

**MEASURE M  
TAXPAYERS OVERSIGHT COMMITTEE  
AUDIT SUBCOMMITTEE MEETING  
AGENDA**

Tuesday, April 10, 2012  
5:00 p.m. – 6:00 p.m.

Orange County Transportation Authority  
600 S. Main Street, Orange, CA  
Conference Room 101

*Conference room is on the first floor.*

1. Review and approve minutes from February 14, 2012
2. Selection of Cities for Measure M2 Agreed Upon Procedures *Janet Sutter*
3. Quarterly Measure M1 and M2 Revenue and Expenditure Reports *Kenneth Phipps*
4. M2 Triennial Performance Review - Update *Tamara Warren*
5. Other Matters
6. Public Comments\*

The Agenda listings are intended to give notice to members of the public of items of business to be transacted or discussed. The Audit Subcommittee may take any action which it deems appropriate on an agenda item.

\*Public Comments: At this time, members of the public may address the Audit Subcommittee regarding any items within the subject matter jurisdiction of the Subcommittee provided that NO action may be taken off-agenda items unless authorized by law. Comments shall be limited to five (5) minutes per person and 20 minutes for all comments, unless different time limits are set by the Chairman, subject to the approval of the Subcommittee.

**MEASURE M  
TAXPAYERS OVERSIGHT COMMITTEE  
AUDIT SUBCOMMITTEE MEETING  
MINUTES**

Orange County Transportation Authority  
550 S. Main Street, 600 Building  
Orange, CA  
Conference Room 101  
Tuesday, February 21, 2012  
5:00 p.m. – 6:30 p.m.

- TOC members present: Shaun Skelly, Howard Mirowitz, Jim Kelly, Gregory Pate
- OCTA staff present: Kenneth Phipps, Janet Sutter, Andrew Oftelie, Alice Rogan, Kia Mortazavi, Tamara Warren, Vicki Austin, Gabriel Tang, Kim Bowman, Kirk Avila, Rodney Johnson

***Meeting was called to order at:*** 5:07pm

***Review and approve minutes from January 10, 2012:*** This item will be carried over to the next meeting for approval.

***TOC Audit Subcommittee Charter:*** Janet Sutter, Executive Director of Internal Audit, gave copies of the draft Taxpayers Oversight Committee Audit Subcommittee (Subcommittee) Charter (Charter) to Subcommittee members for review. Janet explained the Charter was created at the request of former Committee Chairman David Sundstrom. The Charter outlines responsibilities of the Subcommittee with regards to accepting and reviewing the independent annual financial and agreed-upon procedures audits related to Measure M. The Subcommittee reviews and approves the Charter on an annual basis. Janet indicated a few minor changes were made to the Charter to include Measure M1 and M2 and to change the Triennial Performance Assessment to Measure M2. Discussion ensued regarding more edits to the Charter as directed by Subcommittee members. Jim Kelly suggested that the Subcommittee Chairman's annual inquiry of OCTA's Finance and Administration Committee be made in a formal, documented manner. Howard Mirowitz suggested including language in the Charter indicating the Subcommittee participates in reviewing documentation for the purpose of selecting cities receiving turnback funds for annual audit. Janet agreed to add language to the Charter addressing this function of the Subcommittee. Changes to the Charter will be made and emailed to Subcommittee members. The Charter will be brought back to the next Subcommittee meeting for adoption, and then taken to the full TOC for adoption in June.

***M2 Agreed Upon Procedures and Environmental Mitigation Program Scope of Work:*** Janet stated that under the Measure M1 Ordinance, the Subcommittee selects eight cities receiving turnback funds for review on an annual basis. Under Measure M2, cities are eligible to receive Local Fair Share funds, Senior Mobility Program funds, and Senior Non-Emergency Medical Transportation Program funds. The Subcommittee will now review cities for compliance with ordinances and agreements in association with all three programs through which the cities may receive funds. Janet submitted draft procedures to the Subcommittee for agreement and input. Janet also asked for input in

determining frequency for auditing cities and the County of Orange for compliance with the three programs. The Subcommittee agreed to continue to select eight cities for audit in relation to the Fair Share and Senior Mobility Programs as applicable. The Subcommittee then recommended the County of Orange be audited the first year in relation to the Senior Non-Emergency Medical Transportation Program. Janet advised the committee that procedures to determine compliance with these programs were also reviewed with Andrew Oftelie, Director of Finance and Administration and Dana Wiemiller, Manager of Community Transportation Services

Janet next reviewed the scope of work for the environmental mitigation review with the Subcommittee and indicated the review would be included in the Internal Audit plan for fiscal year 2012-13. Jim said he would like to see a member from OCTA's Board of Directors who does not sit on the Environmental Oversight Committee included in the interview of personnel responsible for program execution and oversight. In addition, Jim asked that at least three acquisitions be tested.

***Investments Policy Overview:*** Rodney Johnson, Deputy Treasurer, provided Subcommittee members with a copy of OCTA's Annual Investment Policy (Policy); Rodney explained what is in the Policy and gave an overview of how the Policy is developed and updated. Rodney addressed a question from the previous meeting regarding interest rates and fielded additional questions from Subcommittee members.

***M2 Triennial Performance Assessment:*** Tamara Warren, Measure M Program Manager, Program Management Office, provided copies of the latest draft of the M2 Triennial Performance Review scope of work to the Subcommittee for review. Tamara indicated all comments submitted by Subcommittee members, with the exception of one, had been incorporated into the document. Howard indicated he would still like to have the scope of work include the task of performing a comparison of jurisdictions. Tamara responded that various jurisdictions conduct their programs differently making comparisons difficult. Tamara believes the broadness of the scope of work will allow for a wider spectrum of information to be cultivated from the assessment that will be useful in determining areas of focus for the next triennial performance review. Jim suggested adding a follow-up task to the scope of work. Tamara replied that follow-up to the last triennial performance review was performed by OCTA staff through regular status reports to the Board of Directors updating them on the progress. Tamara also shared that the current scope of work includes a task for the consultant to review the findings from the last assessment and determine if all findings have been addressed appropriately.

Shaun expressed his thoughts that representatives from the Subcommittee should be present at the exit meeting. Tamara said the consultant will visit the Subcommittee early on in the process to share their approach and solicit feedback from Subcommittee members, and staff will report back on a regular basis as the project progresses. The consultant will then present the draft final report to the Subcommittee for feedback prior to finalizing the report. Shaun then asked if there is a provision requiring the consultant to attest to their independence. Janet answered she believes the CAMM procurement process requires that the consultants disclose any contractual relationships they may have with OCTA in their proposal. Shaun then asked whether staff should consider including review of the ARTIC project for compliance with the Ordinance/Project T as part of the triennial assessment. Kia Mortazavi, Executive Director of Planning,

responded that the assessment is focused on assessing OCTA management's performance of delivering the Measure M program rather than measuring individual projects' compliance with the Ordinance. Kia suggested modifying a) of Task 4 to include 'transit projects'. Subcommittee members agreed with Kia's suggestion.

**Quarterly Measure M1 and M2 Revenue and Expenditure Report:** Kenneth Phipps, Executive Director of Finance and Administration, covered highlights of the revenue and expenditure reports as of December 31, 2011, for both Measure M1 and M2. Ken began with the M1 report and related that external revenue reimbursements totaled \$15 million for the quarter, total revenues received were \$17 million, and total expenditures equaled \$10 million. \$2.4 million was spent on the SR-22, with a total of \$5.5 million in reimbursements. Activity within the Freeway Mode indicates there is still approximately \$8.5 million in programmed funds remaining to be spent, and \$29,876 million of unprogrammed funds. Once there is confidence that the State of California will deliver on bond monies, the unprogrammed funds will be programmed for the remaining freeway effort under M1. \$60 million remains within Regional Streets and Roads and \$35 million within Local Street and Road Projects. The biggest effort within Transit Projects is the High-Technology Advanced Rail Transit and all capital projects associated with that. Upon completion of the capital projects, the remaining balance will be transferred into CURE. \$170 million remains within the Transit mode.

Ken next reviewed the Measure M2 report. \$66 million in sales tax revenues were received for the quarter and project reimbursements totaled \$22 million. Ken pointed out in Schedule 2 that total tax revenues were just under \$16 billion – a year and a half ago tax revenues were projected to be below \$14 billion. Within the Freeway Mode, \$2.5 million was spent on the I-5 project; a little more than \$2 million was spent within the Freeway Mitigation program, leaving a balance of \$8 million within the mode. On the Regional Capacity project, reimbursements exceeded expenditures bringing in external funding to leverage M2 sales tax funds. Within the Transit Mode \$11.5 million was spent on high frequency Metrolink service and \$21 million in external revenues was received within the quarter.

