

**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, 2022, and the related notes to the financial statements, which collectively comprise OCTA's basic financial statements, and have issued our report thereon dated November 16, 2022.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-001 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2022-002 to be a significant deficiency.

(Continued)

Report on Compliance and Other Matters

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

OCTA's Response to Findings

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

Purpose of this Report

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



Crowe LLP

Costa Mesa, California
November 16, 2022

ORANGE COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2022

**Finding 2022-001 – Financial Accounting and Reporting for State Transit Assistance Fund
(Material Weakness)**

Criteria

State Transit Assistance Funds (STAF) and Local Transportation Funds (LTF) are subject to compliance with the Transportation Development Act (TDA) requirements which includes Title 21 section 6634 of the California Code of Regulations (CCR). Section 6634 (a) indicates no operator or transit service claimant shall be eligible to receive moneys during the fiscal year from the local transportation fund and the state transit assistance fund for operating costs in an amount that exceeds its actual operating cost less fare revenues, local support, federal operating assistance, and other amounts as described in CCR Section 6634.

Condition

OCTA functions as both the transportation planning agency and claimant (operator) for the County of Orange. As such, OCTA receives LTF and STAF monies into the respective special revenue funds. These monies are then transferred in accordance with TDA requirements to the Orange County Transit District (OCTD), as the claimant, to be used in operations or capital activities. The OCTD fund received excess allocation of operating monies resulting in a transfer back to STAF in the amount of \$16,219,881.

Cause

OCTA performs a quarterly review of transfers of TDA monies from the LTF fund and STAF fund to the OCTD fund in order to evaluate compliance with TDA laws and regulations. The calculation review process included a review of LTF allocations in compliance with 21 CCR 6634 but this review did not encompass STAF allocations. This gave rise to STAF allocations in excess of eligible amounts.

Effect

The OCTD fund was required to return excess STAF allocations in the amount of \$16,219,881 to the STAF fund.

Recommendation

Crowe recommends that OCTA amend their quarterly review of TDA allocations to include a review of both LTF and STAF allocations for compliance with Title 21 CCR 6634.

Management's Response

Management agrees with the recommendation and has implemented a control to discontinue systematic transfers from the STAF fund to OCTD fund. It was anticipated there would be sufficient expenditures to claim the entire STAF allocation this fiscal year, however expenditures for OCTD under the budget by \$20 million for the year, which led to a shortfall of expenditures to claim. Going forward, staff will perform a quarterly review of TDA allocations to include both LTF and STAF allocations to ensure all transfers have corresponding eligible expenditures. Separately, in March 2022, the Board approved a new reserve policy that would reserve excess revenues in a long-term operating reserve. Staff has been working with the State to allow for the establishment of reserve funds to be eligible for purposes of claiming funds consistent with this new OCTA policy. The State has indicated that this would be acceptable so staff will continue to work with the State on updating the guidelines to specifically allow transfers for this purpose.

ORANGE COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2022

Finding 2022-002 – 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 (3) provide total federal awards expended for each individual federal program and the [related] Assistance Listings Number... (4) include the total amount provided to subrecipients from each Federal Program." 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 provided by management it was noted that the SEFA did not include presentation of expenditures passed through to subrecipients. There were approximately \$3.5 million in expenditures to subrecipients for the Federal Transit Cluster that were excluded. Additionally, the SEFA overstated expenditures for the Federal Transit Cluster by approximately \$1 million as a result of accruing expenditures which had already been recognized during the year and \$4.5 million as a result of missing an accrual and recognizing in the prior year.

Cause

Management's review of the SEFA did not include timely review of subrecipient activity. Additionally, management's review of expenditures included on the SEFA was not conducted at a precision sufficient to identify duplicate expenditures or amounts requiring accrual.

Effect

As a result, the expenditures presented as passed through to subrecipients on the SEFA for the Federal Transit Cluster were understated by approximately \$3.5 million. Additionally, the total expenditures on the SEFA for the Federal Transit Cluster were overstated by approximately \$5.5 million.

Recommendation

We recommend that management strengthen their review process over the SEFA to ensure that all expenditures are appropriately and accurately reflected and that all minimum requirements as noted in 2 CFR 200.510 (b) are met.

Management's Response

Management agrees with the recommendation and management will strengthen the review process for the SEFA. There are multiple departments that provide input to the SEFA but going forward the responsibility for developing the SEFA will be centralized within the Accounting Department. The Accounting Department will coordinate with all other OCTA departments to ensure the accuracy and completeness of the SEFA and will implement an appropriate level of review. In addition, the Accounting Department will add a secondary review of grant revenue accruals provided by the Revenue Department to ensure timeliness and accuracy of the accrual information.