's maintenance of effort requirement for fiscal year 2018-19 by the amount of expenditures that were not met as identified in the fiscal year 2017-18 audit.
- E. Authorize the Chief Executive Officer to negotiate and execute a settlement agreement with the City of Stanton to correct and remedy the fiscal year 2017-18 audit issues.

***Background***

The Measure M2 (M2) Ordinance outlines eligibility requirements that each local agency must continually satisfy to receive net revenues from the M2 Program, including local fair share, the Senior Mobility Program, and awards through competitive programs. One of the requirements is that a local agency must continue to invest a certain level of discretionary revenues, such as general funds that support street and road activities, to be deemed eligible for any M2 funding. This requirement is rooted in the California Public Utilities Code (PUC) 180001 that enables local transportation authorities to seek voter approval for sales tax measures. The PUC states the intent of the legislature is that funds generated through a sales tax ordinance “shall supplement existing local revenues used for public transportation purposes and that local governments maintain their existing commitment of local funds for transportation purposes” (PUC 180200).

In the eligibility process, this requirement is referred to as the maintenance of effort (MOE) requirement and was also included in the original Measure M Program. Each jurisdiction is required to maintain a minimum level of local streets and roads discretionary expenditures. The minimum level was based on the average of general fund expenditures for local street maintenance and construction over the period of fiscal year (FY) 1985-86 through FY 1989-90. M2 used a similar benchmark and requires the amount to be adjusted for inflation every three years commensurate with overall growth of the local agency’s general fund revenues.

The local agency demonstrates its commitment to comply with the required MOE through budgeting the appropriate level of discretionary funding as part of the local agency budget process and providing the Orange County Transportation Authority (OCTA) with an expenditure report to validate the commitment at the end of the budget year.

In the 29 years of combined experience of administering the original Measure M and now M2 programs, OCTA has never had an instance in which it had to find a local jurisdiction ineligible to receive net Measure M revenues due to failure to meet the MOE requirement.

The OCTA Board of Directors (Board) makes a determination of eligibility annually based on the information that is provided by each jurisdiction and with support from the Taxpayer Oversight Committee (TOC), which is also charged with reviewing certain submittals. Following the annual eligibility cycle, the TOC directs the internal auditor to carry out audits to confirm that funds have been

spent in accordance with the M2 Ordinance and that each jurisdiction had sufficient expenditures to meet the previously self-certified MOE requirement. Every year, OCTA's Finance and Administration, Internal Audit, and Planning staff, as well as the TOC, have cautioned local agencies that budgeting at or just above the required MOE amount may put the agency's M2 funds at risk if they end up not meeting the requirement due to disallowed costs.

At the direction of the TOC, the OCTA Internal Auditor prepared an audit that was presented to the Board on April 8, 2019, which indicated that the City of Stanton (City) did not have sufficient expenditures for FY 2017-18 to meet its MOE requirement (Attachment A). This will impact the City's eligibility determination and the disbursement of net Measure M revenues to the City. It should be noted that the City has provided a response to the audit that is also included in Attachment A.

### ***Discussion***

In May 2017, the City provided the required MOE certification that stated it budgeted sufficient expenditures for FY 2017-18, consistent with the following requirement:

“The Authority shall not allocate any net revenues to any jurisdiction for any fiscal year until that jurisdiction has certified to the Authority that it has included in its budget for that fiscal year an amount of local discretionary funds for streets and roads purposes, at least equal to the level of its maintenance of effort requirement.”

The City met this MOE requirement based on the submittal and self-certification. The next submittal required from the City related to MOE and eligibility was the expenditure report, which was approved by the City Council through a resolution and submitted to OCTA on October 23, 2018. The City was required to spend \$245,103 using discretionary revenues toward streets and roads-related costs. According to the expenditure plan that was submitted, the City spent \$246,244 to meet this requirement.

However, the audit has determined that the City did not meet the MOE that was reported in its annual expenditure report for FY 2017-18 because several of the expenditures included do not qualify as satisfying MOE requirements (i.e., streets and roads purposes). After deducting these non-transportation expenditures, the City did not meet the MOE requirement for FY 2017-18. However, the City responded that an additional \$13,483 of general fund transportation-related expenditures could be counted toward the MOE requirement. The City also stated that another \$25,000 in transportation

expenditures in another fund could be transferred to the general fund. Alternatively, the City suggested overspending MOE in the future to make up for the underrun in FY 2017-18 MOE expenditures. On April 15, 2019, staff met with the City of Stanton to review the City's audit response, as well as any potential follow-up items. Based on the discussion at the meeting, staff believes the audit findings should remain unchanged.

Under this circumstance, the following M2 Ordinance requirement applies:

“A determination of non-eligibility of a jurisdiction shall be made only after a hearing has been conducted and a determination has been made by the Authority's Board of Directors that the jurisdiction is not an eligible jurisdiction.”