**Other Matters:** None

**Public Comments:** None

**Meeting Adjourned at:** 6:32 p.m.

**Next meeting scheduled for April 10, 5:00 p.m. CR 101.**

**Measure M Cities - Suggested Selection for FY11 Audits**

<b>Agency</b>	<b>Last Audit &gt;5 yr's</b>	<b>No. of Audit Findings</b>	<b>Payment Nov 2010</b>	<b>Payments Since Inception</b>	<b>% of Total &gt;5%</b>	<b>Mgmt Letter Findings</b>
Aliso Viejo	2009	1	65,335.54	3,947,610.88	0.69%	0
Anaheim	2009	1	597,225.77	62,629,307.74	10.94%	0
<b>Brea</b>	<b>2006</b>	<b>0</b>	<b>96,265.96</b>	<b>10,189,739.36</b>	<b>1.78%</b>	<b>1</b>
Buena Park	2010	0	158,535.27	15,512,556.67	2.71%	1
Costa Mesa	2008	0	247,703.21	26,850,880.68	4.69%	3
Cypress	2008	1	97,301.51	10,073,869.84	1.76%	0
Dana Point	2009	0	59,066.16	6,370,708.20	1.11%	0
Fountain Valley	2007	0	111,295.25	12,229,461.10	2.14%	1
Fullerton	2008	0	225,895.29	24,441,019.45	4.27%	0
Garden Grove	2009	2	258,239.44	27,888,760.23	4.87%	4
Huntington Beach	2008	1	339,155.83	36,511,983.83	6.38%	2
Irvine	2008	1	432,925.37	40,685,496.29	7.11%	1
Laguna Beach	2008	0	46,245.59	4,798,212.54	0.84%	2
<b>Laguna Hills</b>	<b>2006</b>	<b>0</b>	<b>63,162.31</b>	<b>6,731,820.17</b>	<b>1.18%</b>	<b>0</b>
Laguna Niguel	2007	0	120,275.61	12,210,424.37	2.13%	0
<b>Laguna Woods</b>	<b>2006</b>	<b>0</b>	<b>24,628.52</b>	<b>1,818,054.69</b>	<b>0.32%</b>	<b>0</b>
La Habra	2010	0	94,241.64	9,631,851.71	1.68%	2
Lake Forest	2007	0	135,680.09	12,785,472.77	2.23%	2
<b>La Palma</b>	<b>2006</b>	<b>0</b>	<b>30,952.50</b>	<b>3,239,547.77</b>	<b>0.57%</b>	<b>0</b>
Los Alamitos	2010	0	23,462.22	2,656,653.81	0.46%	1
Mission Viejo	2007	0	167,549.37	17,754,073.40	3.10%	2
Newport Beach	2009	1	188,988.04	17,893,633.14	3.12%	4
Orange	2009	1	284,710.23	29,738,198.69	5.19%	3
Placentia	2008	1	82,498.46	8,834,559.39	1.54%	3
Rancho Santa Margarita	2008	0	74,313.60	5,023,721.60	0.88%	1
San Clemente	2008	0	99,840.46	9,189,113.82	1.60%	0
<b>San Juan Capistrano</b>	<b>2010</b>	<b>2</b>	<b>67,516.99</b>	<b>7,067,355.70</b>	<b>1.23%</b>	<b>1</b>
Santa Ana	2010	0	507,439.51	55,773,202.23	9.74%	10
Seal Beach	2009	1	46,620.15	4,541,173.28	0.79%	0
Stanton	2010	0	52,527.31	5,616,717.04	0.98%	0
<b>Tustin</b>	<b>2010</b>	<b>2</b>	<b>148,254.68</b>	<b>15,397,461.68</b>	<b>2.69%</b>	<b>6</b>
Villa Park	2008	0	9,361.95	1,022,625.94	0.18%	2
<b>Westminster</b>	<b>2010</b>	<b>0</b>	<b>152,547.54</b>	<b>16,743,833.13</b>	<b>2.92%</b>	<b>0</b>
Yorba Linda	2007	0	104,565.49	10,633,891.39	1.86%	0
County Unincorporated	2009	0	304,925.11	36,170,381.29	6.32%	9
<b>Total</b>			<b>5,519,251.97</b>	<b>572,603,373.82</b>		

**Survey of Measure M Cities for Fiscal Year Ending June 30, 2011 Turnback Audits (Note 1)**  
as compiled by the Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA)

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2011 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	FY2011 Single Audit Findings & Recommendations (Note 2)	Auditor	Single Audit Date
Aliso Viejo	2009	No concerns identified. One finding in 2009 turnback audit: 1. The city used turnback funds for 2 projects, totaling \$499,006 that were not included in their CIP for 2009. The expenditures were included in their 2008 CIP.	None	Lance, Soll & Lunghard	10/17/11	N/A	Lance, Soll & Lunghard	N/A
Anaheim	2009	No concerns identified. No findings in 2009 turnback audit.	None	KPMG	N/A	None	KPMG	03/27/12
Brea	2011	Indirect staff costs allocated as percentage of total expenditure by CIP project. No findings in 2011 turnback audit.	Not Complete as of 3/31/11	Caporicci & Larson	N/A	Seven findings noted: 1. The City should perform physical inventory of equipment purchased with federal funds every two years. 2. The City should establish proper internal controls to monitor compliance requirements to ensure required reports are properly prepared, reviewed, and submitted to the granting agency. 3. The City should establish and follow appropriate internal control procedures over its federal programs to ensure the amounts requested for reimbursement are related to the grant project and are completed and submitted timely. 4. The City should develop a standardized post work inspection form to document that there is an inspection being done by the program manager on rehabilitation projects. 5. The City should update the procurement and internal control policies to address the threshold for personnel approving the housing rehabilitation loans and require second review on all housing rehabilitation loans. 6. The City should develop policies and procedures to ensure the Certificate of Insurance are provided to the County prior to incurring any program expenditures. 7. The City should establish and follow appropriate internal control procedures to ensure that correct CFDA numbers for all of the expenditures of federal awards for the fiscal year are accurately reflected in the Schedule of Expenditures of Federal Awards.	Caporicci & Larson	03/26/12
Buena Park	2010	No concerns identified. No findings in 2010 turnback audit.	One finding noted 1. The City should revisit and clarify the provisions in the purchasing policies regarding the purchasing methods, and what the authorization and approval limits are for department heads and other personnel.	Teaman, Ramirez & Smith	12/21/11	None	Teaman, Ramirez & Smith	12/21/11

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2011 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	FY2011 Single Audit Findings & Recommendations (Note 2)	Auditor	Single Audit Date
Costa Mesa	2008	No concerns identified. No findings in 2008 turnback audit.	Nine findings noted: 1. The City recorded a prior period adjustment in the financial statements for the year ended June 30, 2011 to adjust \$18.2 million of capital projects that had been previously capitalized by the City that are owned and maintained by CalTRANS. 2. The accounts payable clerk currently has the ability to add new vendors and change existing vendors in the vendor master file. 3. The City's payroll coordinator, who is responsible for processing payroll, also has the ability to make certain changes to employee information in the payroll system, including pay rate changes and activating and deactivating existing employees. 4. Some departments of the City that administer federal programs did not assist the Finance Department in identifying all of the federal program activity until the end of the auditor's fieldwork. 5. During our testing of Redevelopment Agency transactions, we observed that paid invoices were not cancelled (perforated) upon payment. 6. The City should implement procedures to reconcile the prior quarterly retiree health care benefit payment to the current expense total. 7. The City should consider reviewing older deposits listed in its Cash Performance Bond records to identify amounts for which a liability may no longer exist. 8. The City should establish and implement an ethics policy and implement an effective reporting mechanism for fraud and other unethical conduct. 9. The City should accumulate appropriate information to support whether or not an allowance for uncollectible amounts is appropriate for long-term receivables.	Mayer Hoffman McCann	12/08/11	Management Letter Finding #1.	Mayer Hoffman McCann	12/08/11
Cypress	2008	Indirect costs allocated as an overhead charge on salaries. One finding in 2008 turnback audit: 1. This City incurred \$73,016 in turnback expenditures that were not included in their 2008 Capital Improvement Plan (CIP). The expenditures were included in the City's 2007 CIP.	None	Caporicci & Larson	N/A	Two findings noted: 1. The City should implement procedures to monitor timeliness of submitting the required Grantee Performance Report to the granting agency. 2. The City should implement procedures to monitor the timing of expenditures to ensure compliance with the minimum required expenditure threshold.	Caporicci & Larson	12/16/11
Dana Point	2009	No concerns identified. No findings in 2009 turnback audit.	None	Rogers, Anderson, Malody & Scott	N/A	N/A	Rogers, Anderson, Malody & Scott	N/A

