

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

SINGLE AUDIT

Year ended June 30, 2021

ORANGE COUNTY TRANSPORTATION AUTHORITY
Orange, California

SINGLE AUDIT
Year ended June 30, 2021

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Orange County Transportation Authority
Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated November 22, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCTA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of the State of California Transportation Development Act (TDA), Title 21 of the California Code of Regulations, Public Utilities Code Section 99245, and California Government Code §8879.50 (collectively "Transportation Development Act"), noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Transportation Development Act.

OCTA's Response to Findings

OCTA's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. OCTA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Crowe LLP

Costa Mesa, California
November 22, 2021

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

Board of Directors
Orange County Transportation Authority
Orange, California

Report on Compliance for Each Major Federal Program

We have audited Orange County Transportation Authority (OCTA) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of OCTA's major federal programs for the year ended June 30, 2021. OCTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of OCTA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OCTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OCTA's compliance.

Opinion on Each Major Federal Program

In our opinion, OCTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

(Continued)

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OCTA as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements. We issued our report thereon dated November 22, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Crowe LLP

Costa Mesa, California
December 21, 2021

ORANGE COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Grant/Pass-Through Identification Number	Federal Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Federal Transit Cluster:				
Federal Transit - Capital Improvement Grants	20.500	Multiple	\$ 37,619,256	\$ -
Federal Transit - Formula Grants	20.507	Multiple	72,469,947	-
COVID-19 - Federal Transit - Formula Grants	20.507	CA-2020-146	104,130,784	-
State of Good Repair Program	20.525	Multiple	1,638,466	-
Bus and Bus Facilities Formula Program	20.526	Multiple	8,017,438	-
Total Federal Transit Cluster			223,875,891	-
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	CA-2020-270	2,255,173	-
Job Access and Reverse Commute Program	20.516	CA-37-X113	305,791	64,344
Total Transit Services Programs Cluster			2,560,964	64,344
Passed Through California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	20.205	Multiple	12,024,821	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research				
	20.505	RGA 74A1147	136,983	-
Total U.S. Department of Transportation			238,598,659	64,344
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
Hazard Mitigation Grant Program				
	97.039	059-91032	37,230	-
Office of Security Operations:				
National Explosives Detection Canine Team Program	97.072	OCTA2020OTA_NCP459	140,742	-
Passed Through State of California Office of Emergency Services:				
Rail and Transit Security Grant Program (TSGP)	97.075	EMW2017RA00028	10,066	-
Total U.S. Department of Homeland Security			188,038	-
Total Expenditures of Federal Awards			\$ 238,786,697	\$ 64,344

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

ORANGE COUNTY TRANSPORTATION AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents only the expenditures incurred by OCTA that are reimbursable under federal programs of federal financial assistance for the year ended June 30, 2021. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by OCTA from a non-federal agency or other organization. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

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

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

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

In July 2017, OCTA executed a TIFIA loan agreement with the United States Department of Transportation in an amount not to exceed \$628,930,000 to finance a portion of OCTA's I-405 improvement project. There were no TIFIA draws during the fiscal year ended June 30, 2021. As of June 30, 2021, \$287,000,000 was drawn on the TIFIA Loan and the amount outstanding including interest under the TIFIA loan was \$312,329,031.

NOTE 3 – PRIOR YEAR EXPENDITURES

With the release of Government Accounting Standards Board (GASB) Implementation Guide No. 2019-1, *Implementation Guidance Update – 2019*, management changed their method of accounting for recognition of non-exchange revenue. Expenditure-driven grant provisions are determined to be a stipulation that is considered to be an eligibility requirement and as such, revenue cannot be recognized until the agreement has been executed. As a result, \$36,179,946 of federal grants that were previously reported on the schedule of expenditure of federal awards for the year ending June 30, 2020 are included again on the schedule of expenditure of federal awards for the year ending June 30, 2021 since the corresponding grant revenue is now being recognized as federal revenue in fiscal year 2020-21 under the newly adopted accounting principle. These grants are included within the 20.507 Assistance Listing Number (ALN) and the 20.525 ALN. The \$36,179,946 of expenditures were incurred in fiscal year 2019-20.