Because the audit determined that the City did not meet the MOE requirement, and in order to be consistent with the requirements of the M2 Ordinance and comply with the intent of the authorizing state statute, it is recommended that the Board find the City ineligible to receive Measure M revenues. Specific recommendations include:

- Find the City ineligible to receive net M2 revenues;
- Suspend payments to the City of net M2 revenues;
- Deduct FY 2018-19 audit costs from any future net M2 payments to the City;
- Increase the City's MOE requirement for FY 2018-19 by the amount of expenditures that were not met as identified in the FY 2017-18 audit; and
- Execute a settlement agreement with the City to correct and remedy the audit issues.

Based on these recommendations, net M2 payments would be suspended until such time that the City has re-established eligibility. These funds will be held in reserve for the City. The City will be required to demonstrate through a future OCTA audit of financial reports, (the audit would be paid for by the City), that it has met the MOE required for FY 2018-19, plus made up for the underrun in MOE expenditures from FY 2017-18. As the M2 Ordinance and eligibility guidelines do not include precise terms and conditions related to re-establishing eligibility, OCTA would execute an agreement with the City that further details specific requirements and timeframes. The City has indicated in its response to the audit, which is provided in Attachment A, that it is willing to work with OCTA on a remedy.

**Summary**

A recent audit indicated that the City of Stanton did not meet Measure M2 eligibility requirements. Recommendations are presented in response to the audit, consistent with the intent of the Measure M2 Ordinance.

**Attachment**

- A. Vavrinek, Trine, Day & Co., LLP, Certified Public Accounts, Independent Accountants' Report on Applying Agreed-Upon Procedures - City of Stanton

**Prepared by:**



Adriann Cardoso  
Department Manager, Capital  
Programming  
(714) 560-5915

**Approved by:**



Kia Mortazavi  
Executive Director, Planning  
(714) 560-5741



VAVRINEK, TRINE, DAY & CO., LLP

Certified Public Accountants

VALUE THE *difference*

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING  
AGREED-UPON PROCEDURES — CITY OF STANTON**

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

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), on the City of Stanton's (City) compliance with certain provisions of the Measure M2 Local Transportation Ordinance (Ordinance) as of and for the fiscal year ended June 30, 2018. The City's management is responsible for compliance with the Ordinance and for its cash, revenue and expenditure records. The sufficiency of these procedures is solely the responsibility of the Taxpayers Oversight Committee of the OCLTA. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings were as follows:

1. We obtained the OCLTA Maintenance of Effort (MOE) Calculation Report and identified the required minimum amount to be spent on MOE expenditures by the City.

Findings: The City was required to spend \$245,213 in MOE expenditures during the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

2. We described which funds the City used to track all street and road expenditures and inquired how the City identifies MOE expenditures in its general ledger.

Findings: All MOE expenditures are tracked in the general ledger by fund, program, and activity. The City recorded its MOE expenditures in its General Fund (101) under the Street Maintenance Department. No exceptions were found as a result of this procedure.

3. We obtained the detail of MOE expenditures for the fiscal year ended June 30, 2018 and determined whether the City met the minimum MOE requirement. We agreed the total MOE expenditures to the amount reported on the City's Expenditure Report (Schedule 3, line 18), explaining any differences.

Findings: The City's MOE expenditures for the fiscal year ended June 30, 2018 were \$246,244 (see Schedule A), which exceeded the requirement. We agreed the total expenditures of \$246,244 to the amount reported on the City's Expenditure Report (Schedule 3, line 18), with no differences. No exceptions were found as a result of this procedure.

4. We selected a sample of MOE expenditures from the City’s general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

Findings: MOE expenditures tested totaled \$115,170, representing approximately 47% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified five expenditures, totaling \$8,593 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. After removing the amounts from total MOE expenditures, the City did not meet the minimum MOE requirement.

5. We identified whether or not indirect costs were charged as MOE expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction’s Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we obtained detail of indirect costs charged, and selected a sample of charges for inspection. We inspected the supporting documentation for reasonableness and appropriate methodology.

Findings: Based on inspection of the Expenditure Report (Schedule 3, line 1), the City reported \$25,168 as indirect costs. Indirect MOE expenditures tested totaled \$12,584. No exceptions were found as a result of this procedure.

6. We obtained a listing of Measure M2 Local Fair Share payments made from OCLTA to the City and calculated the amount the City received for the past three fiscal years. We obtained the fund balance of the City’s Measure M2 Local Fair Share Fund as of June 30, 2018, agreed to the balance as listed on the City’s Expenditure Report (Schedule 1, line 20), and determined whether funds were expended within three years of receipt, explaining any differences.

Findings: The City received \$1,471,623 for the past three fiscal years ended June 30, 2016, 2017 and 2018. The remaining fund balance of these funds was as follows:

<u>Allocation Year</u>	<u>Funding Source</u>	<u>Remaining Fund Balance</u>
2017/2018	Local Fair Share (M2)	\$ 499,681
2016/2017	Local Fair Share (M2)	\$ 175,576

We agreed the fund balance of \$675,257 to the City’s Expenditure Report (Schedule 1, line 20), with no differences. No exceptions were found as a result of this procedure.

7. We described which fund the City 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, 2018. We agreed the total Local Fair Share expenditures per the general ledger to the amounts reflected on the City’s Expenditure Report (Schedule 2, line 17, and detail listed at Schedule 4), explaining any differences.