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Fountain Valley	2007	No concerns identified. No findings in 2007 turnback audit.	Four findings noted: 1. The City should update the purchasing policy to include information about how often service contracts should be re-bid and how long bidding documents should be retained. 2. The City should review the accrued vacation hours for each employee as of December 31, 2011 to determine if employees have exceeded the maximum accrual. 3. The City should modify the investment portfolio to maintain compliance with the investment policy and should monitor compliance on a regular basis. 4. The City should evaluate positions in the Finance Department to determine if the department is adequately staffed to ensure timely safeguarding of City assets and accurate financial reporting.	Mayer Hoffman McCann	02/03/12	One finding noted: 1. The City had not submitted form SF-425 for the fourth quarter as required by the Department of Housing and Urban Development.	Mayer Hoffman McCann	02/03/12
Fullerton	2008	Indirect costs allocated according to the Indirect Cost Proposal prepared by external auditors. No findings in 2008 turnback audit.	Three findings noted: 1. Budget adjustments were not properly accounted for in the financial system. 2. Two invoices which related to fiscal year 2010-11 that were paid in fiscal year 2011-12 but not properly recognized as a liability in the prior fiscal year. 3. The Redevelopment Agency did not include information required by California Health & Safety Code Section 33606 in the annual adopted budget.	Lance, Soll & Lunghard	12/15/12	One finding noted: 1. The City should have their indirect cost allocation plan approved by a city official and the cognizant agency if they intend to allocate indirect costs.	Lance, Soll & Lunghard	12/15/12
Garden Grove	2011	No concerns identified. No findings in 2011 turnback audit.	Three findings noted: 1. Several errors in journal entries resulted in the following correcting audit adjustments: a. Decrease in land held for resale and gain on sale of land in the amount of \$2.9 million. b. Decrease in tax payments in the amount of \$2.1 million. c. Increase in accrued compensated absences in the amount of \$4.4 million. 2. The City's database administrators have access to the core and peripheral financial systems databases based on user level permission. 3. The Information Technology Department has chosen a development and implementation strategy that is heavily dependent on maintaining strong in-house technical expertise with the Open Source/Ruby on Rails framework. Should significant changes to staffing occur, continued support maybe a risk.	Macias Gini O'Connell	11/23/11	Management Letter Finding #1.	Macias Gini O'Connell	11/23/11

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Huntington Beach	2011	No concerns identified. No findings in 2011 turnback audit.	Three findings noted: 1. The City should reconcile all outstanding loan balances to ensure accurate records are maintained for each individual borrower to ensure that in the event a borrower is non-compliant with the provisions of their agreements, the City will be able to appropriately pursue action based on accurate information. 2. The City should ensure that grant revenues and expenditures are reconciled at the end of each fiscal year and are appropriately accrued and reported in the correct year. 3. The City should improve their policy to maintain proper documentation for Housing Quality Standards required by the Department of Housing and Urban Development.	Macias Gini O'Connell	03/31/11	Management Letter Findings #1-2.	Macias Gini O'Connell	03/31/11
Irvine	2008	All projects are allocated 15% indirect costs based on administrative expenditures. One finding in 2008 turnback audit: 1. Six expenditures, totaling \$2,185,044 related to capital projects that were not included in the City's current year CIP.	None	Lance, Soll & Lunghard	10/31/11	None	Lance, Soll & Lunghard	09/22/11
Laguna Beach	2008	No concerns identified. No findings in 2008 turnback audit.	Not Complete as of 3/31/11	Mayer Hoffman McCann	N/A	One finding noted: 1. The system software of the City was incorrectly computing depreciation for assets with cost adjustments.	Mayer Hoffman McCann	12/30/11
Laguna Hills	2011	No concerns identified. No findings in 2011 turnback audit.	None	Moss, Levy & Hartzheim	N/A	N/A	Moss, Levy & Hartzheim	N/A
Laguna Niguel	2007	No concerns identified. No findings in 2007 turnback audit.	One finding noted: 1. The Auditor noted that the GASB 31 market valuation relating to the fiscal year ending June 30, 2010 was not reversed. The City should prepare a reconciliation of all cash and investment accounts to properly reconcile to the general ledger so that these issues will be properly detected.	Lance, Soll & Lunghard	10/13/11	Management Letter Finding #1.	Lance, Soll & Lunghard	10/13/11
Laguna Woods	2006	No concerns identified. No findings in 2006 turnback audit.	One finding noted: 1. For the year ended June 30, 2011, the following auditors' adjustments to the general ledger were detected by the audit process: • Certain reductions of deposits payable • Certain reversals of prior year accruals • Certain recordings of current year accruals	Gruber	02/29/12	N/A	Gruber	N/A
La Habra	2010	No concerns identified. No findings in 2010 turnback audit.	Not Complete as of 3/31/11	Macias Gini O'Connell	N/A	Not Complete as of 3/31/11	Macias Gini O'Connell	N/A
Lake Forest	2007	No concerns identified. No findings in 2007 turnback audit.	None	White, Nelson, Diehl, Evan	12/28/11	None	White, Nelson, Diehl, Evan	12/28/11
La Palma	2011	Indirect cost is allocated based on annual cost allocation plan. No findings in 2011 turnback audit.	None	Vavrinek, Trine, Day & Co.	N/A	N/A	Vavrinek, Trine, Day & Co.	N/A

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Los Alamitos	2010	No concerns identified. No findings in 2010 turnback audit.	Not Complete as of 3/31/11	Moss, Levy & Hartzheim	N/A	Not Applicable	Moss, Levy & Hartzheim	N/A
Mission Viejo	2007	No concerns identified. No findings in 2007 turnback audit.	N/A	Lance, Soll & Lunghard	N/A	Two findings noted: 1. The City should establish procedures to ensure proper documentation of the cost allocation plan including certification are done in accordance with the timeline established in OMB Circular A-87. 2. The City should establish procedures to ensure site-specific environmental reviews prior to the approval of home rehabilitation loans and grants.	Lance, Soll & Lunghard	10/25/11
Newport Beach	2009	No concerns identified. One finding in 2009 turnback audit: 1. The city utilizes an indirect cost allocation plan that is based on 2002-03 estimates and which included some costs twice. The city will update the calculation for FY09-10.	Five findings noted: 1. Items reported as reconciling items were not recorded timely to the general ledger and bank reconciliations showed unreconciled differences due primarily to a lack of reconciling credit card receipts. 2. The City should designate an employee independent from billing to perform receivable and customer account changes. 3. The City does not have a working detailed subsidiary report by customer for utility receivables and instead relies on the current receivable balance by interface code to reconcile the subsidiary system to the general ledger. 4. The Auditor noted that supporting schedules of the deposit detail were unavailable and the age of the deposit could not be determined. The City should analyze its outstanding deposits payable balances to determine the true balance of deposits payable that constitutes refundable deposits. 5. The City should evaluate its existing policies and procedures and make necessary changes to insure that the Finance Department is informed of all grant activities executed by the various Departments of the City to allow for improved reporting and compliance.	White, Nelson, Diehl, Evan	12/20/11	Management Letter Findings #1-2.	White, Nelson, Diehl, Evan	02/13/12
Orange	2009	Indirect costs allocated for data processing and computer replacement (based on equipment assigned to personnel working on Measure M improvement services) and G & A (in accordance with cost study performed by external consultant). One finding in 2009 turnback audit: 1. Two expenditures totaling \$130,430 were not included in the city's 2009 CIP	Two findings noted: 1. Several grants were excluded from the Schedule of Federal Expenditures. This was an isolated instance due to limited staffing and management is aware of the grants that should be included on the Schedule of Federal Expenditures. 2. The State Controller's Report was not presented to the governing body and the State Controller's Office for FY 2009-2010.	Lance, Soll & Lunghard	02/09/12	Management Letter Finding #1.	Lance, Soll & Lunghard	02/09/12

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date		Auditor	Single Audit Date
Placentia	2011	No concerns identified. No findings in 2011 turnback audit.	Nine findings noted: 1. The City's internal control systems would not prevent or detect and correct on a timely basis all material misstatements in the entity's financial statements. 2. Investment reports are not being certified and presented to the City Council in a timely manner. 3. The City does not have control procedures in place to ensure all accounts are properly reconciled and supported. 4. The City does not have a formal closing process to ensure all accounts are supported, reconciled and reviewed. 5. Process and controls have not been implemented to maintain the capital asset list and to capture all disposals of assets. Due to inadequate staffing levels prior to the fiscal year, a reconciliation of the capital assets listing and the inventory listing was not prepared. 6. The initial single audit schedule of federal expenditures (the "SEF A") provided by the City was found to contain errors. Several revisions were needed to correct the schedule. 7. Deferred revenue, and related accounts receivable, in the Miscellaneous Grants fund was overstated. 8. The City should use debt official statements to identify all costs of issuance, debt discounts, and reconcile net cash proceeds to the amount of debt issued. 9. Insufficient controls related to the safeguarding of cash.	Haskell & White	03/28/11	Management Letter Findings #1-9.	Haskell & White	03/28/11
Rancho Santa Margarita	2008	No concerns identified. No findings in 2008 turnback audit.	One finding noted: 1. The City does not perform a check of the Excluded Parties List System (EPLS) to ensure that vendors awarded contracts have not been suspended or debarred.	Mayer Hoffman McCann	12/19/11	Management Letter Finding #1.	Mayer Hoffman McCann	12/19/11
San Clemente	2010	No concerns identified. No findings in 2008 turnback audit.	None	Caporicci & Larson	12/05/11	None	Caporicci & Larson	12/05/11
San Juan Capistrano	2010*	Indirect costs include: health insurance, retirement benefits, and workers' comp insurance are allocated to each project based on actual salaries (or time) that are charged to a project. One finding in 2010* turnback audit: 1. The City comingled turnback funds with various other grant fund and, while interest is allocated to the fund, the interest earned specific to unspent turnback funds was not being tracked and accounted for. 2. The City has not spent its Turnback monies within three years of receipt as required by the Ordinance. • <b>These issues have not yet been resolved.</b>	Single Audit Findings #1-2.	Rogers, Anderson, Malody & Scott	02/08/12	Four findings noted: 1. The City should establish a more efficient and effective responsibilities matrix for its financial close process to provide timely and accurate completion of financial reporting as well as timely review and approval by management of all balance sheet reconciliations and account balances. 2. Certain general ledger account reconciliations, including bank reconciliations, were not performed on a timely basis. 3. The City does not account for expenditures of ARRA funds separately from expenditures of non-ARRA funds in their financial accounting system. 4. The City did not maintain comprehensive documentation of correspondence with the granting agency for Department of Transportation Grant No. ESPL-5372(012).	Rogers, Anderson, Malody & Scott	02/08/12