ORANGE COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

 X Yes _____ None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

_____ Yes X None reported

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

Unmodified

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

_____ Yes X No

Identification of major federal programs:

Assistance Listing Numbers

20.500 / 20.507 / 20.525 / 20.526
20.205

Federal Transit Cluster
Highway Planning and Construction
Cluster

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

 \$ 3,000,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2021

SECTION II – FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding 2021-001 – Financial Accounting and Reporting for Expense Accruals (Significant Deficiency)

Criteria

Generally accepted accounting principles require entities to record liabilities and related expenses that result from exchange transactions when goods or services have been received in exchange for a promise to compensate the vendor or service provider. In addition, management should have internal controls to ensure that such liabilities and expenses are fairly stated.

Condition

During the fiscal year, management identified prior year errors in expense accruals related to the Local Transportation Authority (LTA) fund that were not previously corrected. Management inadvertently over accrued two invoices in the prior year for the same transaction. Conversely, management also identified utility construction costs that had been incurred in prior years but had not accrued because invoices had not been timely remitted by the utility companies. As a result of the delay in the receipt of the utility invoices, management estimated an amount to be accrued for utility costs for work performed in prior years. In addition, management updated their estimate for an amount to be accrued for the utility costs for work performed in the current year. The net impact of these transactions was under accruals of expense in the prior year for the LTA fund and governmental activities in the amounts of \$14,433,346 and \$22,249,243, respectively. Management elected to correct the prior year accruals in the current year.

Cause

Expense over accruals were caused by lack of controls surrounding the booking of estimates as project managers did not make accounting aware that actual invoices were subsequently posted related to items that were previously estimated. For the missed utility expense under accruals, management did not have internal controls in place to estimate the utility costs incurred relative to the progress of the utility construction projects given the delay between when the work is actually performed and the time the utility companies invoice OCTA for such costs.

Effect

The net impact of these transactions was under accruals of expenses in the prior year for the LTA fund and governmental activities in the amounts of \$14,433,346 and \$22,249,243, respectively.

Recommendation

We recommend that management improve Project Managers' understanding of the accrual process and importance of notifying Accounting of the posting of invoices that are related to those already accrued for by management. We also recommend additional layers of review to accrual journal entries including recurring review of the entries for actual invoices up until the financial statements are issued. The review should include comparing all manually accrued invoices/estimates to the vouchers and retainage payable accounts to ensure there are no duplications. For the utility construction costs, Crowe recommends that management review their utility accrual analysis for all construction projects annually for completeness and accuracy, and adjust accordingly.

(Continued)

ORANGE COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2021

Management's Response

Management agrees and has implemented a control to review all AP accounts specifically looking for duplications between the manual accrual account and the voucher and retainage payable accounts. In addition, the Accounting department will provide training on a yearly basis to all staff involved in the expense accruals process to ensure expense accruals are submitted in compliance with all rules and requirements. The Accounting department will work with Project Managers on the utility accrual analysis on a yearly basis prior to the closing of the fiscal year.

Finding 2021-002 – Preparation of the Schedule of Expenditures of Federal Awards (Significant Deficiency)

Criteria

2 CFR 200.510 (b) requires "...the auditee to prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the financial statements which must include the total federal awards expended. At a minimum, the schedule must provide total federal awards expended for each individual federal program and the [related] Assistance Listings Number." In addition, the auditee should ensure they have proper internal controls to ensure that the SEFA is fairly stated in relation to the financial statements.

Condition

During our review of the SEFA reconciliation to the OCTA financial statements, management underreported expenditures on the SEFA in the amount of \$18.6M, related to the Federal Transit Cluster. Management inadvertently did not include an adjustment made to the general ledger on the SEFA which resulted in the amount underreported. Crowe proposed and management reflected an \$18.6 million adjustment to increase the expenditures on the SEFA.

Cause

Management's review of the SEFA reconciliation did not properly resolve an \$18.6 million reconciling item between the federal grant expenditures reported on the SEFA and federal grant revenues recorded in the general ledger.

Effect

As a result, the expenditures on the SEFA for the Federal Transit Cluster were understated by \$18.6 million.

Recommendation

We recommend that management strengthen their review process over the SEFA to ensure that all expenditures are appropriately reflected and reconcile to the general ledger, which should include a detailed review and approval of any reconciling items.

Management's Response

Management agrees with the recommendation. An in-depth review of the SEFA schedule will be completed by the Accounting department in coordination with the Revenue department to ensure all expenditures are appropriately reflected in the schedule. This review will include a reconciliation of all expenditures reported on the SEFA schedule to the general ledger. Any differences will be resolved before the SEFA schedule is finalized.