Findings: The City’s Measure M2 Local Fair Share expenditures are recorded in Fund 220, Measure M Fund. Total Measure M2 Local Fair Share expenditures per the general ledger during the fiscal year ended June 30, 2018 were \$1,279,188 (see Schedule A), which agrees 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.



8. We obtained the City's Seven-Year Capital Improvement Program (CIP). We compared the projects listed on the City's Expenditure Report (Schedule 4) to the Seven-Year CIP, explaining any differences. We selected a sample of Measure M2 Local Fair Share expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:
  - a. Agreed 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.
  - b. Verified that the expenditures selected in (a) above were related to projects included in the City's Seven-Year CIP and were properly classified as Measure M2 Local Fair Share projects.

Findings: Measure M2 Local Fair Share expenditures tested totaled \$1,020,348 representing approximately 80% of total Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

9. We identified whether or not indirect costs were charged as Measure M2 Local Fair Share expenditures. If applicable, we compared indirect costs identified to the amount reported on the Eligible Jurisdiction's Expenditure Report (Schedule 3, line 1), explaining any differences. If applicable, we selected a sample of charges, and described the dollar amount tested. We identified the amounts charged and inspected supporting documentation for reasonableness and appropriate methodology.

Findings: Based upon inspection of the general ledger detail, Expenditure Report (Schedule 3, Line 1), and discussion with the City's accounting personnel, no indirect costs were identified as Measure M2 Local Fair Share expenditures for the fiscal year ended June 30, 2018. No exceptions were found as a result of this procedure.

10. We obtained and inspected the City'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. We agreed the amount reflected to the amount of interest listed on the City's Expenditure Report (Schedule 2, line 4), explaining any differences.

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

11. We determined the City was found eligible by the TOC Eligibility Subcommittee.

Findings: We inspected the minutes of the TOC and verified that the TOC Eligibility Subcommittee found the City was eligible to receive Measure M2 Local Fair Share funds. No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, 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.

At the request of OCLTA, the City's responses to certain findings are included in Exhibit 1. The responses are included for the purposes 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 the Board of Directors of the Orange County Local Transportation Authority and the Taxpayers Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

*Vavinich, Trin, Dog Co, LLP*

Laguna Hills, California  
March 12, 2019

**CITY OF STANTON, CALIFORNIA**  
**Schedule of Measure M2 Local Fair Share Expenditures**  
**Year Ended June 30, 2018**  
**(Unaudited)**

Maintenance of Effort (MOE) Expenditures:

Maintenance:			
Other Street Purpose Maintenance - Schedule 3, line 15	\$	221,076	
Indirect and/or Overhead - Schedule 3, line 1		<u>25,168</u>	
Total MOE Expenditures		<u>246,244</u>	

Measure M2 Local Fair Share Expenditures (Schedule 4):

Rutledge & Palais Alley Improvement Project (Citywide Pavement Rehabilitation)			807,596
Western Ave. & Thunderbid Traffic Signal Project (Traffic Signal Improvements)			321,082
Maintenance - Various Street Repairs (Citywide Sluury Seal / Citywide Sidewalk Repair)			<u>150,510</u>
Total Measure M2 Local Fair Share Expenditures			<u>1,279,188</u>
Total MOE and Measure M2 Local Fair Share Expenditures			<u>\$ 1,525,432</u>

Note:

The above amounts were taken directly from the financial records of the City of Stanton and were not audited.



March 12, 2019

David J. Shawver  
Mayor

Rigoberto A. Ramirez  
Council Member

Carol Warren  
Council Member

Gary Taylor  
Council Member

Robert W. Hall  
Interim City Manager

Board of Directors

Orange County Local Transportation Authority  
and the Taxpayers Oversight Committee of the  
Orange County Local Transportation Authority

The following response is being submitted to address results from the agreed upon procedures performed for the Measure M2 Local Transportation Ordinance for the City of Stanton as of and for the fiscal year ended June 30, 2018.

#### **Procedure #4**

We selected a sample of MOE expenditures from the City's general ledger expenditure detail, and described the percentage of total expenditures selected for testing. For each item selected, we performed the following:

- a. Agreed 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.
- b. Verified that the expenditure was properly classified as a local street and road expenditure and is allowable per the Ordinance.

#### **Findings:**

MOE expenditures tested totaled \$115,170, representing approximately 47% of total MOE expenditures for the fiscal year ended June 30, 2018. We identified five expenditures, totaling \$8,593 that were not properly classified as local street and road expenditures, nor were the costs allowable per the Ordinance. After removing the amounts from total MOE expenditures, the City did not meet the minimum MOE requirement.

#### **City's Response:**

The City has identified additional General Fund local street and road expenditures in the amount of \$13,482.89. These expenditures were not recorded as MOE expenditures; however we believe the identified expenditures qualify as local street and road-related, and the total exceeds the identified disallowed costs. We also have over \$25,000 in local street and road expenditures charged to a Lighting and Landscaping District Fund in excess of our shortage that could be transferred if necessary. Alternatively, the City would be willing to transfer from the General Fund or overspend our MOE next year. We are willing to do whatever it takes to be in compliance of our MOE requirement.