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Santa Ana	2010	No concerns noted. No findings in 2010 turnback audit.	N/A	Macias Gini O'Connell	N/A	None	Macias Gini O'Connell	03/26/12
Seal Beach	2009	No concerns identified. One finding in 2009 turnback audit: 1. Expenditures totaling \$60,111 for one project were not included in their CIP for 2009. The expenditures were in the CIP's for 2008 and 2010.	Two findings noted: 1. The Redevelopment Agency (RDA) did not submit the State Controller's report, progress reports and time limit reports within the required timeframe. 2. The RDA implementation plan related to the fiscal periods 2009-2010 through 2013-2014 was not adopted within the required timeframe, but adopted on June 13, 2011.	Lance, Soll & Lunghard	12/18/09	N/A	Lance, Soll & Lunghard	N/A
Stanton	2010	Indirect costs of \$1,932 from General Fund was charged the Measure M Fund. No findings in 2010 turnback audit.	N/A	Caporicci & Larson	N/A	None	Caporicci & Larson	01/12/12
Tustin	2011	No concerns identified. No findings in 2011 turnback audit.	N/A	White, Nelson, Diehl, Evan	N/A	Two findings noted: 1. Several instances in which the monthly bank reconciliation process was not completed and reviewed timely. 2. Laborers used for several projects funded by the CDBG grant were paid less than the prevailing wage rates established for the locality of those projects.	White, Nelson, Diehl, Evan	03/14/12
Villa Park	2008	No concerns identified. No findings in 2008 turnback audit.	None	Mayer Hoffman McCann	12/01/11	None	Mayer Hoffman McCann	12/01/11
Westminster	2010*	Administrative and salary costs allocated based on time spend and number of projects. No findings in 2010 turnback audit. (*follow up on 10/6/2011.)	None	White, Nelson, Diehl, Evan	11/25/11	Four findings noted: 1. The City has not used program income generated from CDBG program activities prior to requesting additional funding from grantor agency. 2. The City has not fully utilized the program income generated toward HOME program activities prior to requesting additional funding from grantor agency. 3. The City did not file the Summary Report, "Economic Opportunities/or Low- and Very Low-Income Persons" reports in a timely manner. 4. The City did not correctly report federally funded expenditures on its Section 1512 Recovery Act report.	White, Nelson, Diehl, Evan	11/25/11
Yorba Linda	2007	No concerns identified. No findings in 2007 turnback audit.	Not Complete as of 3/31/11	Lance, Soll & Lunghard	N/A	N/A	Lance, Soll & Lunghard	N/A

City	Last OCTA Measure M Turnback Audit	OCTA Questionnaire and Prior Audit Results (Note 1)	FY2009 Management Letter Findings & Recommendations	Auditor	Mgmt Letter Date	Single Audit Findings & Recommendations	Auditor	Single Audit Date
Orange County	2011	No concerns identified. No findings in 2011 turnback audit.	Four Findings Noted: 1. 25 net allocable hours in the Social Service Agency time study summary report did not agree to the time card in the quarterly time studies testing. 2. One out of the seven County districts did not have evidence of review of its inventory of EBT cards to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use. 3. 14 net hours in the County's electronic timesheet system did not agree with the time study. 4. One case was noted where documentation necessary to support eligibility determination was not obtained prior to making an adoption assistance program benefit payment.	Vavrinek, Trine, Day & Co.	12/16/11	Fourteen findings noted: 1. The County's procedures did not ensure that the required federal and state forms and reports were consistently reviewed by service workers and maintained in the case files for the SNAP cluster. 2. The Auditor noted that ARRA information was not consistently communicated during the fiscal year to CDBG Cluster subrecipients. 3. The Auditor noted that 4 instances where, the hourly pay rate per the expense spreadsheet was more than the actual pay rate. 4. The Auditor noted that ARRA information was not communicated to JAG Cluster subrecipients at the time of disbursement of funds as required by OMB Circular A-133. 5. The Auditor noted that the Cal EMA Jobs Data Collection Sheet for the JAG Cluster was submitted late for 3 of 4 reports tested. 6. The Auditor noted that, for a portion of the period under audit, July 1, 2010 through March 16, 2011, ARRA information was not communicated to WIA Cluster subrecipients at the time of disbursement of funds. 7. The Auditor noted that the quarterly performance reports for FY 2010-11 Aging Cluster were submitted after the due date. 8. The County should strengthen procedures for the TANF Cluster to ensure that required forms and reports are reviewed by the appropriate persons and maintained in case files. 9. The County should enhance its procedures for the Foster Care Program to ensure the judicial determination regarding reasonable efforts to finalize the permanency plan are obtained within the required timeframe. 10. The County should enhance its procedures to ensure funds are expended for Foster Care maintenance payments on behalf of eligible children placed in Foster Care. 11. The County should strengthen its procedures for the Medi-Cal program to ensure that required forms are consistently obtained and maintained in the case file. 12. The County should strengthen procedures for the Hazard Mitigation Grant to document that procurements and sub-awards of federally funded projects are not provided to vendors that are suspended or debarred by either checking the Excluded Parties List System (EPLS), collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity. 13. The County should enhance its policies and procedures for the Hazard Mitigation Grant to ensure that information included in the SEFA is based on current year expenditures and is reconciled to the underlying accounting records. 14. The County should strengthen procedures for the Transportation Security Administration Program to ensure that reports are submitted by the required due dates.	Vavrinek, Trine, Day & Co.	12/16/11

Note 1: A Questionnaire was circulated by Internal Audit in November 2011. Internal Audit requested all Orange County cities to provide answers to questions concerning funding, segregation of funding, interest on funds and indirect cost allocations. Internal Audit summarized the answers provided by cities on the Questionnaire which could indicate potential issues. Internal Audit also summarized findings from fiscal years 2006, 2007, 2008, 2009, 2010 and 2011 Measure M audits of cities.

Note 2: In November 2011, Internal Audit requested that all Orange County cities provide copies of their most recent Management letters and, if applicable, their prior year Single Audit reports issued by independent auditors. Management letter findings and recommendations, as well as Single Audit findings and recommendations have been summarized by Internal Audit. Fully developed findings and recommendations, as written by auditors, are maintained by the Internal Audit Department.

**Measure M1**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**as of December 31, 2011**

(\$ in thousands)	Quarter Ended Dec 31, 2011	Year to Date Dec 31, 2011	Period from Inception through Dec 31, 2011
	(A)	(B)	
<b>Revenues:</b>			
Sales taxes	\$ -	\$ -	\$ 4,003,972
Other agencies share of Measure M1 costs:			
Project related	15,424	20,457	479,361
Non-project related	1	3	617
Interest:			
Operating:			
Project related	-	-	1,052
Non-project related	1,941	3,925	266,294
Bond proceeds	-	-	136,067
Debt service	-	-	82,054
Commercial paper	-	-	6,072
Orange County bankruptcy recovery	-	-	42,268
Capital grants	-	-	156,434
Right-of-way leases	68	179	5,761
Proceeds on sale of assets held for resale	-	-	24,575
Miscellaneous:			
Project related	-	-	26
Non-project related	-	-	775
Total revenues	<u>17,434</u>	<u>24,564</u>	<u>5,205,328</u>
<b>Expenditures:</b>			
Supplies and services:			
State Board of Equalization (SBOE) fees	-	-	56,883
Professional services:			
Project related	896	1,000	199,486
Non-project related	(329)	272	34,324
Administration costs:			
Project related	351	658	21,692
Non-project related	1,562	3,168	94,635
Orange County bankruptcy loss	-	-	78,618
Other:			
Project related	32	58	1,865
Non-project related	2	2	15,946
Payments to local agencies:			
Turnback	-	-	594,009
Other	2,371	6,611	807,514
Capital outlay	5,189	7,883	2,060,780
Debt service:			
Principal payments on long-term debt	-	-	1,003,955
Interest on long-term debt and commercial paper	-	-	561,842
Total expenditures	<u>10,074</u>	<u>19,652</u>	<u>5,531,549</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,360</u>	<u>4,912</u>	<u>(326,221)</u>
<b>Other financing sources (uses):</b>			
Transfers out:			
Project related	-	(363)	(383,264)
Non-project related	-	-	(5,116)
Transfers in:			
Project related	-	-	1,829
Bond proceeds	-	-	1,169,999
Advance refunding escrow	-	-	(931)
Payment to refunded bond escrow agent	-	-	(152,930)
Total other financing sources (uses)	<u>-</u>	<u>(363)</u>	<u>629,587</u>
Excess (deficiency) of revenues over (under) expenditures and other sources (uses)	<u>\$ 7,360</u>	<u>\$ 4,549</u>	<u>\$ 303,366</u>