The City has already made revisions to internal controls to ensure that this situation will not occur again. Additional controls implemented include:

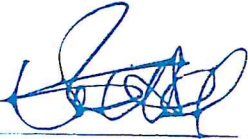
- a) An additional review to ensure all General Fund street maintenance-related expenditures are accurately classified.
- b) A mid-year review of expenditures charged to our Street Maintenance division.

7800 Katella Avenue  
Stanton, CA 90680  
Phone (714) 379-9222  
Fax (714) 890-1443  
[www.ci.stanton.ca.us](http://www.ci.stanton.ca.us)

- c) A year-end review to ensure that expenditures charged are appropriate and that the MOE has been met, with the back-up of re-allocating funds charged to our Lighting and Landscaping District Fund if our MOE has not been met.
- d) On top of the additional procedures, we will be budgeting a minimum of 10% cushion between the minimum MOE requirement and the City's local street and road expenditure budget.

As a result of the above internal control changes, we are confident that the City will meet the minimum MOE requirements in the future, and would be willing to comply with another audit next year or one in the next few years to verify that these controls protect against falling short of our MOE requirement.

Sincerely,



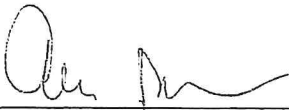
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Title: Interim City Manager



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Title: Assistant City Manager  
(Director of Finance)



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Title: Public Works Director

Measure M Cities - Suggested Selection for FY2019

Agency	Local Fair Share						SMP & SNEMT					
	Last Audit	No. of Findings Last Audit	Payments FY 6/30/18	Payments FY 6/30/19 as of 5/15/19	Payments Since Inception as of 5/15/19	% of Total	Last Audit	No. of Findings Last Audit	Payments FY 6/30/18	Payments FY 6/30/19 as of 5/15/19	Payments Since Inception as of 5/15/19	% of Total
Aliso Viejo	2018	1	673,758.39	500,793.49	4,766,941.99	1.25%	n/a	0	25,336.58	18,566.60	138,037.97	0.34%
a Anaheim	2015	1	5,899,986.93	4,292,441.14	41,416,617.30	10.85%	2015	1	274,416.82	201,092.10	1,947,114.56	4.78%
a Brea	2015	1	953,211.40	699,869.72	6,875,259.46	1.80%	n/a	0	43,075.85	31,565.89	305,647.15	0.75%
Buena Park	2018	2	1,430,926.33	1,044,094.79	10,784,419.66	2.82%	2017	1	73,733.00	54,031.40	523,172.48	1.28%
Costa Mesa	2018	3	2,477,261.72	1,815,914.95	17,440,156.53	4.57%	2017	3	88,422.38	64,795.74	627,400.53	1.54%
Cypress	2017	1	861,178.35	629,882.52	6,361,435.02	1.67%	n/a	0	52,529.88	38,493.80	369,974.98	0.91%
c Dana Point	2018	3	576,602.64	422,586.42	3,968,774.00	1.04%	2018	4	50,143.57	36,745.10	273,188.27	0.67%
Fountain Valley	2016	2	1,028,444.28	751,159.21	7,463,717.64	1.95%	n/a	0	80,898.10	59,281.98	404,904.88	0.99%
Fullerton	2016	2	2,178,065.30	1,599,354.57	15,616,736.31	4.09%	2016	5	132,271.35	96,928.19	931,619.75	2.29%
a Garden Grove	2015	1	2,486,297.94	1,815,096.99	17,869,164.88	4.68%	2015	0	158,368.90	116,052.41	1,123,703.53	2.76%
a Huntington Beach	2015	0	3,246,809.99	2,397,866.09	23,306,968.92	6.10%	2015	0	234,396.91	171,765.61	1,663,151.11	4.08%
Irvine	2017	2	4,689,141.77	3,474,792.36	32,187,570.73	8.43%	2013	1	170,738.89	125,117.13	1,211,475.79	2.97%
Laguna Beach	2017	2	433,700.13	315,064.98	3,064,738.83	0.80%	n/a					
Laguna Hills	2015	0	572,304.33	418,935.00	4,094,630.09	1.07%	n/a	0	35,697.68	26,159.19	253,294.96	0.62%
Laguna Niguel	2016	1	1,110,116.62	801,153.58	8,014,224.50	2.10%	2017	4	75,120.97	55,048.51	533,013.58	1.31%
Laguna Woods	2016	2	209,718.00	154,399.66	1,533,760.67	0.40%	2017	0	87,296.18	63,970.47	619,410.78	1.52%
c La Habra	2018	4	868,419.64	637,439.34	6,323,152.94	1.66%	2018	2	55,543.25	40,701.99	394,106.94	0.97%
Lake Forest	2016	1	1,350,677.64	983,957.29	9,474,896.34	2.48%	2018	0	68,022.84	49,847.00	482,651.15	1.19%
a La Palma	2015	0	255,116.41	185,728.59	2,002,330.79	0.52%	n/a					
Los Alamitos	2017	1	218,330.07	159,989.94	1,557,777.46	0.41%	n/a					
a Mission Viejo	2015	1	1,565,930.19	1,136,986.26	11,245,548.17	2.95%	2016	3	117,776.79	86,306.60	689,728.45	1.69%
Newport Beach	2016	0	1,841,776.15	1,357,965.78	13,194,203.32	3.46%	2016	1	134,036.76	98,221.88	951,047.31	2.34%
Orange	2018	2	2,779,864.11	2,034,308.30	19,776,050.95	5.18%	2014	3	127,309.97	93,292.50	903,320.23	2.22%
Placentia	2016	3	801,389.95	586,935.89	5,710,683.14	1.50%	n/a	0	54,812.76	40,166.67	388,921.26	0.95%
Rancho Santa Margarita	2017	0	707,882.48	520,233.52	5,090,259.28	1.33%	n/a	0	27,004.60	19,788.91	191,608.49	0.47%
c San Clemente	2018	3	966,487.39	701,569.82	6,733,532.03	1.76%	2018	4	73,349.48	53,750.36	520,452.91	1.28%
San Juan Capistrano	2017	2	629,276.42	461,855.68	4,547,812.15	1.19%	2017	3	46,801.46	34,296.02	254,982.09	0.63%
Santa Ana	2018	3	4,726,595.64	3,424,629.24	33,406,560.49	8.75%	2015	2	195,259.74	143,085.96	1,385,452.83	3.40%
Seal Beach	2018	6	401,884.52	299,615.95	3,025,801.47	0.79%	2014	2	67,980.23	49,815.77	482,355.57	1.18%
Stanton	2018	1	499,680.71	363,023.26	3,605,029.74	0.94%	n/a	0	32,659.97	23,933.17	230,031.87	0.56%
a Tustin	2015	0	1,520,402.21	1,108,729.24	10,715,887.46	2.81%	n/a	0	56,955.58	41,736.93	404,128.74	0.99%
Villa Park	2017	2	87,962.98	64,111.27	627,172.92	0.16%	n/a	0	11,195.10	8,203.75	45,985.85	0.11%
Westminster	2018	4	1,445,640.86	1,059,438.48	10,286,077.04	2.69%	2014	1	106,563.42	78,089.47	756,116.48	1.86%
Yorba Linda	2016	2	1,008,472.62	742,248.21	7,205,974.75	1.89%	2016	2	72,314.59	52,992.00	513,108.45	1.26%
a County Unincorporated	2015	0	3,303,490.25	2,467,350.25	22,490,626.42	5.89%	n/a					
County - SNEMT							2016	5	2,989,266.91	2,190,528.99	21,210,249.71	52.08%
<b>Total</b>			<b>53,806,804.36</b>	<b>39,429,521.78</b>	<b>381,784,493.39</b>	<b>100%</b>			<b>5,819,300.51</b>	<b>4,264,372.09</b>	<b>40,729,358.65</b>	<b>100%</b>

a Recommended selection: 4-5 year rotation.

b Recommended selection: Total payments over 400,000 and never been audited.

c Recommended selection by the Eligibility Committee.

LFS

SMP

LFS & SMP

# **TAXPAYER OVERSIGHT COMMITTEE AUDIT SUBCOMMITTEE**

## **AUDIT CHARTER May 2019**

The Audit Subcommittee (Subcommittee) of the Taxpayer Oversight Committee (TOC) is established to assist the TOC in fulfilling its oversight responsibilities regarding the Measure M ordinance approved by the voters of Orange County. Specifically, the Subcommittee will have responsibilities in matters related to internal and independent audits of the Measure M programs, projects, and financial records.

In providing assistance to the TOC, the Subcommittee will assume the role of an audit committee as provided herein and recommend action on all audit related matters to the full TOC. Recognizing that the Finance and Administration Committee (Committee) of the Board of Directors (Board) of the Orange County Transportation Authority (OCTA) serves as OCTA's audit committee with audit oversight of Measure M projects, programs, and financial records, the role of the Subcommittee is to augment the Committee's audit oversight as it relates specifically to Measure M projects, programs, and financial records.

All members of the Subcommittee will participate in fulfilling these responsibilities. At least one member of the Subcommittee will have financial experience sufficient to provide guidance and assistance to other Subcommittee members on matters related to government accounting, auditing, budgeting, and finance.

In fulfilling its audit responsibilities, the Subcommittee will have prompt and unrestricted access to all relevant OCTA documents, records, and staff. Requests by the Subcommittee for financial or other resources sufficient to fulfill these responsibilities, and beyond that already existing in the OCTA's adopted budget, will be directed, through the full TOC, to the OCTA's Chairman of the Board.

Members of the Subcommittee will be independent of OCTA, its contractors, consultants, and agents, in both fact and appearance, and will consult with the Chairman of the TOC concerning any circumstances which may compromise their ability to meet this standard. Members of the Subcommittee will comply with all applicable state and federal laws in the performance of their duties under this audit charter.

Responsibilities of the Subcommittee will include, but may not be limited to, the following:

### **Independent Financial Statements Audits**

1. Review with management and the independent financial statement auditors:
  - a. The annual financial statements of the Orange County Local Transportation Authority and related footnotes, schedules, and unadjusted differences, including

the accounting principles used, and significant estimates or judgments made, by management.