**Measure M1**  
**Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)**  
**as of December 31, 2011**

(\$ in thousands)	Quarter Ended Dec 31, 2011 (actual)	Year Ended Dec 31, 2011 (actual) (C.1)	Period from Inception through Dec 31, 2011 (actual) (D.1)	Period from January 1, 2012 forward (forecast) (E.1)	Total (F.1)
<b>Tax revenues:</b>					
Sales taxes	\$ -	\$ -	\$ 4,003,972	\$ -	\$ 4,003,972
Other agencies share of Measure M1 costs	1	3	617	-	617
Operating interest	1,941	3,925	266,294	2,405	268,699
Orange County bankruptcy recovery	-	-	20,683	-	20,683
Miscellaneous, non-project related	-	-	775	-	775
<b>Total tax revenues</b>	<u>1,942</u>	<u>3,928</u>	<u>4,292,341</u>	<u>2,405</u>	<u>4,294,746</u>
<b>Administrative expenditures:</b>					
SBOE fees	-	-	56,883	-	56,883
Professional services, non-project related	(329)	272	25,463	-	25,463
Administration costs, non-project related	1,562	3,168	94,635	974	95,609
Operating transfer out, non-project related	-	-	5,116	-	5,116
Orange County bankruptcy loss	-	-	29,792	-	29,792
Other, non-project related	2	2	6,846	-	6,846
<b>Total administrative expenditures</b>	<u>1,235</u>	<u>3,442</u>	<u>218,735</u>	<u>974</u>	<u>219,709</u>
<b>Net tax revenues</b>	<u>\$ 707</u>	<u>\$ 486</u>	<u>\$ 4,073,606</u>	<u>\$ 1,430</u>	<u>\$ 4,075,036</u>
<b>Bond revenues:</b>					
Proceeds from issuance of bonds	\$ -	\$ -	\$ 1,169,999	\$ -	\$ 1,169,999
Interest revenue from bond proceeds	-	-	136,067	-	136,067
Interest revenue from debt service funds	-	-	82,054	-	82,054
Interest revenue from commercial paper	-	-	6,072	-	6,072
Orange County bankruptcy recovery	-	-	21,585	-	21,585
<b>Total bond revenues</b>	<u>-</u>	<u>-</u>	<u>1,415,777</u>	<u>-</u>	<u>1,415,777</u>
<b>Financing expenditures and uses:</b>					
Professional services, non-project related	-	-	8,861	-	8,861
Payment to refunded bond escrow	-	-	153,861	-	153,861
Bond debt principal	-	-	1,003,955	-	1,003,955
Bond debt interest expense	-	-	561,842	-	561,842
Orange County bankruptcy loss	-	-	48,826	-	48,826
Other, non-project related	-	-	9,100	-	9,100
<b>Total financing expenditures and uses</b>	<u>-</u>	<u>-</u>	<u>1,786,445</u>	<u>-</u>	<u>1,786,445</u>
<b>Net bond revenues (debt service)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (370,668)</u>	<u>\$ -</u>	<u>\$ (370,668)</u>

Measure M1  
Schedule of Revenues and Expenditures Summary  
as of December 31, 2011

Project Description (G)	Net Tax Revenues Program to date Actual (H)	Total Net Tax Revenues (I)	Project Budget (J)	Estimate at Completion (K)	Variance Total Net Tax Revenues to Est Revenues to Est at Completion (L)	Variance Project Budget to Est Budget to Est at Completion (M)	Expenditures through Dec 31, 2011 (N)	Reimbursements through Dec 31, 2011 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
Freeways (43%)										
I-5 between I-405 (San Diego Fwy) and I-605 (San Gabriel Fwy)	\$ 982,247	\$ 982,591	\$ 810,010	\$ 789,022	\$ 193,569	\$ 20,988	\$ 871,679	\$ 85,619	\$ 786,060	97.0%
I-5 between I-5/I-405 Interchange and San Clemente	68,744	68,768	57,836	59,936	8,832	(2,100)	70,294	10,358	59,936	103.6%
I-5/I-405 Interchange	87,252	87,283	72,802	73,075	14,208	(273)	98,157	25,082	73,075	110.4%
SR-55 (Costa Mesa Fwy) between I-5 and SR-91 (Riverside Fwy)	58,168	58,188	44,511	49,349	8,839	(4,838)	55,514	6,172	49,342	110.9%
SR-57 (Orange Fwy) between I-5 and Lambert Road	29,084	29,094	24,128	22,758	6,336	1,370	25,617	2,859	22,758	94.3%
SR-91 (Riverside Fwy) between Riverside Co. line & Los Angeles Co. line	125,590	125,634	116,136	105,389	20,245	10,747	123,995	18,606	105,389	90.7%
SR-22 (Garden Grove Fwy) between SR-55 and Valley View St.	400,566	400,707	313,297	310,943	89,764	2,354	632,777	327,429	305,348	97.5%
Subtotal Projects										
Net (Bond Revenue)/Debt Service	1,751,651	1,752,265	1,438,720	1,410,472	341,793	28,248	1,878,033	476,125	1,401,908	
			311,917	311,917	(311,917)	-	311,917		311,917	
Total Freeways	\$ 1,751,651	\$ 1,752,265	\$ 1,750,637	\$ 1,722,389	\$ 29,876	\$ 28,248	\$ 2,189,950	\$ 476,125	\$ 1,713,825	45.5%
%				42.6%						
Regional Street and Road Projects (11%)										
Smart Streets	153,633	153,687	151,278	151,278	2,409	-	155,127	11,739	143,388	94.8%
Regionally Significant Interchanges	89,619	89,651	89,651	89,651	-	-	67,803	146	67,657	75.5%
Intersection Improvement Program	128,028	128,073	128,073	128,073	-	-	105,517	1,506	104,011	81.2%
Traffic Signal Coordination	64,014	64,036	64,036	64,036	-	-	63,127	1,554	61,573	96.2%
Transportation Systems Management and Transportation Demand Management	12,803	12,807	12,807	12,807	-	-	8,934	149	8,785	68.6%
Subtotal Projects										
Net (Bond Revenue)/Debt Service	448,097	448,254	445,845	445,845	2,409	-	400,508	15,094	385,414	
			2,409	2,409	(2,409)	-	2,409		2,409	
Total Regional Street and Road Projects	\$ 448,097	\$ 448,254	\$ 448,254	\$ 448,254	\$ -	\$ -	\$ 402,917	\$ 15,094	\$ 387,823	10.3%
%				11.1%						

Measure M1  
Schedule of Revenues and Expenditures Summary  
as of December 31, 2011

(G) Project Description (\$ in thousands)	(H) Net Tax Revenues Program to date Actual	(I) Total Net Tax Revenues	(J) Project Budget	(K) Estimate at Completion	(L) Variance Total Net Tax Revenues to Est at Completion	(M) Variance Project Budget to Est at Completion	(N) Expenditures through Dec 31, 2011	(O) Reimbursements through Dec 31, 2011	(P) Net Project Cost	(Q) Percent of Budget Expended
<b>Local Street and Road Projects (21%)</b>										
Master Plan of Arterial Highway Improvements	\$ 160,711	\$ 160,803	\$ 160,803	\$ 160,803	\$ -	\$ -	\$ 132,989	\$ 99	\$ 132,890	82.6%
Streets and Roads Maintenance and Road Improvements	594,746	594,955	594,955	594,955	-	-	594,025	-	594,025	99.8%
Growth Management Area Improvements	100,000	100,000	100,000	100,000	-	-	94,760	431	94,329	94.3%
Subtotal Projects	855,457	855,758	855,758	855,758	-	-	821,774	530	821,244	
Net (Bond Revenue)/Debt Service										
<b>Total Local Street and Road Projects</b>	<b>\$ 855,457</b>	<b>\$ 855,758</b>	<b>\$ 855,758</b>	<b>\$ 855,758</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 821,774</b>	<b>\$ 530</b>	<b>\$ 821,244</b>	<b>21.8%</b>
<b>Transit Projects (25%)</b>										
Pacific Electric Right-of-Way	\$ 19,711	\$ 19,718	\$ 15,000	\$ 14,000	\$ 5,718	\$ 1,000	\$ 17,108	\$ 3,062	\$ 14,046	93.6%
Commuter Rail	367,649	367,786	352,567	361,104	6,682	(8,537)	411,438	60,805	350,633	95.5%
High-Technology Advanced Rail Transit	446,783	446,839	428,469	440,888	6,251	(12,219)	357,073	76,657	280,416	65.4%
Elderly and Handicapped Fare Stabilization	20,000	20,000	20,000	20,000	-	-	20,000	-	20,000	100.0%
Transitways	164,258	164,316	146,381	126,625	37,691	19,756	162,676	36,765	125,911	86.0%
Subtotal Projects	1,018,401	1,018,759	962,417	962,417	56,342	-	988,295	177,289	791,006	
Net (Bond Revenue)/Debt Service			56,342	56,342	(56,342)	-	56,342		56,342	
<b>Total Transit Projects</b>	<b>\$ 1,018,401</b>	<b>\$ 1,018,759</b>	<b>\$ 1,018,759</b>	<b>\$ 1,018,759</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,024,637</b>	<b>\$ 177,289</b>	<b>\$ 847,348</b>	<b>22.5%</b>
<b>Total Measure M1 Program</b>	<b>\$ 4,073,606</b>	<b>\$ 4,075,036</b>	<b>\$ 4,073,408</b>	<b>\$ 4,045,160</b>	<b>\$ 29,876</b>	<b>\$ 28,248</b>	<b>\$ 4,439,278</b>	<b>\$ 669,038</b>	<b>\$ 3,770,240</b>	

**Measure M2**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**as of December 31, 2011**  
**(Unaudited)**

(\$ in thousands)	Quarter Ended Dec 31, 2011	Year to Date Dec 31, 2011 (A)	Period from Inception to Dec 31, 2011 (B)
<b>Revenues:</b>			
Sales taxes	\$ 66,463	\$ 122,660	\$ 183,781
Other agencies share of Measure M2 costs:			
Project related	22,252	22,955	37,115
Interest:			
Operating:			
Non-project related	66	19	(44)
Bond proceeds	13	4,175	6,422
Debt service	1	3	10
Commercial paper	-	-	393
Right-of-way leases	101	130	130
Miscellaneous	69	74	74
<b>Total revenues</b>	<b>88,965</b>	<b>150,016</b>	<b>227,881</b>
<b>Expenditures:</b>			
Supplies and services:			
State Board of Equalization (SBOE) fees	635	1,271	1,907
Professional services:			
Project related	8,517	8,709	99,333
Non-project related	23	138	4,616
Administration costs:			
Project related	1,204	2,162	10,376
Non-project related	994	2,235	13,840
Other:			
Project related	212	217	372
Non-project related	6	4	3,267
Payments to local agencies:			
Project related	14,406	20,519	86,793
Non-project related	-	-	-
Capital outlay:			
Project related	15,900	25,559	74,970
Non-project related	5	5	31
Debt service:			
Interest on long-term debt and commercial paper	(1)	11,262	15,951
<b>Total expenditures</b>	<b>41,901</b>	<b>72,081</b>	<b>311,456</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>47,064</b>	<b>77,935</b>	<b>(83,575)</b>
<b>Other financing sources (uses):</b>			
Transfers out:			
Project related	(422)	(817)	(1,194)
Transfers in:			
Project related	11,997	1,955	25,654
Bond proceeds	-	-	358,593
<b>Total other financing sources (uses)</b>	<b>11,575</b>	<b>1,138</b>	<b>383,053</b>
<b>Excess (deficiency) of revenues over (under) expenditures and other sources (uses)</b>	<b>\$ 58,639</b>	<b>\$ 79,073</b>	<b>\$ 299,478</b>

**Measure M2**  
**Schedule of Calculations of Net Tax Revenues and Net Bond Revenues (Debt Service)**  
**as of December 31, 2011**  
**(Unaudited)**

(\$ in thousands)	Quarter Ended Dec 31, 2011 (actual)	Year Ended Dec 31, 2011 (actual)	Period from Inception through Dec 31, 2011 (actual)	Period from January 1, 2012 through March 31, 2041 (forecast)	Total
	(C.1)	(C.1)	(D.1)	(E.1)	(F.1)
<b>Tax revenues:</b>					
Sales taxes	\$ 66,463	\$ 122,660	\$ 183,781	\$ 15,341,126	\$ 15,524,907
Operating interest	66	19	(44)	364,931	364,887
Subtotal	<u>66,529</u>	<u>122,679</u>	<u>183,737</u>	<u>15,706,058</u>	<u>15,889,795</u>
Miscellaneous	69	74	74	-	74
Total tax revenues	<u>66,598</u>	<u>122,753</u>	<u>183,811</u>	<u>15,706,058</u>	<u>15,889,869</u>
<b>Administrative expenditures:</b>					
SBOE fees	635	1,271	1,907	230,209	232,116
Professional services, non-project related	(4)	96	1,913	104,303	106,216
Administration costs, non-project related	994	2,235	13,840	146,507	160,347
Operating transfer out, non-project related	-	-	-	21,474	21,474
Other, non-project related	6	4	3,267	27,610	30,877
Capital outlay, non-project related	5	5	31	-	31
Environmental cleanup	347	478	2,060	314,121	316,181
	<u>1,983</u>	<u>4,089</u>	<u>23,018</u>	<u>844,223</u>	<u>867,241</u>
Net tax revenues	<u>\$ 64,615</u>	<u>\$ 118,664</u>	<u>\$ 160,793</u>	<u>\$ 14,861,834</u>	<u>\$ 15,022,627</u>
<b>Bond revenues:</b>					
Proceeds from issuance of bonds	\$ -	\$ -	\$ 358,593	\$ 740,000	\$ 1,098,593
Interest revenue from bond proceeds	13	4,175	6,422	54,700	61,122
Interest revenue from debt service funds	1	3	10	36,181	36,191
Interest revenue from commercial paper	-	-	393	-	393
Total bond revenues	<u>14</u>	<u>4,178</u>	<u>365,418</u>	<u>830,881</u>	<u>1,196,299</u>
<b>Financing expenditures and uses:</b>					
Professional services, non-project related	27	42	2,703	-	2,703
Bond debt principal	-	-	-	1,092,570	1,092,570
Bond debt and other interest expense	(1)	11,262	15,951	1,009,859	1,025,810
Total financing expenditures and uses	<u>26</u>	<u>11,304</u>	<u>18,654</u>	<u>2,102,429</u>	<u>2,121,083</u>
Net bond revenues (debt service)	<u>\$ (12)</u>	<u>\$ (7,126)</u>	<u>\$ 346,764</u>	<u>\$ (1,271,548)</u>	<u>\$ (924,784)</u>

Measure M2  
Schedule of Revenues and Expenditures Summary  
as of December 31, 2011  
(Unaudited)

Project Description (G)	Net Tax Revenues		Total Net Tax Revenues (I)	Project Budget (J)	Estimate at Completion (K)	Variance		Expenditures through Dec 31, 2011 (N)	Reimbursements through Dec 31, 2011 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
	Actual Program to date (H)	Program to date (I)				Total Net Tax Revenues at Completion (L)	Project Budget to Est. at Completion (M)				
<b>Freeways (43% of Net Tax Revenues)</b>											
A	I-5 Santa Ana Freeway Interchange Improvements	\$ 6,338	\$ 592,118	\$ 592,098	\$ 592,098	\$ 20	\$ -	\$ 256	\$ -	\$ 256	0.0%
B,C,D	I-5 Santa Ana/San Diego Freeway Improvements	15,981	1,493,094	1,320,282	1,320,282	172,812	-	11,755	36	11,719	0.9%
E	SR-22 Garden Grove Freeway Access Improvements	1,618	151,179	151,178	151,178	1	-	3	-	3	0.0%
F	SR-55 Costa Mesa Freeway Improvements	4,935	461,097	460,759	460,759	338	-	1,325	-	1,325	0.3%
G	SR-57 Orange Freeway Improvements	3,489	325,984	308,064	308,064	17,900	-	25,905	2,515	23,390	7.6%
H,I,J	SR-91 Riverside Freeway Improvements	19,977	1,866,401	1,862,991	1,862,991	3,410	-	14,865	5,306	9,559	0.5%
K,L	I-405 San Diego Freeway Improvements	11,053	1,032,660	610,674	610,674	421,986	-	12,435	590	11,845	1.9%
M	I-605 Freeway Access Improvements	270	25,197	25,197	25,197	-	-	-	-	-	0.0%
N	All Freeway Service Patrol	2,023	186,974	186,974	186,974	-	-	-	-	-	0.0%
	Freeway Mitigation	3,458	323,046	278,880	278,880	44,166	-	26,426	-	26,426	9.5%
	Subtotal Projects	69,142	6,459,730	5,799,097	5,799,097	660,633	-	92,970	8,447	84,523	
	Net (Bond Revenue)/Debt Service	-	-	660,633	660,633	(660,633)	-	5,203	-	5,203	
	<b>Total Freeways</b>	<b>\$ 69,142</b>	<b>\$ 6,459,730</b>	<b>\$ 6,459,730</b>	<b>\$ 6,459,730</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 98,173</b>	<b>\$ 8,447</b>	<b>\$ 89,726</b>	<b>40.8%</b>
	%				43.0%						
<b>Street and Roads Projects (32% of Net Tax Revenues)</b>											
O	Regional Capacity Program	\$ 16,080	\$ 1,502,281	\$ 1,366,320	\$ 1,366,320	\$ 135,961	\$ -	\$ 69,610	\$ 12,622	\$ 56,988	4.2%
P	Regional Traffic Signal Synchronization Program	6,431	600,886	600,739	600,739	147	-	469	-	469	0.1%
Q	Local Fair Share Program	28,943	2,704,073	2,704,073	2,704,073	-	-	15,391	-	15,391	0.6%
	Subtotal Projects	51,454	4,807,240	4,671,132	4,671,132	136,108	-	85,470	12,622	72,848	
	Net (Bond Revenue)/Debt Service	-	-	136,108	136,108	(136,108)	-	3,537	-	3,537	
	<b>Total Street and Roads Projects</b>	<b>\$ 51,454</b>	<b>\$ 4,807,240</b>	<b>\$ 4,807,240</b>	<b>\$ 4,807,240</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 89,007</b>	<b>\$ 12,622</b>	<b>\$ 76,385</b>	<b>34.8%</b>
	%				32.0%						