- b. The management letter issued by the independent auditors in relation to their audit of OCTA and all its legal entities.
  - c. Any other independent audit reports the Subcommittee believes may be relevant to the exercise of its duties.
2. Discuss with the independent financial statement auditors any difficulties encountered during the course of their work, disagreements with management, or restrictions or limitations placed upon them.
  3. Assist OCTA in the selection, retention, or discharge of its independent auditor. This assistance may be provided through:
    - a. Participation on the independent auditor procurement selection panel.
    - b. In coordination with the full TOC, provide performance feedback regarding the independent auditor to OCTA's Board and Internal Audit Department (Internal Audit).
  4. Inquire of the auditors as to their independence, their compliance with Government Auditing Standards, and applicable accounting and auditing guidance issued by the Government Accounting Standards Board, the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, and other standard-setting bodies.

### **Agreed Upon Procedures**

1. Review with the independent auditors the results of agreed-upon procedures performed at the direction of the Subcommittee and/or the Board of OCTA.
2. Design procedures to provide assurance that Measure M2 funds are used in compliance with the ordinance and expenditures are reported accurately.
3. Periodically evaluate the sufficiency and applicability of the procedures.
4. In coordination with the full TOC, provide management and OCTA's Board with recommendations based on the results of the procedures.
5. Review relevant city/county data and select a sample of jurisdictions for annual audit to determine the level of compliance with the Measure M2 ordinance.

## **Triennial Performance Assessment**

1. Participate in the development of a scope of work for the triennial performance assessment required by Measure M2.
2. Participate in the selection of the independent consultant.
3. Review the results of the triennial performance assessment, including management responses. Monitor the implementation of all recommendations.
4. In coordination with the full TOC, provide feedback to OCTA's Board on the performance of the independent consultant, the adequacy of management's responses, and/or the sufficiency of corrective action planned in response to audit recommendations.

## **Internal Audit and Internal Controls**

1. Receive and review the annual Internal Audit plan and quarterly updates of audit activity.
2. Review internal audit reports that have Measure M2 implications, including management responses and planned corrective action.
3. Consider the effectiveness of OCTA's system of internal controls, including controls over financial reporting.
4. Inquire of Internal Audit as to restrictions or limitations placed upon it by management or the Board.
5. Review the results of Internal Audit's triennial quality assurance (or "peer") review and confirm that Internal Audit has been found independent as defined by Government Auditing Standards.
6. In coordination with the full TOC, provide OCTA's Board feedback or recommendations related to audit findings, internal controls, or the performance of the internal audit function.

## **Other**

1. Review this Audit Charter annually to assess its adequacy and recommend changes.
2. Provide updates to the TOC on actions taken, communications by, or recommendations made by the Subcommittee.
3. Inquire annually of the Chairman of the Committee as to any concerns the Committee has regarding OCTA's internal controls, its internal audit function, its independent auditors, Measure M projects, programs or financial records, or other matters and report to the full TOC.



**Measure M2**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**as of March 31, 2019**  
**(Unaudited)**

(\$ in thousands)	Quarter Ended Mar 31, 2019	Year to Date Mar 31, 2019 (A)	Period from Inception to Mar 31, 2019 (B)
<b>Revenues:</b>			
Sales taxes	\$ 78,857	\$ 255,701	\$ 2,330,764
Other agencies' share of Measure M2 costs:			
Project related	28,040	51,326	675,636
Non-project related	-	-	454
Interest:			
Operating:			
Project related	251	85	677
Non-project related	3,348	7,870	30,982
Bond proceeds	3,796	4,693	56,011
Debt service	147	318	625
Commercial paper	-	-	393
Right-of-way leases	-	3	914
Proceeds on sale of assets held for resale	-	-	12,201
Donated assets held for resale			
Project related	-	2,071	2,071
Non-project related	-	(1,700)	371
Miscellaneous:			
Project related	-	-	270
Non-project related	-	-	100
Total revenues	<u>114,439</u>	<u>320,367</u>	<u>3,111,469</u>
<b>Expenditures:</b>			
Supplies and services:			
Sales tax administration fees	806	2,564	25,383
Professional services:			
Project related	8,929	19,413	364,523
Non-project related	1,137	3,181	25,182
Administration costs:			
Project related	2,432	7,292	70,473
Non-project related:			
Salaries and Benefits	1,008	2,275	24,808
Other	1,284	3,852	40,565
Other:			
Project related	21	58	4,999
Non-project related	852	863	4,870
Payments to local agencies:			
Project related	30,540	75,626	913,560
Capital outlay:			
Project related	35,848	73,000	929,702
Non-project related	-	-	31
Debt service:			
Principal payments on long-term debt	8,165	8,165	50,500
Interest on long-term debt and commercial paper	10,328	20,668	178,606
Total expenditures	<u>101,350</u>	<u>216,957</u>	<u>2,633,202</u>
Excess of revenues over expenditures	<u>13,089</u>	<u>103,410</u>	<u>478,267</u>
<b>Other financing sources (uses):</b>			
Transfers out:			
Project related	(7,901)	(149,481)	(188,088)
Non-project related	-	-	-
Transfers in:			
Project related	(41)	801	83,501
Non-project related	-	-	-
Bond proceeds	446,032	446,032	804,625
Payment to refunded bond escrow agent	(45,062)	(45,062)	(45,062)
Total other financing sources (uses)	<u>393,028</u>	<u>252,290</u>	<u>654,976</u>
Excess of revenues over expenditures and other sources (uses)	<u>\$ 406,117</u>	<u>\$ 355,700</u>	<u>\$ 1,133,243</u>