Measure M2  
Schedule of Revenues and Expenditures Summary  
as of December 31, 2011  
(Unaudited)

Project Description (G)	Net Tax Revenues		Total Net Tax Revenues (I)	Project Budget (J)	Estimate at Completion (K)	Variance		Expenditures through Dec 31, 2011 (N)	Reimbursements through Dec 31, 2011 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
	Actual Program to date (H)	Program to date (I)				Total Net Tax Revenues to Est. at Completion (L)	Variance Project Budget to Est. at Completion (M)				
<b>Transit Projects (25% of Net Tax Revenues)</b>											
R	\$ 14,394	\$ 1,344,848	\$ 1,344,848	\$ 1,293,265	\$ 1,293,265	\$ 51,583	\$ -	\$ 89,885	\$ 41,830	\$ 48,055	3.7%
S	14,194	1,326,150	1,326,150	1,317,796	1,317,796	8,354	-	75	-	75	0.0%
T	3,216	300,506	300,506	233,735	233,735	66,771	-	2	-	2	0.0%
U											
V	4,823	450,626	450,626	450,626	450,626	-	-	2,576	-	2,576	0.6%
W	3,215	300,373	300,373	300,373	300,373	-	-	-	-	-	0.0%
	355	33,154	33,154	33,154	33,154	-	-	-	-	-	0.0%
	40,197	3,755,657	3,755,657	3,628,949	3,628,949	126,708	-	92,538	41,830	50,708	
	-	-	-	126,708	126,708	(126,708)	-	2,963	-	2,963	
<b>Total Transit Projects</b>	<b>\$ 40,197</b>	<b>\$ 3,755,657</b>	<b>\$ 3,755,657</b>	<b>\$ 3,755,657</b>	<b>\$ 3,755,657</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 95,501</b>	<b>\$ 41,830</b>	<b>\$ 53,671</b>	<b>24.4%</b>
					25.0%						
<b>Measure M2 Program</b>											
	\$ 160,793	\$ 15,022,627	\$ 15,022,627	\$ 15,022,627	\$ 15,022,627	\$ -	\$ -	\$ 282,681	\$ 62,899	\$ 219,782	

Measure M2  
 Schedule of Revenues and Expenditures Summary  
 as of December 31, 2011  
 (Unaudited)

Project Description (G)	Revenues Program to date Actual (H.1)	Total Revenues (I.1)	Project Budget (J)	Estimate at Completion (K)	Variance Total Revenues to Est at Completion (L)	Variance Project Budget to Est at Completion (M)	Expenditures through Dec 31, 2011 (N)	Reimbursements through Dec 31, 2011 (O)	Net Project Cost (P)	Percent of Budget Expended (Q)
<b>Environmental Cleanup (2% of Revenues)</b>										
X	Clean Up Highway and Street Runoff that Pollutes Beaches	\$ 3,676	\$ 316,462	\$ 316,462	\$ 1,335	\$ -	\$ 2,060	\$ -	\$ 2,060	0.7%
	Net (Bond Revenue)/Debt Service	-	1,335	1,335	(1,335)	-	127	-	127	
	<b>Total Environmental Cleanup %</b>	<b>\$ 3,676</b>	<b>\$ 317,797</b>	<b>\$ 317,797</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,187</b>	<b>\$ -</b>	<b>\$ 2,187</b>	<b>1.2%</b>
<b>Taxpayer Safeguards and Audits</b>										
	Collect Sales Taxes (1.5% of Sales Taxes)	\$ 2,757	\$ 232,874	\$ 232,874	\$ -	\$ -	\$ 1,907	\$ -	\$ 1,907	0.8%
	<b>%</b>	<b>1.838</b>	<b>158,899</b>	<b>158,899</b>	<b>\$ -</b>	<b>\$ -</b>	<b>5,298</b>	<b>\$ 4,333</b>	<b>\$ 965</b>	<b>0.6%</b>
	<b>Oversight and Annual Audits (1% of Revenues)</b>	<b>\$ 1,838</b>	<b>\$ 158,899</b>	<b>\$ 158,899</b>	<b>\$ -</b>	<b>\$ -</b>	<b>5,298</b>	<b>\$ 4,333</b>	<b>\$ 965</b>	<b>0.6%</b>
	<b>%</b>	<b>1.838</b>	<b>158,899</b>	<b>158,899</b>	<b>\$ -</b>	<b>\$ -</b>	<b>5,298</b>	<b>\$ 4,333</b>	<b>\$ 965</b>	<b>0.6%</b>

**TRIENNIAL PERFORMANCE ASSESSMENT**  
**SCOPE OF WORK**  
**February 21 April 2, 2012**

**BACKGROUND**

On November 7, 2006, Orange County voters approved the Renewed Measure M Transportation Investment Plan (M2), a measure authorizing collection of a one-half cent sales tax over 30 years to fund transportation improvements.

Collection of sales tax revenues under M2 began on April 1, 2011. M2 was preceded by a similar measure known as M1 that went into effect in April 1991 and expired on March 31, 2011.

Ordinance No. 3, which defines and regulates how the M2 sales tax proceeds can be spent, was approved by the Orange County Transportation Authority (OCTA) Board of Directors on July 24, 2006. Ordinance 3 includes the M2 Plan, which describes four categories of project and program improvements to be funded: Freeways, Streets and Roads, Transit, and Environmental Cleanup. OCTA administers the various provisions of the Ordinance and M2 plan ranging from receiving the revenues to allocation of funds and implementation of the projects and programs as appropriate.

Although collection of sales tax under M2 did not start until April 2011, the OCTA started work on M2 in 2007 by adopting an Early Action Plan, using debt financing secured by the anticipated sales tax revenue stream. The projects undertaken include all four categories of improvements outlined above (Freeways, Streets and Roads, Transit and Environmental Cleanup).

The M2 Ordinance includes a range of "Taxpayer Safeguards and Audits." These ~~safeguards and audits~~ include a requirement for a Taxpayers Oversight Committee (TOC) as well as a ~~triennial~~ performance assessment among other things. A copy of Ordinance No. 3 is included as an attachment to this Scope of Work.

The first ~~triennial~~ performance assessment, covering the period November 8, 2006 through June 30, 2009, was completed in October 2010. The review resulted in several findings that were subsequently addressed. This performance assessment will cover the period between July 1, 2009 and June 30, 2012.

OCTA has established a Program Management Office (PMO) to oversee the implementation of M2. The PMO, a part of the OCTA's Planning Division, is focusing on overall program management, compliance with the Ordinance, fiscal responsibility, transparency, and safeguards. The PMO's role is primarily oversight rather than direct management. It monitors progress on projects and programs and ensures compliance with ordinance requirements and other aspects of M2. The

PMO facilitates coordination among OCTA divisions, provides guidance to ensure and support transparency, reporting requirements, and coordinates other aspects of M2. Reporting includes, quarterly status reports to the Board of Directors, annual reports on revenues spent and progress in implementing M2, triennial performance assessments, and ten-year comprehensive reviews.

Management of financial aspects and individual M2 projects and programs (facilities and services) is carried out by operating units. The PMO monitors and reports on the projects and programs. The PMO has also developed a document management process for tracking M2-related decisions and activities. The PMO Manager will be the project manager for this ~~Triennial~~ Performance Assessment.

### **Purpose of the Assessment**

Ordinance No. 3 includes the following provision: "A performance assessment shall be conducted at least once every three years to evaluate the efficiency, effectiveness, economy and program results of the Authority in satisfying the provisions and requirements of the Investment Summary of the Plan, the Plan and the Ordinance."

The purpose of the ~~triennial~~ performance assessment is to evaluate OCTA's performance on a range of activities covering planning, management, and delivery of M2 program. The assessment is intended to be both retrospective and prospective. It will assist OCTA in improving the current process and practices in place and ensure the necessary tools are in place to successfully implement the plan over the life of the program. The assessment should focus on the most relevant matters related to OCTA's efficiency, effectiveness, economy, and program results in delivering M2. ~~Compliance with individual aspects of Ordinance No. 3 is also an element of the assessment, and the~~ OCTA expects the Contractor to provide a sound, overall assessment in this regard to strengthen OCTA efforts as it continues forward with the implementation of M2.

This scope of work is for a performance assessment, ~~as opposed to a~~ and is NOT a fiscal audit. Neither is it a performance audit of the type required by Sections 6662.5 and 6664.5 of the California Transportation Development Act (TDA). All of the written requirements for the assessment originate in the Ordinance, and there are no specific audit standards that are applicable to the assessment.

AFiscal audits of the Orange County Local Transportation Authority (agency within OCTA that is legislatively designated to administer M2) financial statements and reviews of M2 financial status reports are conducted as part of OCTA's annual financial and compliance audits. In addition, the OCTA's Internal Audit Department carries out, either directly or through independent contractors, various M2 audits. These audits cover reviews of individual projects and/or programs and local agencies' compliance with expenditure requirements set forth in the Ordinance.

TDA performance audits are required in association with the receipt of sales tax proceeds into the Local Transportation Fund and State Transit Assistance Fund and are not related to this performance assessment.

### **Contractor Qualifications**

Ideally the contractor hired would have a strong background and understanding in transportation planning and program/construction management. The consultant should provide qualified staff with experience in the following areas:

- Project development activities, assessing transportation programs, and evaluating best practices
- Collecting data, conducting management interviews, assessing operations and an understanding of organizational structures
- Analyzing information and producing recommendations to improve key areas of performance

### **Assessment Objectives**

The performance assessment objectives listed below are an important component of the assessment:

- Evaluate the status of the findings from the first ~~triennial~~ performance assessment and effectiveness of changes implemented
- Assess the performance of the agency on the efficient delivery of Measure M2 projects and programs
- Identify and evaluate any potential barriers to success and opportunities for process improvements

### **A. SCOPE**

The scope of work for this project includes a Measure M2 performance assessment of the OCTA for the period of July 1, 2009 through June 30, 2012. Summarized in tasks one through five are areas OCTA has identified as highly important to its performance and to which it directs the Contractor's attention. As an independent assessor, the Contractor may choose other areas, but the OCTA expects the Contractor to review the following:

#### **Task 1: Project Delivery**

Evaluate OCTA's effectiveness and efficiency in developing and implementing the projects and programs described in M2. Questions might include:

- a) Is overall progress to date in implementing M2 reasonable? Is sufficient progress being made to support full completion of the Plan within the 30-year M2 period?

- b) Was there a set of reasonable principles in place for determining what projects to include in the CAP <sup>(1)</sup>?

- 
- 1) The Capital Action Plan document includes a description of how priority M2 projects will be implemented in the early years of the M2 program.
- c) Did OCTA follow the set of principles and have early delivery objectives been accomplished?
- d) Are there appropriate systems in place to monitor, assess, control and report on CAP progress?

## **Task 2: Program Management / Responsiveness**

Evaluate the OCTA's approach to program management. Questions might include:

- a) Assess the OCTA's response to the findings in the 2006-2009 Triennial Performance Assessment. Were the findings adequately addressed? Are there any remaining follow-ups or carryover items?
- b) Are there effective mechanisms in place to ensure interdivisional coordination in planning and implementing projects/programs?
- c) Does OCTA have a reasonable approach to implementing the M2 requirement to limit administrative costs to one percent of total tax revenues and address the related issues and challenges?
- d) Does the PMO function have clear definition of roles and responsibilities? Are these roles and responsibilities sufficiently defined to ensure effective and efficient delivery of the program, and are the roles and responsibilities consistent with peer agency approaches to this type of a function? Are adequate resources available to the function to carry out these responsibilities?
- e) Have program and project management systems (e.g. Primavera) been effectively implemented and are they being effectively used for program and project management control?
- f) Is the M2 related organizational structure within OCTA provide for efficient delivery of M2 programs and projects?

- g) Does the OCTA have adequate policies and procedures for contract management and construction management?

### **Task 3: Compliance**

Evaluate ~~the extent of~~ OCTA's approach to ensuring compliance with the Ordinance including Attachments A, B, and C to the Ordinance. Questions might include:

- a) Are the methods and procedures used to report on compliance with the Ordinance adequate?
- b) OCTA has developed a matrix itemizing all requirements set forth in the Ordinance and Plan to monitor compliance. Is the tool sufficient or are there improvements that can be made to improve compliance tracking?
- c) Does the OCTA have an effective and efficient approach to determine local agency eligibility as required in the Ordinance?
- d) Has the OCTA followed its adopted procurement requirements in awarding M2-related contracts?

### **Task 4: Fiscal Responsibility**

Evaluate the extent to which the OCTA is economical in structuring the approach to project and program delivery. Questions might include:

- a) Is the OCTA's technical project selection process for awarding M2 grants to streets and roads, transit, and environmental projects effective?
- b) Is the OCTA's payment process for grant funding disbursement under the M2 Streets and Roads programs appropriate and efficient?
- c) Is the OCTA process to monitor timely use of grants to local agencies effective?
- d) Is the local agency expenditure reporting process and format appropriate?
- e) Is the OCTA's use of M2 funds, specifically in the development and use of other available funding sources to supplement sales tax revenues, efficient?
- f) Evaluate the OCTA's policies and practices in investing M2 funds. Do fund investment policies and practices reflect a sound balance of security, return, and cash flow needs?

- g) Evaluate the OCTA's use of financing to fund M2 projects. Are the financing costs and fees paid reasonable? Was the structure of the financing appropriate based on the funding requirements?
- h) Has OCTA effectively established countermeasures to address the shortfall in anticipated sales tax collections? Was borrowing money to accelerate projects in order to take advantage of currently favorable bidding conditions appropriate?
- i) Evaluate the OCTA's long term financial planning process through the Comprehensive Business Plan development. Is the process an effective way of determine and plan for the M2 cash flow needs?

#### **Task 5: Transparency and Accountability**

Evaluate how fully, intelligibly, and otherwise appropriately the OCTA reports on M2 matters to the Board of Directors, the TOC, the general public, and other stakeholders. Questions might include

- a) Evaluate the OCTA's public outreach approach. Does OCTA effectively inform the public about M2 programs and projects?
- b) Does the OCTA involve appropriate user groups and communities affected by M2 programs and projects in planning and decision-making?
- c) Does the OCTA make good use of its website, e-mail, social media, and traditional methods (e.g., press releases and direct mail) to inform and involve the public?
- d) Has the Taxpayers Oversight Committee that was created as a requirement of the Ordinance functioned as envisioned and in conformance with the established policies and procedures?

#### **B. MATERIALS AND DOCUMENTATION**

To assist in the assessment the contractor should review existing materials and documentation including but not limited to, the following:

- a) Orange County Local Transportation Authority Ordinance No. 3
- b) Early Action/Capital Action Plan
- c) M2 Ordinance No. 3 Matrix
- d) Measure M Website/Dashboards

- e) Agenda's for OCTA Board of Director meetings, Taxpayer Oversight Committee and environmental committees
- f) Program guidelines and schedule documents
- g) Financial planning documents
- h) M2 Annual and Quarterly Reports
- i) M2 Triennial Performance Assessment - 2006 through 2009
- j) Freeway Plan

### **C. DELIVERABLES AND SCHEDULE**

Conduct Tasks 1 through 5 and submit the following deliverables within the number of days after contract execution or at the intervals specified below:

1. Overall, complete the project within 150 calendar days from notice to proceed, not counting any attendance at the meetings outlined in Task 9 below.
2. Commence work within 5 days of notice to proceed by conducting a kick-off meeting with OCTA's project manager (PM). The meeting will include a review and refinement if necessary of the consultants work plan, assessment objectives and best approach for achieving goals.
3. Thereafter, conduct progress meetings (every two weeks) with the PM to:
  - a. Discuss status of activities outlined in the scope of work described above and any significant issues that have come to Contractor's attention
  - b. Identify any Contractor needs for documentation and information
  - c. Describe progress against work plan and schedule
  - d. Summarize budget status, i.e., approximate budget expended to date, amount billed to date plus additional amounts expended since the last bill was submitted.
4. Conduct one-on-one meetings with Division representatives to seek information and documentation to assist in accomplishing the tasks outlined in the Scope of Work.
5. Submit bi-weekly status reports covering the items described above in outline form at least 24 hours prior to the scheduled progress meeting.

6. Submit an initial set of findings in outline format within 100 days. This should include findings to date on all matters described in the scope of work above and any additional matters the Contractor anticipates at this point might be included in the final report. The Contractor should also include an explanation to why they came to their conclusions. Contractor and PM will meet to discuss these initial findings at a regularly scheduled progress meeting or a specially scheduled one.
7. Attend and present interim updates at up to four formal Committee/Board meetings on progress of activities.
8. Submit a full draft final report (in word format) within 130 days including 10 copies and one electronic copy. Meet to discuss the draft report with the PM.
9. Submit the final report within 150 days (or within 20 days after receiving staff comments on draft) including 40 final copies and an electronic copy created in Microsoft Word.
10. If requested after submission of the final report, attend six formal Committee/Board meetings. This may require summarizing the information in a PowerPoint presentation. Contractor may be asked to make a formal presentation of the final report to the Committees/Board and respond to questions.