**Measure M2**  
**Schedule of Calculations of Net Revenues and Net Bond Revenues (Debt Service)**  
**as of March 31, 2019**  
**(Unaudited)**

<i>(\$ in thousands)</i>	Quarter Ended Mar 31, 2019 (actual)	Year to Date Mar 31, 2019 (actual)	Period from Inception through Mar 31, 2019 (actual)	Period from April 1, 2019 through March 31, 2041 (forecast)	Total
	(C.1)	(C.1)	(D.1)	(E.1)	(F.1)
<b>Revenues:</b>					
Sales taxes	\$ 78,857	\$ 255,701	\$ 2,330,764	\$ 11,158,757	\$ 13,489,521
Operating interest	3,348	7,870	30,982	165,485	196,467
Subtotal	<u>82,205</u>	<u>263,571</u>	<u>2,361,746</u>	<u>11,324,242</u>	<u>13,685,988</u>
Other agencies share of M2 costs	-	-	454	-	454
Miscellaneous	-	-	100	-	100
Total revenues	<u>82,205</u>	<u>263,571</u>	<u>2,362,300</u>	<u>11,324,242</u>	<u>13,686,542</u>
<b>Administrative expenditures:</b>					
Sales tax administration fees	806	2,564	25,383	169,424	194,807
Professional services	1,137	3,181	21,407	76,465	97,872
<b>Administration costs:</b>					
Salaries and Benefits	1,008	2,275	24,808	112,936	137,744
Other	1,284	3,852	40,565	187,987	228,552
Other	26	37	1,869	19,241	21,110
Capital outlay	-	-	31	-	31
Environmental cleanup	2,029	4,681	39,429	219,239	258,668
Total expenditures	<u>6,290</u>	<u>16,590</u>	<u>153,492</u>	<u>785,292</u>	<u>938,784</u>
Net revenues	<u>\$ 75,915</u>	<u>\$ 246,981</u>	<u>\$ 2,208,808</u>	<u>\$ 10,538,950</u>	<u>\$ 12,747,758</u>
<hr/>					
<b>Bond revenues:</b>					
Proceeds from issuance of bonds	\$ 446,032	\$ 446,032	\$ 804,625	\$ 1,547,500	\$ 2,352,125
Interest revenue from bond proceeds	3,796	4,693	56,011	90,329	146,340
Interest revenue from debt service funds	147	318	625	4,695	5,320
Interest revenue from commercial paper	-	-	393	-	393
Total bond revenues	<u>449,975</u>	<u>451,043</u>	<u>861,654</u>	<u>1,642,524</u>	<u>2,504,178</u>
<b>Financing expenditures and uses:</b>					
Professional services	-	-	3,775	10,833	14,608
Payment to refunded bond escrow	45,062	45,062	45,062	-	45,062
Bond debt principal	8,165	8,165	50,500	2,189,111	2,239,611
Bond debt and other interest expense	10,328	20,668	178,606	962,369	1,140,975
Other	826	826	3,001	-	3,001
Total financing expenditures and uses	<u>64,381</u>	<u>74,721</u>	<u>280,944</u>	<u>3,162,313</u>	<u>3,443,257</u>
Net bond revenues (debt service)	<u>\$ 385,594</u>	<u>\$ 376,322</u>	<u>\$ 580,710</u>	<u>\$ (1,519,789)</u>	<u>\$ (939,079)</u>

**Measure M2**  
**Schedule of Revenues and Expenditures Summary**  
**as of March 31, 2019**  
**(Unaudited)**

Project	Description	Net Revenues through Mar 31, 2019	Total Net Revenues	Expenditures through Mar 31, 2019	Reimbursements through Mar 31, 2019	Net M2 Cost
(G)		(H)	(I)	(J)	(K)	(L)
<i>(\$ in thousands)</i>						
<b>Freeways (43% of Net Revenues)</b>						
A	I-5 Santa Ana Freeway Interchange Improvements	\$ 87,060	\$ 502,454	\$ 6,881	\$ 2,355	\$ 4,526
B	I-5 Santa Ana/SR-55 to El Toro	55,608	320,929	9,212	6,120	3,092
C	I-5 San Diego/South of El Toro	116,142	670,297	136,658	46,474	90,184
D	I-5 Santa Ana/San Diego Interchange Upgrades	47,791	275,815	2,004	527	1,477
E	SR-22 Garden Grove Freeway Access Improvements	22,228	128,286	4	-	4
F	SR-55 Costa Mesa Freeway Improvements	67,796	391,273	21,756	8,081	13,675
G	SR-57 Orange Freeway Improvements	47,920	276,564	50,576	11,923	38,653
H	SR-91 Improvements from I-5 to SR-57	25,933	149,667	34,762	824	33,938
I	SR-91 Improvements from SR-57 to SR-55	77,150	445,260	22,408	6,802	15,606
J	SR-91 Improvements from SR-55 to County Line	65,240	376,520	6,936	5,294	1,642
K	I-405 Improvements between I-605 to SR-55	198,720	1,146,879	395,519	33,756	361,763
L	I-405 Improvements between SR-55 to I-5	59,220	341,776	9,258	6,941	2,317
M	I-605 Freeway Access Improvements	3,705	21,381	2,162	16	2,146
N	All Freeway Service Patrol	27,785	160,358	2,376	-	2,376
	Freeway Mitigation	47,489	274,077	52,765	2,557	50,208
	Subtotal Projects	949,787	5,481,536	753,277	131,670	621,607
	Net (Bond Revenue)/Debt Service	-	-	46,983	-	46,983
	<b>Total Freeways</b>	<b>\$ 949,787</b>	<b>\$ 5,481,536</b>	<b>\$ 800,260</b>	<b>\$ 131,670</b>	<b>\$ 668,590</b>
	<b>%</b>					<b>37.4%</b>
<b>Street and Roads Projects (32% of Net Revenues)</b>						
O	Regional Capacity Program	\$ 220,884	\$ 1,274,792	\$ 733,672	\$ 475,581	\$ 258,091
P	Regional Traffic Signal Synchronization Program	88,350	509,894	53,917	4,984	48,933
Q	Local Fair Share Program	397,585	2,294,596	383,531	77	383,454
	Subtotal Projects	706,819	4,079,282	1,171,120	480,642	690,478
	Net (Bond Revenue)/Debt Service	-	-	52,185	-	52,185
	<b>Total Street and Roads Projects</b>	<b>\$ 706,819</b>	<b>\$ 4,079,282</b>	<b>\$ 1,223,305</b>	<b>\$ 480,642</b>	<b>\$ 742,663</b>
	<b>%</b>					<b>41.6%</b>

**Measure M2**  
**Schedule of Revenues and Expenditures Summary**  
**as of March 31, 2019**  
**(Unaudited)**

Project	Description	Net Revenues through Mar 31, 2019	Total Net Revenues	Expenditures through Mar 31, 2019	Reimbursements through Mar 31, 2019	Net M2 Cost
(G)		(H)	(I)	(J)	(K)	(L)
<i>(\$ in thousands)</i>						
<b>Transit Projects (25% of Net Revenues)</b>						
R	High Frequency Metrolink Service	\$ 207,707	\$ 1,271,400	\$ 290,171	\$ 99,000	\$ 191,171
S	Transit Extensions to Metrolink	194,987	1,125,332	43,367	2,133	41,234
T	Metrolink Gateways	29,645	65,157	98,226	60,956	37,270
U	Expand Mobility Choices for Seniors and Persons with Disabilities	70,824	442,030	68,171	88	68,083
V	Community Based Transit/Circulators	44,164	254,888	7,226	463	6,763
W	Safe Transit Stops	4,875	28,133	358	26	332
	Subtotal Projects	552,202	3,186,940	507,519	162,666	344,853
	Net (Bond Revenue)/Debt Service	-	-	29,185	-	29,185
	<b>Total Transit Projects</b>	<b>\$ 552,202</b>	<b>\$ 3,186,940</b>	<b>\$ 536,704</b>	<b>\$ 162,666</b>	<b>\$ 374,038</b>
	<b>%</b>					<b>21.0%</b>
	<b>Measure M2 Program</b>	<b>\$ 2,208,808</b>	<b>\$ 12,747,758</b>	<b>\$ 2,560,269</b>	<b>\$ 774,978</b>	<b>\$ 1,785,291</b>

Project	Description	Revenues through Mar 31, 2019	Total Revenues	Expenditures through Mar 31, 2019	Reimbursements through Mar 31, 2019	Net M2 Cost
(G)		(H.1)	(I.1)	(J)	(K)	(L)
<i>(\$ in thousands)</i>						
<b>Environmental Cleanup (2% of Revenues)</b>						
X	Clean Up Highway and Street Runoff that Pollutes Beaches	\$ 47,235	\$ 273,720	\$ 39,429	\$ 292	\$ 39,137
	Net (Bond Revenue)/Debt Service	-	-	-	-	-
	<b>Total Environmental Cleanup</b>	<b>\$ 47,235</b>	<b>\$ 273,720</b>	<b>\$ 39,429</b>	<b>\$ 292</b>	<b>\$ 39,137</b>
	<b>%</b>					<b>1.7%</b>

<b>Taxpayer Safeguards and Audits</b>						
	Collect Sales Taxes (1.5% of Sales Taxes)	\$ 34,961	\$ 202,343	\$ 25,383	\$ -	\$ 25,383
	<b>%</b>					<b>1.1%</b>
	Oversight and Annual Audits (1% of Revenues)	\$ 23,617	\$ 136,860	\$ 24,808	\$ 1,191	\$ 23,617
	<b>%</b>					<b>1.0%</b>